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Supporting the development of sovereign capability in the Australian technology sector

KJR Submission to the Senate Finance and Public Administration Reference Committee

KJR is a 100% Australian-owned technology company, specialising in software assurance, test and evaluation, and AI/machine learning (ML).

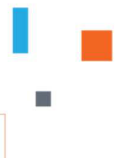
In 2023 KJR was included in “The Australian” newspapers “Top 20 Australian AI companies” recognising our contributions to advancing Australian based AI/ML technologies. Innovation and adopting technology systems with confidence has been at the core of our 26 years of service to the industry. Our company also develops and provides assurance of advanced machine learning and AI models.

The strength of Australia’s technology sector is tightly coupled with the success of our SME peers, and we strongly believe that fostering collaboration and innovation in the sector is critical resilience of our Nation's economy. Without fair and equitable access to the \$17 Billion Australian Government technology spend, the SME tech eco-system misses an opportunity to thrive. In KJR's experience we have encountered instances where the procurement policy and/or settings have limited or prevented our organisation from helping to deliver the Governments agenda. For these reasons, we are pleased to provide a submission to assist this inquiry.

KJR’s submission will focus on what we believe are the most consequential Terms of Reference items:

- a. The adequacy of current Government procurement policy settings for supporting Australian technology companies
- b. the challenges faced by smaller Australian technology companies in accessing public sector procurement opportunities.
- c. opportunities for reform of government procurement policy settings to encourage the emergence and growth of more Australian technology companies.

We will also offer our views on the Future Made in Australia Office, the Buy Australia Plan.



KJR's position on the current Government Procurement Policy settings (item a):

In our experience the current procurement policy settings within the Australian Government exhibit several shortfalls that hinder the growth and competitiveness of local technology companies. In KJR's view, reforms are necessary to foster innovation, agility, and economic progress. There are several issues which we believe can and should be addressed.

Streamline Procurement Process: The complexity of the procurement process and policy significantly impacts Small-Medium Enterprises. The process is characterised excessive controls and approvals which slow the process. These delays can seriously impact smaller businesses with limited financial reserves. Adjusting policy to streamline the procurement process (e.g. forcing functions to increase tempo) is essential to ensure timely support for Australian technology companies. The recent establishment streamlined procurement processes targeted at Australian SMEs should be an excellent step forward.

Empowering Mid-Level Management: Despite existing delegation provisions for mid-level managers (EL1s and EL2s); this management level is habitually disempowered by the bureaucracy. Hobbled delegations force simple decisions to ever higher levels with less 'tactical' knowledge of the issue at hand. This unnecessary bureaucracy hampers efficiency and agility. Ultimately policy changes need to be included to address this culture of 'risk elevation' which adversely impacts Australian technology SMEs.

Lack of Enforceable Metrics: While policy documents encourage support for Australian Tech Small Medium Enterprises (SMEs), there are no concrete, enforceable metrics to drive compliance, nor are their incentives to encourage it. Without stronger policy settings, government agencies will continue to prefer 'safe' established providers over innovative SMEs or start-ups. Introduction of measurable targets, penalties, and incentives to procuring agencies should be considered to encourage procurement from local technology SMEs.

Lip Service to SMEs: The above factors result in an inequitable process which pays lip service to SMEs, especially dynamic startups. In practice, risk-averse culture tends to favour "safe" and "dominant" providers (despite their performance), sidelining the potential of disruptive newcomers. Without tangible incentives for progress and innovation, the Australia's technology sector is hindered from reaching its full potential.

KJR's views on the Challenges faced by Smaller Australian Tech Companies (item b):

The above policy shortfalls contribute to the challenges Australian technology companies face when accessing public sector procurement opportunities.

Sluggish Procurement Process: The previously mentioned complexity and pace of the procurement process significantly impacts Small-Medium Enterprises. The process is characterised by a poor understanding of how this pace can seriously impact smaller businesses with limited financial reserves. Delays and postponements in decision-making adversely affect their operations, stifling their ability to compete effectively.

Hobbled Decision Making in a Complex Processes: The existing procurement process suffers from sluggish decision-making and excessive complexity. These factors disproportionately affect small businesses, which lack the financial reserves to weather delays or postponements. Streamlining the process is crucial to level the playing field for Australian technology SMEs.

Lack of Tangible Penalties, Incentives and Metrics to encourage Delegates to Choose Australian: Despite policy provisions, there are no enforceable metrics or incentives compelling government agencies to prioritise Australian technology SMEs. As a result, larger players, (multinational consultancies) often dominate the market, leaving highly capable local technology businesses at a disadvantage. The status quo favours risk aversion over innovation and/or efficiency, perpetuating the dominance of established providers.

Preference for Incumbent Service Providers: The inertia of existing contracts makes it challenging to displace incumbent contractors. Even if a new team demonstrates substantial efficiency gains or performance improvements, the average incumbent service provider remains the default choice. This lack of incentive stifles innovation and discourages dynamic changes for the better.

Ineffectiveness of the Panel System: The panel system, intended to facilitate procurement, often falls short. Lean, small-to-medium enterprises bear an excessive administrative burden, diverting resources from core business activities. Additionally, slow government decision-making and limited panel activity yield minimal benefits for SMEs in the Australian technology sector.

