



Dancing In The Dark Vol 2 by Anya Love

DIRECTIONS 2025

Stepping up to the productivity challenge

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SNAPSHOT

KWM's *Directions 2025* survey results point to a business community optimistic about confronting the productivity challenge, notwithstanding ongoing geopolitical uncertainty and economic headwinds.

The much-hyped promise of AI as a catalyst for productivity growth is being met by the realities of the emerging cultural challenge of successfully integrating it. There is a sense of a 'Team Australia' moment for Australian businesses in the context of managing geopolitical and geoeconomic risks, but many opportunities will only be realised if there is a reduction in red tape and appropriate regulatory reform.

Here are the key findings arising from KWM's *Directions 2025* survey of directors and senior business leaders.

Optimism in the face of ongoing volatility

Two-thirds of respondents remain positive about pursuing growth and taking risks in the next 6-12 months, notwithstanding persistent geopolitical volatility and economic headwinds.

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A focus on productivity growth

Productivity is perceived as a key driver of investment, innovation and growth.

To drive productivity growth, senior business leaders are placing greater weight on targeted cost initiatives and investment in productivity-enhancing technologies, most notably AI, while advocating for reductions in red tape.

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A 'Team Australia' moment

Australian businesses, government and regulators are increasingly engaging in joint problem-solving illustrated by the Economic Reform Roundtable and the various regulatory simplification initiatives being championed by ASIC, APRA and the ACCC.

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Geopolitical risk management

Nearly half of the respondents are conducting scenario planning, diversifying supply chains and stress-testing capital sources to navigate a fragmenting global order and to protect Australia's relative 'safe-haven' status.

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AI: the centrepiece of the productivity playbook

AI implementation is the top-ranking medium-term priority, viewed primarily as a catalyst for productivity growth rather than pure cost-reduction. However, implementation is hampered by capability and mindset gaps, legacy systems and regulatory uncertainty.

Organisations are carving out dedicated AI budgets and evolving governance frameworks, yet only 1 in 7 currently operates a comprehensive, enterprise-wide model that addresses ethics, risk and accountability – underscoring the cultural challenge of embedding AI.

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Culture at an inflection point

While AI adoption accelerates, Australian businesses may be approaching a potential 'cultural crossroads' – as the promise of material efficiency gains via AI exposes governance, ethical and skills gaps that established operating models are ill-equipped to manage.

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A focus on cutting red tape

Tackling red tape, regulatory duplication and approval delays were all identified as important levers to lift Australia's productivity growth trajectory.

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Prioritising energy and tax reform

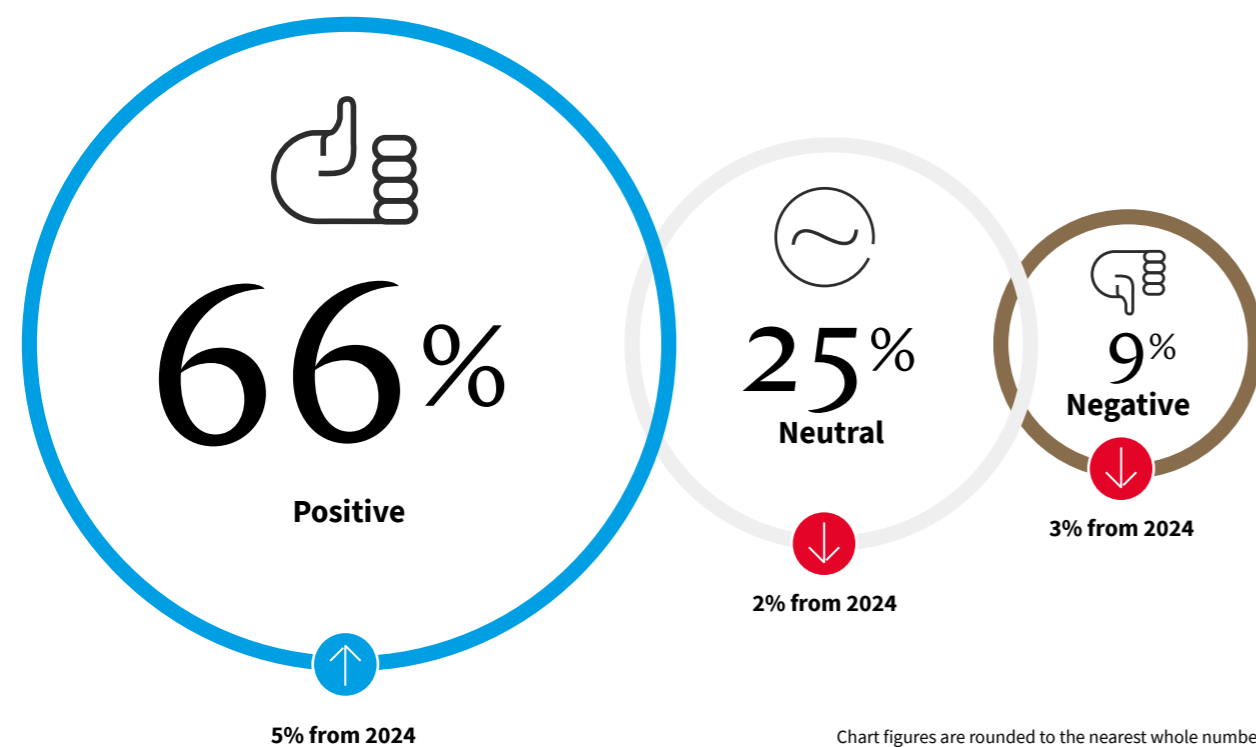
Leaders call for accelerated energy-infrastructure approvals, secure gas supply and a streamlined national policy, together with simplified tax compliance, a more competitive corporate tax rate and an expanded R&D incentive regime.

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MORE OPTIMISM IN THE FACE OF ONGOING VOLATILITY

Given the current environment in which Australian businesses are operating and the broader pressures facing the Australian community, one of the most striking themes emerging from the *Directions 2025* survey results is the relative optimism, reflected in the response to our question about attitudes towards pursuing growth opportunities and risk-taking over the next 6-12 months. Compared to our survey results from *Directions 2024*, 66.4% of survey respondents reported that their organisations were either 'very positive' or 'positive' about pursuing growth opportunities and risk-taking over the next 6-12 months (up 5% from our 2024 survey results).

Compared to 12 months ago, what is your organisation's attitude towards pursuing growth opportunities and risk-taking over the next 6-12 months?