Frustratingly for Australian SMEs, the above factors create a paradox where the system is biased to exclude the service providers and vendors who are often best placed to meet the government procurement needs in favour of dominant large 'known' providers.

Smaller size business embodies two unique characteristics that are rarely mirrored in larger entities:

Quality through personalisation: SMEs deliver tailored solutions with a personal touch. Their close relationships with clients and greater ownership of deliverables fosters better results. The SME agility drives high-quality products and services that align more precisely with procurement requirements.

Quality through commitment: SMEs operate at greater risk and with less margin for error than large dominant providers. Their livelihoods hinge on successful performance. Unlike larger players, they lack the safety net of extensive capital reserves and income streams. The risk of failure drives excellence and ensures that sub-standard work is not an option. Follow-on business depends on their ability to consistently deliver value.

KJR's views on the opportunities to Reform Procurement Policy (item c):

Current procurement policies often stifle innovation, requiring overly prescriptive requirements and often evidence that is more befitting an established 'off the shelf' technology. To foster progress, a pivot towards more flexible requirements that prioritise outcomes and creative solutions would likely be more effective.

Encouraging collaboration throughout the procurement process with Australian technology companies can be bolstered by introducing incentives for engagement, clear metrics or even penalties for procuring agencies.

Additionally, enhancing transparency and standardising the tendering process will drive meaningful reforms, benefiting both the public sector and our dynamic technology industry.

Finally, speeding up decision-making by empowering middle management will greatly assist SME engagement. Creating a culture of agility can drive positive progress, ensuring timely actions, responsiveness, and better procurement outcomes.

KJRs views on Government Engagement (items e and f)

The effectiveness of the Buy Australia Plan and The Future Made in Australia Office remains to be seen. Tangible changes in the marketplace are yet to materialise, leaving the Australian technology industry awaiting meaningful progress.

To enhance the Buy Australia Plan's impact, the following points are worthy of consideration:

Focus on fair access: Prioritising fair access ensures that local technology solutions receive due consideration and a 'fair go'. Incentivising their adoption and investment in homegrown talent will amplify the Plan's effectiveness. A level playing field benefits both Australian businesses and the nation's economy.

Engagement with SMEs: Procurement decision makers need better engagement with Australian small-medium businesses. Understanding their unique challenges and capabilities is vital. By streamlining processes and fostering collaboration, we unlock innovative solutions for government needs. Greater education for procurement delegates is needed.

The Future Made in Australia Office: Opportunity exists for this office to serve as a central hub for government-industry collaboration. By leveraging it effectively, we have an opportunity to bridge the gap between policy intent and impactful outcomes. Strategic partnerships and industry collaboration are essential for progress.

Challenges to Australian SME Tech - Case Studies

To provide a sense of context, we have provided several case-studies which indicate how current procurement processes and bureaucracy impact highly capable, established, and successful Australian SMEs. All these instances have occurred in the past 12 months.

Major Technology Program Grant (2023): KJR submitted a substantial bid in mid-2023, collaborating with 17 partners (including 10 Australian SMEs). Government timelines indicated announcements by November 2023, but they are now nearly four months overdue. This delay affects the consortium's ability to plan, recruit, and allocate resources to critical projects. Uncertainty caused by the government's inefficiencies jeopardises the entire proposal as individual partners reconsider their commitment.

Defence Panel Arrangements (2023): In April 2023, the Federal Government's ICT Procurement Agency called for a major panel refresh. Despite significant effort from a small-medium business like KJR, no announcement has been made. The panel refresh evaluation process is approaching 12 months since submissions were complete. This being a panel arrangement is only the start of the process, if successful we will then need to establish ourselves within the marketplace with the hope of being included in further approaches to market.

Unnamed Large Fed-Gov department (December 2022)

During an ongoing contract, an unanticipated change in department strategy resulted in a substantial change of project scope and contract terms. Without consultation and limited consideration to good performance or impact on the in-contract SMEs, our contracts (with 9+ months left to run) were terminated with 5 days' notice. This had immediate multi-million dollar impacts on our businesses, the ramifications of which we are still dealing with today.

Although legal grounds to seek damages could be pursued, as smaller enterprises, KJR and our partners do not have the means and/or resources to pursue lost income and damages. Further, the reputational damages for such action in a small technical sector outweigh the benefits.

Consequently, our business (with 25yrs in the game and an unblemished record), and in-turn our employees bear the brunt of government department turmoil. KJR understands that Government departments must shoulder the burden of difficult decisions to act in Australia's interest and abide by priorities set by the government of the day. However - although rare - such major changes disproportionately impact Australia's SMEs.

Conclusion

KJR would like to thank the committee for allowing us to share our experiences, challenges, and opportunities to support the sovereign tech industry within Australia.

The strength of Australia's technology sector is tightly coupled with the success of our SME peers, and we strongly believe that fostering innovation within technology SME eco-system is critical to the long-term resilience of our Nation.

As the saying goes "ideas without actions are merely dreams" and in this instance without fair and equitable access to the \$17 Billion Australian Government technology spend, the SME tech eco-system is destined to just survive and not thrive. Throughout our history working with Government organisations at all levels we have encountered instances where the procurement policy and/or settings have limited or prevented our organisation from helping to deliver the Governments agenda. For these reasons, we are pleased to provide a submission to assist this inquiry.