This positive sentiment is reflected in our other survey results, including views on:

- actions that can be taken to improve productivity growth, including investment in productivity-enhancing technologies, such as AI or task automation solutions;
- how organisations are managing geopolitical and geoeconomic risks, and potential disruption to capital markets – many survey respondents noted that their organisations are actively scenario planning and taking actions to monitor and mitigate risks; and
- how the Australian business community is working with various stakeholders, particularly with government, regulators and investors.

'Australia is facing major headwinds. Productivity growth is in the doldrums, global trade uncertainty is at historic highs, we aren't building enough homes to fix our housing shortage, and the energy transition is proceeding too slowly.'

Cassandra Winzar
Chief Economist, CEDA

and

Andrew Barker
Head of Research at the Committee for Economic Development of Australia¹

'Boosting productivity is the only sustainable way to improve Australians' living standards, but productivity growth has stagnated in the past decade. It's now at its lowest ebb in 60 years.'

Danielle Wood
Chair of the Productivity Commission²

Despite the challenging business environment and the range of geopolitical and geoeconomic uncertainties, it appears that Australian businesses are actively looking to innovate and adapt. Our survey results show a willingness to take action to lift overall performance, find growth and work collaboratively with various stakeholders to solve problems and improve outcomes.

Significantly, our annual 'pulse check' of the issues of greatest opportunity or concern for organisations in the short-term (next 6 months) were:

- Pursuing and maintaining profitability (51.4%, down from 58.9% in 2024 and 67.6% in 2023).
- Implementing specific initiatives to manage costs and improve productivity (50.9%, up from 25.1% in 2024 and 36% in 2023).
- Managing cyber risks, including those from data breaches and use of third-party systems or AI (41.8%, down from 43.3% in 2024 and 53.2% in 2023).

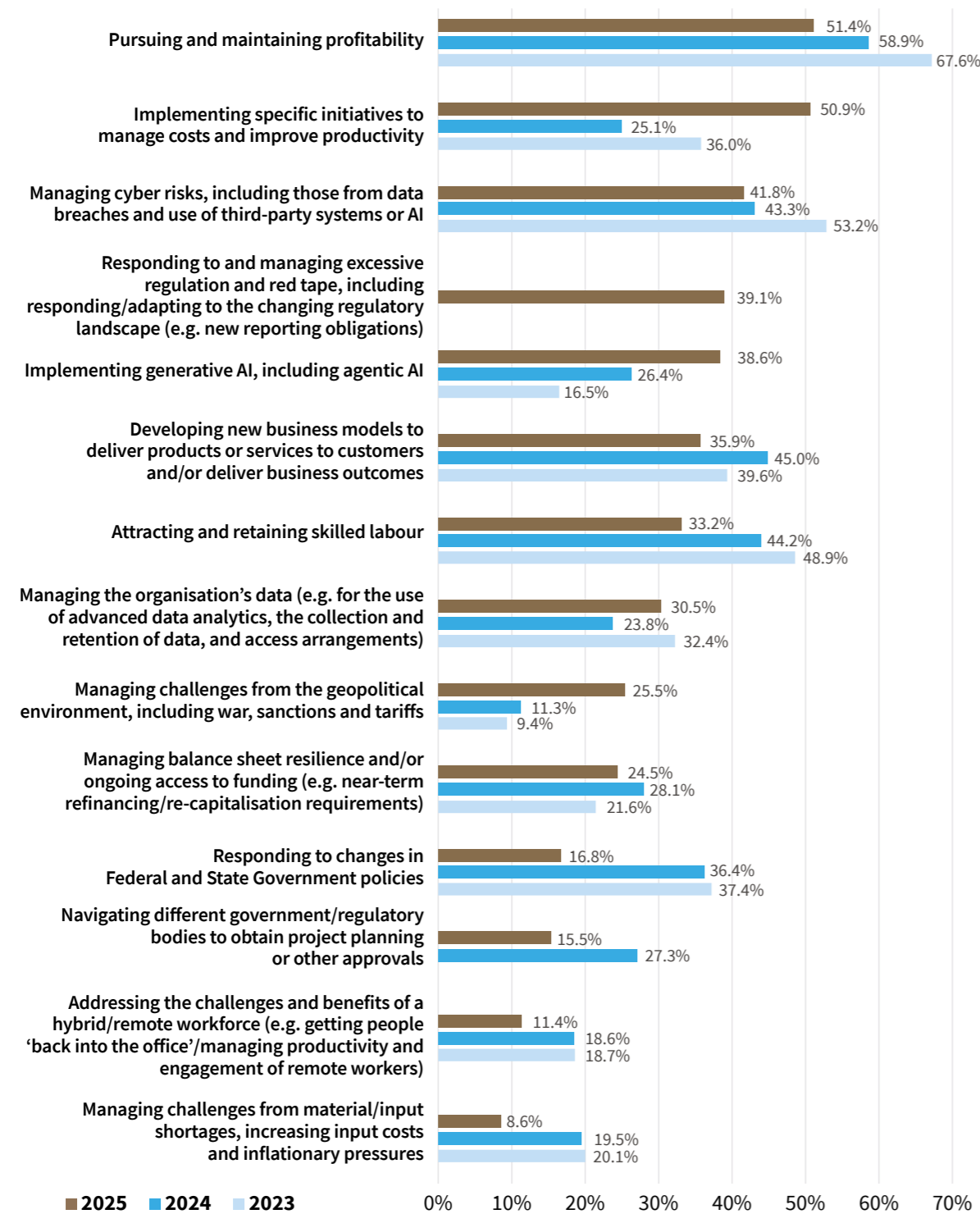
Other key areas of elevated short-term focus in 2025 – and particularly important as Australian businesses urgently seek to improve productivity growth – included:

- Responding to and managing excessive regulation and red tape (an issue that re-emerged as a concern in our *Directions 2024* survey results).
- The arguably inter-related areas of:
 - implementing generative AI; and
 - developing new business models to deliver products or services to customers, or deliver business outcomes.

By comparison, areas of diminished short-term focus in 2025 included attracting and retaining skilled labour, responding to changes in government policies and managing challenges from shortages.

1. Cassandra Winzar and Andrew Barker, *9 fixes that could supercharge Australia's economy*, AFR, 21 August 2025
2. Productivity Commission Media Release, 18 May 2025

What are the areas of greatest opportunity or concern in the short-term (next 6 months)?



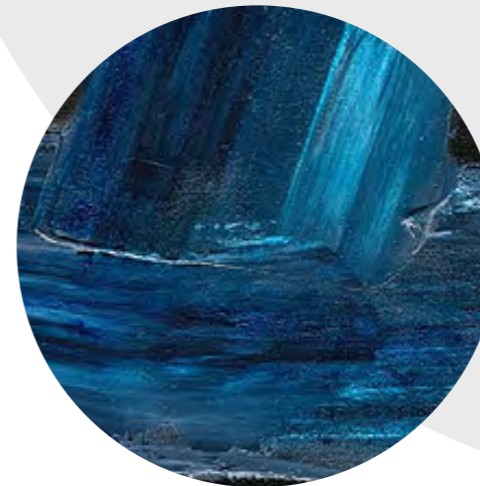
Respondents could select up to 5 options. Respondents could also select to write in a response to this question.

Over the medium-term (next 3-5 years), the issues of greatest opportunity or concern for organisations were:

1. Implementing generative AI, including agentic AI (47.5%, up from 27.4% in 2024 and 20.9% in 2023).
2. Developing new business models to deliver products or services to customers, or to deliver business outcomes (44.7%, up from 40.9% in 2024 and 43.2% in 2023).
3. Promoting and extracting value from innovation (35.5%, up from 29.1% in 2024 and 22.3% in 2023).

Echoing the areas of short-term focus, other key areas of elevated medium-term focus in 2025 included:

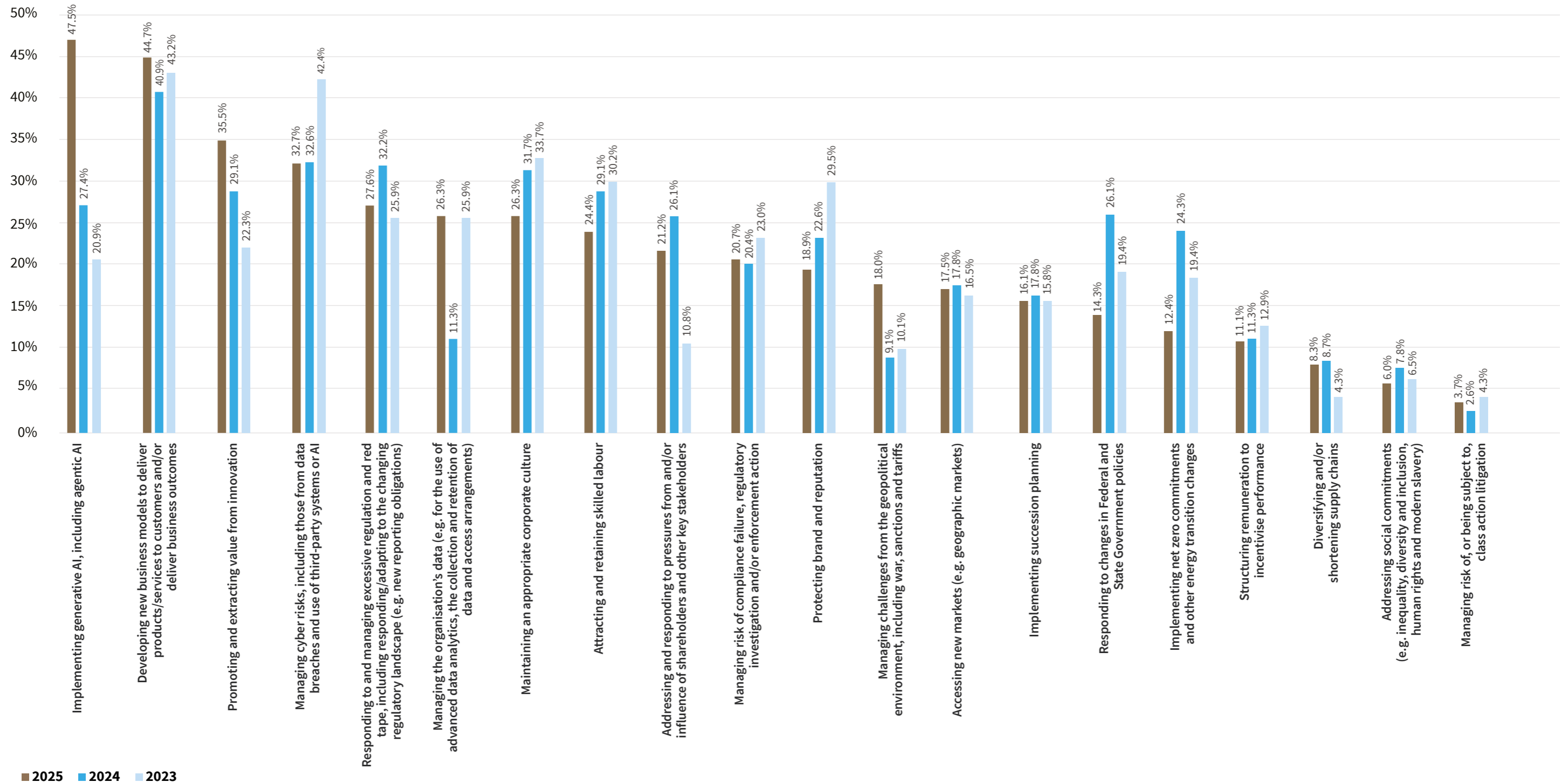
- The interrelated areas, particularly given the critical role of data, digital technologies and the overriding focus on implementing generative AI, of:
 - managing cyber risks, including those from data breaches and use of third-party systems or AI; and
 - managing the organisation's data.
- Responding to and managing excessive regulation and red tape.



As further described below, the key themes emerging from these pulse check survey results align with what business leaders believe are the most important for improving productivity growth in Australia arguably one of our most critical issues, as highlighted by the Federal Government's recent Economic Reform Roundtable. The two key priorities arising from the survey were:

- Reducing existing regulatory burdens/red tape and associated compliance costs; and
- Increasing investment in and the use of productivity-enhancing technologies (e.g. implementing generative including agentic AI).

What are the areas of greatest opportunity or concern in the medium-term (next 3–5 years)?



This chart represents items polled since 2023. The list is updated year-on-year to reflect current issues. Respondents could select up to 5 options. Respondents could also select to write a response.



OPERATING IN A VOLATILE GEOPOLITICAL ENVIRONMENT

The ‘weaponisation of interdependence’ describes states or entities exploiting positions of strength in any integrated network – trade or defence, for example – to gain strategic advantages and exert coercive power.³ This has significant implications for a heavily trade and foreign investment-dependent economy like Australia. Accordingly, it is not surprising that 25.5% of survey respondents identified managing challenges from the geopolitical environment (including war, sanctions and tariffs) as a short-term concern – a significant jump from 11.3% in 2024. Another 18% of survey respondents identified it as a medium-term concern (up from 9.1% in 2024).

This global ‘new normal’ is showing up in 3 ways:

- 01** Reshaping strategic alliances and placing increasing demands on Government defence budgets.
- 02** Impacting the flow of capital and cross-border investment, access to markets, and the reliability of supply chains, resulting in geoeconomic fragmentation.
- 03** Increasing perceptions of sovereign risk, reflecting recent trends in more overtly nationalistic and populist policymaking across different nations, and challenging the authority and effectiveness of global, regional and national institutions.

The Treasurer, Dr Jim Chalmers, cites geopolitics and global uncertainty among the top drivers of the Federal Government’s productivity agenda, linking the need to ‘*make our nation more resilient in a more contested world*’⁴ to the Federal Government’s push to maintain and lift Australian living standards by making the economy more productive and also fiscally sustainable.

A key element to building economic resilience is ensuring that Australian businesses, and Australia more generally, are able to continue attracting inbound capital for investment, and to promote trade and secure supply chains.

What does this look like? Australia’s foreign investment approval process could be improved and lessons could be learned from developments in foreign direct investment regulation in New Zealand and the United Kingdom. The ‘front door’ policy represents an opportunity for the development of a robust economic security model, a key pillar of which is collaboration and coordination between government, business and academia to develop a national strategy that integrates both economic and strategic priorities.

That said, the ongoing relative attractiveness of Australia, supported by its stable democratic institutions, should not be underestimated in the current environment. According to the *Democracy Index 2024* published by the Economist Intelligence Unit, there are big challenges to democracy globally, with only 25 countries (including Australia) being assessed to be ‘full democracies’ (scored by reference to electoral process and pluralism, functioning of government, political participation, political culture and civil liberties).⁵

Despite this geopolitical and geoeconomic fragmentation and increasing government intervention, capital markets have remained open and reasonably buoyant through the first three quarters of 2025. Whether or not these markets are adequately pricing geopolitical risks remains to be seen.

‘HAVE WE COME TO TERMS THAT THE WORLD CAN TOLERATE MORE TENSION, CONFLICT AND STRESS?’

Survey respondent

In this new world order, mobile global capital is expected to continue to gravitate to economies and markets offering comparatively strong and stable institutions.

As global affairs scholars Henry Farrell and Abraham Newman observed, ‘*economics and national security have collided, turning government inside out and upside down*’.⁶ In this environment, retaining Australia’s ‘safe haven’ status will require a careful balance by government and regulators to ensure we do not overcorrect and adopt a zero-risk approach which could undermine productivity, competitiveness and dynamism.

Our survey results highlight a sentiment of Australian businesses seeking to take action and control what they can, in the knowledge that they are operating in a highly unpredictable geopolitical and geoeconomic environment, and that scenario planning and crisis management preparation, and diversification, are of critical importance. Interestingly, 45.9% of our survey respondents reported that their organisations are undertaking scenario planning and crisis management preparation in response to geopolitical and geoeconomic risks. This is not surprising given many risks are now persistent rather than cyclical and organisations now find themselves not just managing ‘risk events’ but ‘risk environments’.

Select from the list below the strategies your organisation has implemented to manage geopolitical and geoeconomic risks, such as military conflict, tariffs, import and export controls, sanctions and trade alliances.

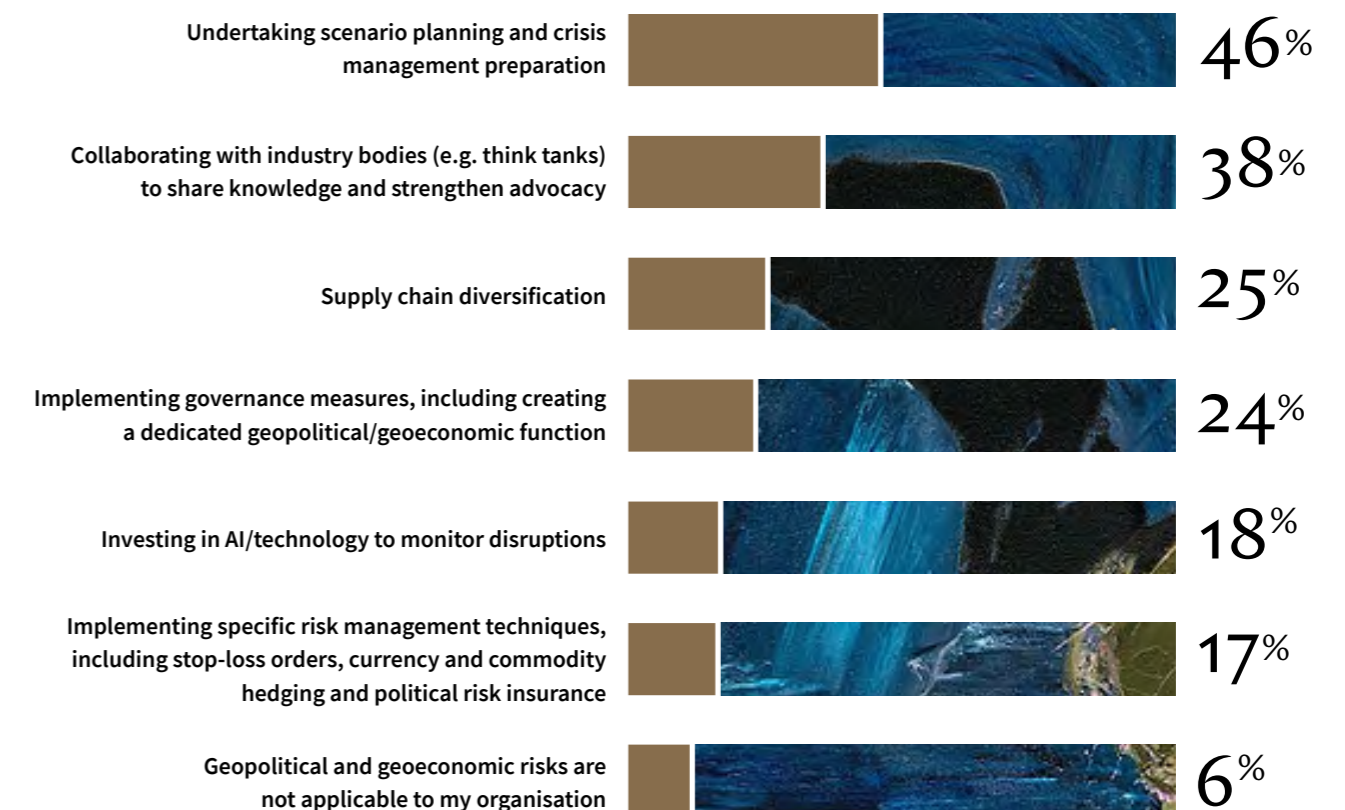


Chart figures are rounded to the nearest whole number. Respondents could also select ‘none of the above’ as an answer. Respondents could select all that apply to their organisation.

3. Henry Farrell and Abraham Newman, *The Weaponized World Economy: Surviving the New Age of Economic Coercion*, Foreign Affairs Magazine, 19 August 2025

4. Treasurer Jim Chalmers Opening remarks, *Economic Reform Roundtable*, Parliament House, Canberra, Treasury, 19 August 2025

5. Economic Intelligence Unit, *Economic Index 2024*

6. Henry Farrell and Abraham Newman, *The Weaponized World Economy: Surviving the New Age of Economic Coercion*, Foreign Affairs Magazine, 19 August 2025

Similarly, in response to our question about source of capital and access to capital, a considerable number of survey respondents reported that their organisation is undertaking increased scenario planning if access to capital sources changes (27%), or has increased the frequency of stress testing its capital sources and has developed a range of contingency options (24.3%).

How is your organisation thinking about source of capital (including foreign capital) and access to capital markets?

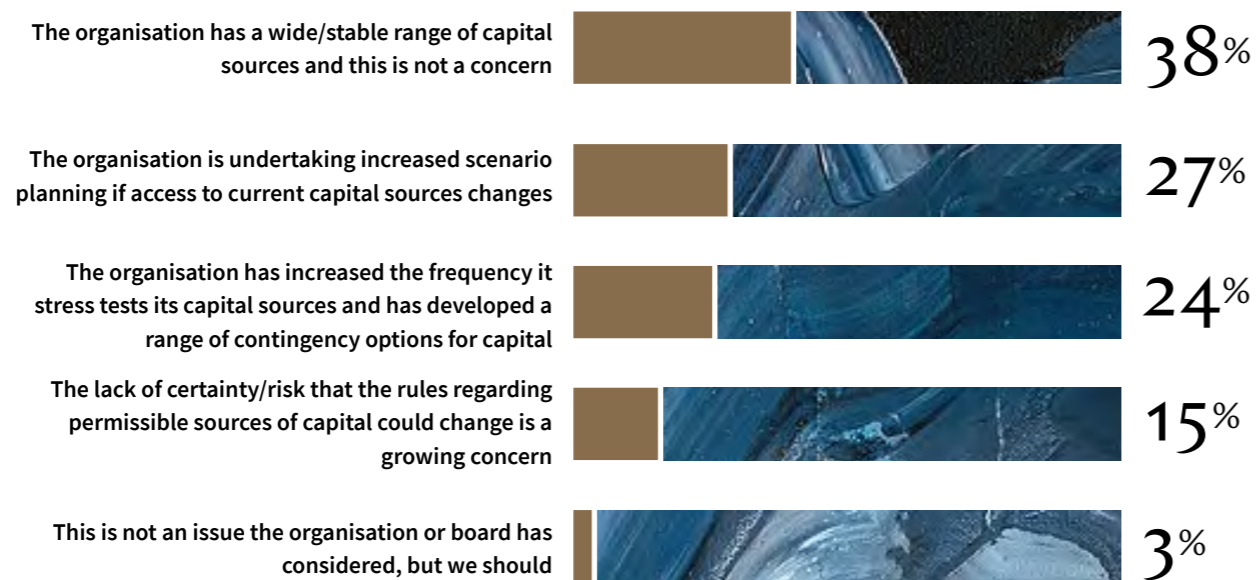


Chart figures are rounded to the nearest whole number. Respondents could select up to 3 options. Respondents could also select 'Not applicable to my organisation' as a response.

PROBLEM-SOLVING THROUGH COLLABORATION

There is a strong sense that we are having a 'Team Australia' moment. Driving this is a sense of shared imperative for Australian businesses to grow, remain internationally competitive, and thereby improve Australian living standards.

While Australian businesses are not able to single-handedly cut burdensome red tape or solve any of these geopolitical or geoeconomic challenges, various stakeholders are actively working together to seek specific and actionable solutions to the range of challenges facing the Australian economy and community. This is illustrated by 37.6% of our survey respondents reporting that their organisations are collaborating with industry bodies to share knowledge and strengthen advocacy.

The recent Economic Reform Roundtable was described as a forum to 'build consensus on ways to improve productivity, enhance economic resilience and strengthen budget sustainability'. While attendance was limited, attendees included representatives from a range of industry and business groups including the Business Council of Australia, the Australian Chamber of Commerce and Industry, the Australian Industry Group, the Tech Council of Australia and the Council of Small Business Organisations, who participated alongside politicians, regulators and representatives from the Productivity Commission, the Australian Council of Trade Unions, the Australian Council of Social Services, and the Australian Climate and Biodiversity Foundation.

The Economic Reform Roundtable leveraged the Productivity Commission's interim reports on identified reform areas to inform its ongoing inquiries to support the Federal Government's productivity agenda under the following 5 pillars:



01

CREATING A DYNAMIC AND RESILIENT ECONOMY

- Support business investment through corporate tax reform
- Reduce the impact of regulation on business dynamism



02

BUILDING A SKILLED AND ADAPTABLE WORKFORCE

- Improve school student outcomes with the best available tools and resources
- Support the workforce through a flexible post-secondary education and training sector
- Balance service availability and quality through fit-for-purpose occupational entry regulations



03

HARNESSING DATA AND DIGITAL TECHNOLOGY

- Support innovation through an outcomes-based approach to privacy
- Unlock the benefits of data through consumer access rights
- Enhance reporting efficiency, transparency and accuracy through digital financial reporting
- Enable AI's productivity potential



04

DELIVERING QUALITY CARE MORE EFFICIENTLY

- Reform quality and safety regulation to support a more cohesive care economy
- Embed collaborative commissioning to increase the integration of services
- A national framework to support government investment in prevention



05

INVESTING IN CHEAPER, CLEANER ENERGY AND THE NET ZERO TRANSFORMATION

- Reduce the cost of meeting carbon targets
- Speed up approvals for new energy infrastructure
- Encourage adaptation by addressing barriers to private investment



‘Productivity growth isn’t about working harder. And it’s not just about having more ‘stuff’. It means making the most of what we have – the skills and experience of our workforce, new technologies, and our resources – so we can get more out of our economy. It’s about making it easier for businesses to harness new technologies like generative AI. It’s about giving our teachers the best resources and technology available to help our kids learn more. It’s about making it quicker and easier to build clean energy infrastructure.’

Danielle Wood
Chair of the Productivity Commission⁷

A recent example is ASIC’s review of the future of Australia’s public and private markets. Through consultation, ASIC received more than 90 submissions from industry bodies across the finance sector (including KWM) which provided feedback, insights and actionable ideas in response to ASIC’s discussion paper that examined ‘the health and future of Australia’s markets, including the growth in private markets, the decline in public listings, and the growing significance of superannuation funds’.⁸

Already, this has led ASIC to trial a new fast-track process to facilitate a shorter initial public offering (IPO) timetable which is designed to make listing more attractive by reducing deal execution risk.⁹



7. Productivity Commission Media Release, 18 May 2025
8. ASIC Media Release, 4 June 2025
9. ASIC Media Release, 10 June 2025
10. ASIC Media Release, 4 June 2025

This positive sentiment regarding improved engagement and collaboration is reflected in the responses to our question about how well the Australian business community is working with other key stakeholders. Compared to our *Directions 2024* survey results, there has been some marginal improvement in these responses, particularly in relation to the Australian business community working with government, regulators and investors, primarily due to the increase in respondents considering that the engagement with those stakeholders is working ‘very well’.

How well do you think the Australian business community is working with the following stakeholders?

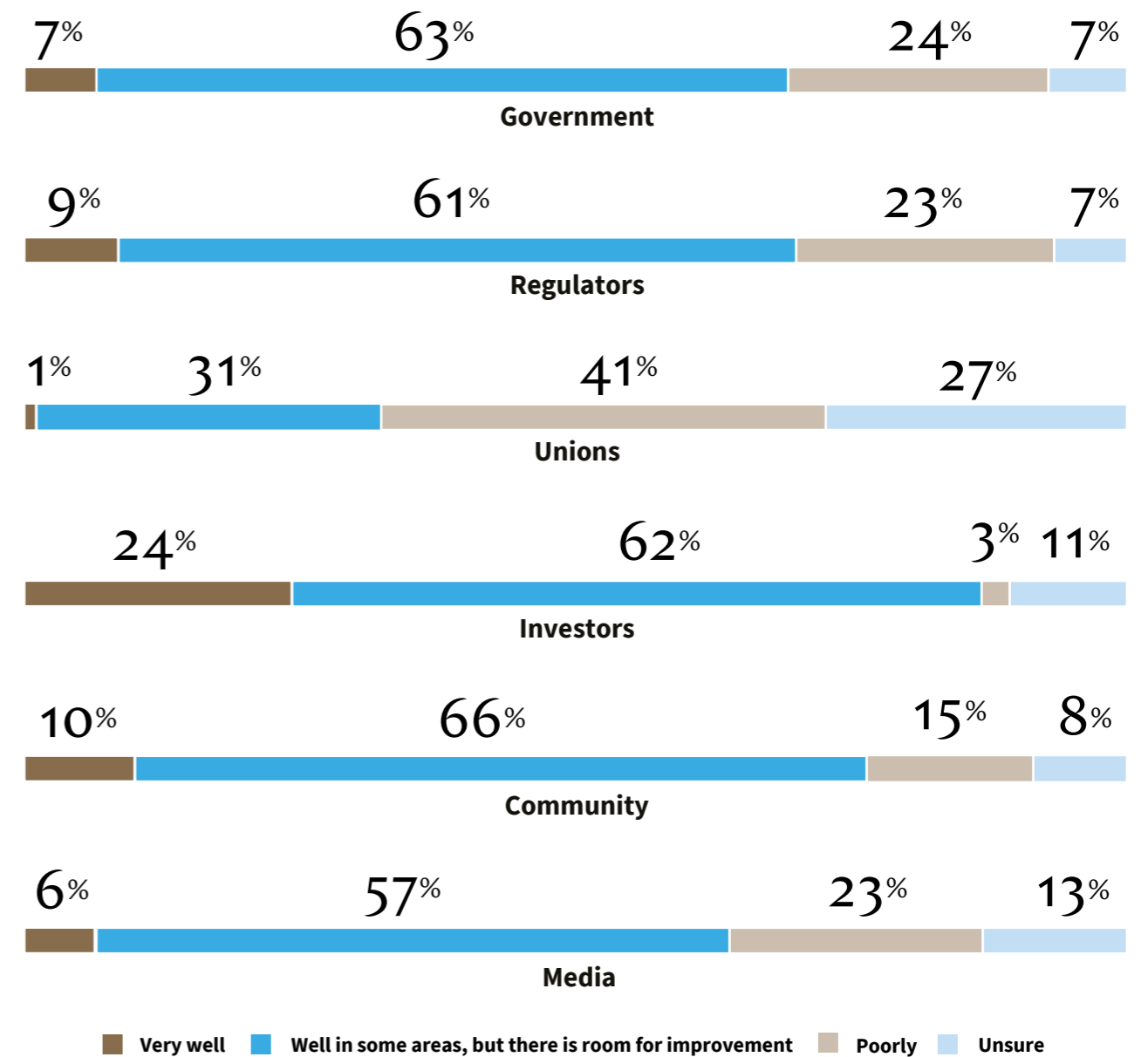


Chart figures are rounded to the nearest whole number.

WHAT ROLE IS THERE FOR CULTURE AND HUMAN CAPITAL TO UNDERPIN FUTURE SUCCESS?

A by-product of the emphasis on improving profitability and productivity growth is an apparent diminished focus on culture, as businesses focus on investing in the implementation of generative AI and the development of new business models, while seeking to also mitigate risks from the volatile geopolitical environment and manage ongoing challenges from excessive regulation and red tape.

Maintaining an appropriate culture only ranked 7th as a medium-term area of focus, after successive years ranking as a 'top 3' medium-term issue following the *Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* and associated enforcement actions taken by ASIC and APRA. A key finding from the *Hayne Royal Commission* was that poor organisational culture (alongside failures in governance and flawed remuneration structures and incentives) was a root cause of misconduct, and it highlighted that companies and boards cannot rely on a theory of there being a 'few bad apples'.

While this survey result could suggest a view that Australian businesses have moved on from the necessary lessons learnt from the prior cultural and governance failings that enabled (or turned a blind eye to) systemic breaches of law, compliance failures and mistreatment of customers and other stakeholders, we consider that it actually reflects broad acceptance that an appropriate corporate culture remains fundamental to supporting an organisation's performance and positive outcomes for stakeholders over the medium-term – whether that be to support innovation and the adoption of new technologies, continuous learning and the adoption of new skills, collaboration and teamwork, compliance with legal requirements and the maintenance of a 'social licence', or the respectful and fair treatment of employees, customers and other stakeholders.

WITH APOLOGIES TO PETER DRUCKER – 'CULTURE (STILL) EATS STRATEGY FOR BREAKFAST.'¹¹

This sentiment is supported by the ongoing focus on organisational culture and sub-cultures across corporate Australia, as illustrated by a number of recent governance and culture reviews, and broader guidance on how directors should oversee, measure and influence corporate culture. Furthermore, a lack of proper oversight of systemic misconduct that is enabled by poor organisational culture may constitute a breach of directors' duties due to the failure to exercise proper care and diligence.

'In this demanding environment, organisations can no longer afford to let their cultures evolve passively or cling to outdated norms. Success in 2025 and beyond requires actively shaping culture to align with strategic goals instead of allowing it to develop by default.'¹²

Similarly, attracting and retaining skilled labour only ranked 8th as a medium-term area of focus, after several years of ranking more highly following the COVID-19 pandemic-related shutdowns in 2020 and associated labour shortages. While this result could suggest a view that Australian businesses consider that they have the talent that they need, or are more focused on reducing headcount, as further described below, we consider that the focus on increasing investment in education and training as the 4th top ranking area for improving productivity growth in Australia, and the significant role that employees will play in successfully adopting and applying new technologies (such as generative AI), would suggest that Australian businesses are continuing to value and invest in their people, and wanting to ensure that their workforce is engaged, in order to support their success.

11. Vince Molinaro, *What Really Eats Strategy For Breakfast? Leadership Culture*, Forbes, 2 October 2024

12. Tracy Lawrence, *Company Culture Matters More Than Ever In 2025*, Forbes, 29 January 2025

ARTIFICIAL INTELLIGENCE – FROM SANDBOX TO STRATEGIC IMPERATIVE

The *Directions 2025* survey confirms that AI has moved decisively from the sidelines of corporate experimentation into the centre of strategic and operational planning. Directors and senior leaders now regard generative and agentic AI not merely as an emerging technology, but as a critical enabler of productivity, growth and competitive differentiation.

The momentum is striking – the proportion of respondents citing 'implementing generative AI' as a *short-term* (next 6 months) priority has leapt from 26.4% last year to 38.6% in 2025, catapulting the topic into the top 5 immediate opportunities and concerns. Over the *medium-term* (3-5 years), 47.5% of respondents – the single largest medium-term response by a material margin – identify AI implementation as the dominant issue for the next 3 to 5 years.

Beneath those headlines, 6 interlocking themes emerge that illuminate how organisations are approaching AI, where they perceive its value, and why some are progressing faster than others. Whether or not history will judge the current 'AI boom' as an organisational game changer or just 'irrational exuberance'¹³ remains to be seen.

'AI will not transform the economy simply by existing. Without the ability to redesign jobs and workflows, it will go the way of many other over-hyped technologies present in the headlines, absent in the productivity figures.'

Sinclair Davidson
Professor of Economics at the RMIT Blockchain Innovation Hub¹⁴

13. James Thomson, *AI doubters are having a moment. Even Sam Altman agrees*, AFR, 22 August 2025

14. Sinclair Davidson, *Why AI is an industrial relations challenge for business*, AFR, August 19 2025

1. AI IS BEING FRAMED PRIMARILY AS A PRODUCTIVITY CATALYST RATHER THAN A COST-CUTTING EXERCISE

Which statement best describes your organisation's strategic ambition for AI?



57%

Productivity enhancing:
our organisation views AI primarily as a productivity opportunity and/or enabler of growth



17%

Competitive imperative:
our organisation views adopting AI as imperative to remaining competitive



8%

Cost saving:
our organisation views AI primarily as a cost-reduction opportunity or measure



9%

New business model, work or revenue stream:
our organisation views AI as an opportunity to generate new work or create a new business model or product or other revenue stream



6%

Unsure

Chart figures are rounded to nearest whole number. Respondents could also select to write a response.

When asked about their strategic ambition for AI, a clear majority (56.8%) view the technology 'primarily as a productivity opportunity and/or enabler of growth'. Only 8% perceive AI chiefly as a cost-reduction lever, and fewer than 1 in 10 (9.1%) see it principally as a platform for entirely new business models or revenue streams. The data therefore suggests that Australian corporates are taking a pragmatic, operations-first stance – augment existing processes, lift 'throughput' – improve decision-making, before pursuing more disruptive or speculative plays.

A similar productivity lens is evident elsewhere in the survey. Respondents overwhelmingly nominate 'implementing specific initiatives to manage costs and improve productivity' as a short-term priority (50.9%) and identify 'increasing investment in and use of productivity-enhancing technologies' as a top lever to improve national productivity (47%). AI is clearly regarded as the most promising of those technologies, and this is already something we are seeing touted in this year's reporting season, with companies like Suncorp highlighting the use and deployment of AI in their FY25 Results Announcement.¹⁵

2. AN INCREASING SENSE OF URGENCY

The survey reveals an increasing sense of urgency. The 38.6% of respondents pursuing AI in the next 6 months is sizable, yet it surges to 47.5% (nearly half) when the time horizon extends to 3-5 years. This 9-point jump, larger than that for any other issue measured, conveys 2 insights:

- A significant cohort is moving from experimentation or pilot programs into implementation, procurement and change management phases.
- Organisations which have so far deferred major commitments recognise that they cannot postpone decisions indefinitely without risking structural competitive disadvantage.



15. FY25 Results, Suncorp Group

3. SKILLS, SYSTEMS AND REGULATION – THE TRIFECTA OF IMPLEMENTATION CHALLENGES

What are the greatest challenges to investing in or implementing productivity-enhancing technologies, such as AI or task automation solutions?



77%

Staff capability and mindset gap (i.e. lack of training and experience)



56%

Difficulties in integrating new technologies into existing tech stack, processes and systems



30%

Regulatory uncertainty (e.g. whether AI will be regulated 'broad brush' as a technology or specifically how it is used, such as facial recognition)



23%

Unclear how it would benefit my organisation or provide clear ROI



23%

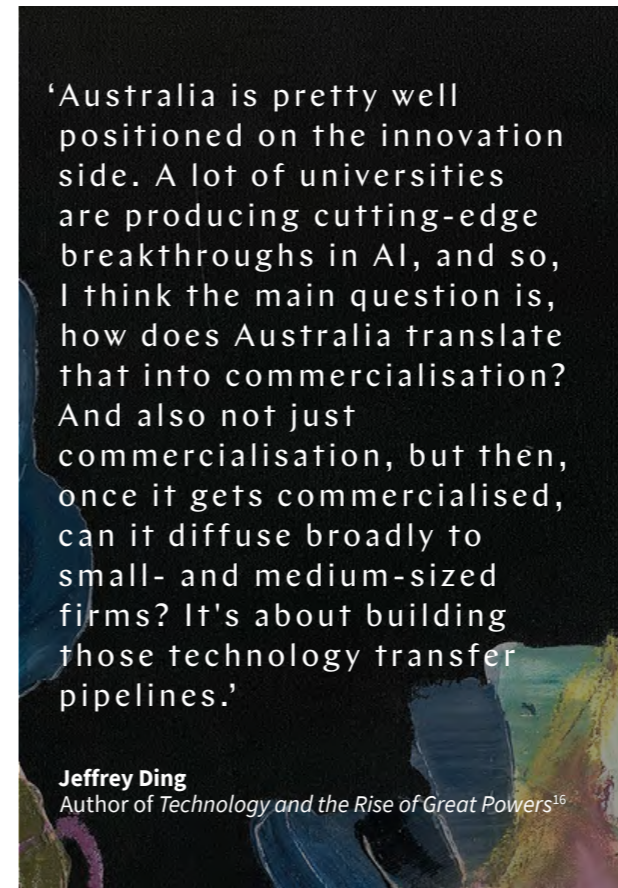
Our organisation does not have the resourcing or capability to implement AI solutions



19%

Concern about stakeholders' response to workforce disruption or transformation

Chart figures are rounded to nearest whole number. Respondents could also select to write a response.



Notwithstanding the enthusiasm, practical hurdles loom large. When respondents were invited to nominate the 'greatest challenges to investing in or implementing productivity-enhancing technologies such as AI', 3 key challenges emerged:

- **Capability and mindset gaps:** 77.4% cite a lack of internal skills, training or cultural readiness. This figure significantly outweighs every other challenge and confirms anecdotal views that the scarcity of data scientists, machine-learning engineers and AI-literate senior leaders is potentially constraining deployment time horizons. This finding is arguably an early indicator that the implementation of AI may well emerge as the greatest organisational cultural challenge in a generation. As recently reported in the AFR, the emerging prevalence of workers using 'shadow AI' to do their jobs is one such challenge.¹⁷

- **Integration complexity:** 56% struggle to embed new tools into legacy technology stacks, data architectures and process maps. Incremental IT investment has seemingly produced technology environments that complicate the enterprise roll-out of AI solutions.
- **Regulatory uncertainty:** Almost 1 in 3 leaders (29.8%) worry about the compliance perimeter – whether rules will target the technology itself, its use cases or sector-specific applications. This echoes general survey concerns about 'excessive regulation and red tape', cited by 39.1% as an immediate organisational burden. This was a dynamic discussed in detail at the recent Federal Government's Economic Reform Roundtable, in terms of whether there should be a dedicated 'AI Act' or simply an uplift of existing legislation, particularly in the areas of copyright, employment and data privacy.

Other barriers, such as unclear return on investment (22.6%) and insufficient resourcing (22.6%), were noteworthy but secondary considerations. Interestingly, employee or public backlash over workforce disruption is a comparatively modest concern (19%), perhaps reflecting early messaging around 'augmentation' rather than 'replacement'.

16. Speaking at the KWM Digital Future Summit, August 2025

17. Julie Hare and Tess Bennett, *The rise of workers using 'Shadow AI' to do their jobs*, AFR, August 2025

4. WORKFORCES ARE BEGINNING TO RESHAPE, BUT HEADCOUNT REDUCTION IS NOT YET THE ORGANISING PRINCIPLE

Has your organisation considered or implemented AI solutions in areas of its business that could allow it to materially reduce its workforce headcount in those areas?

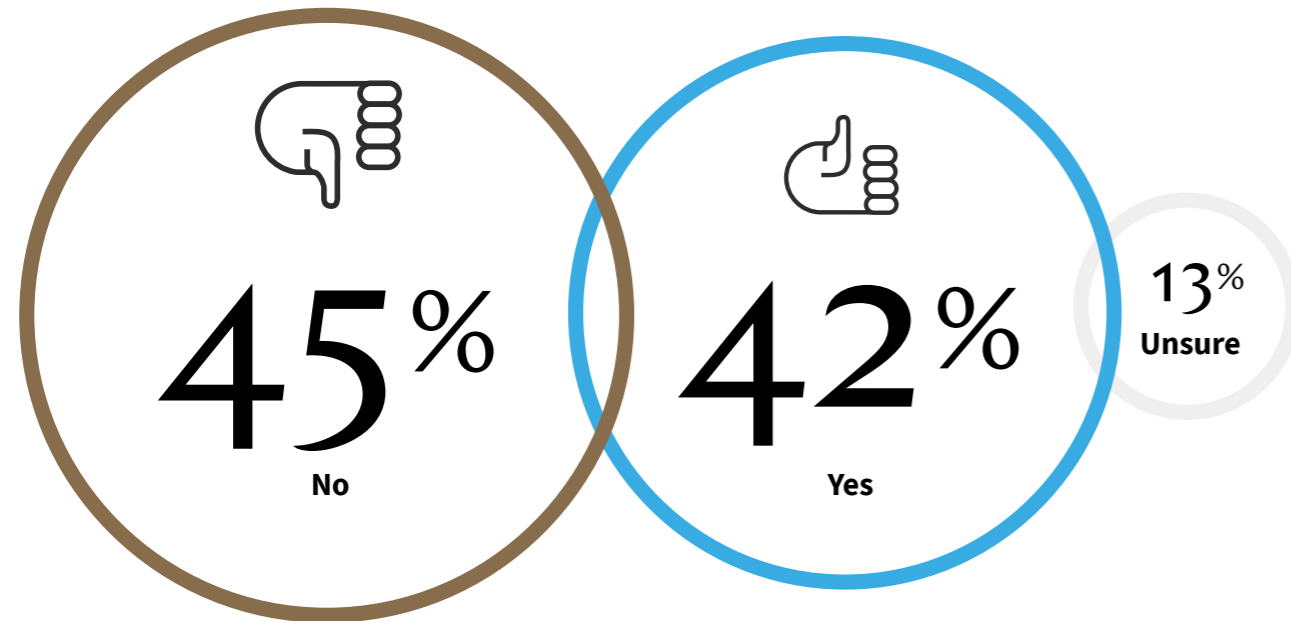
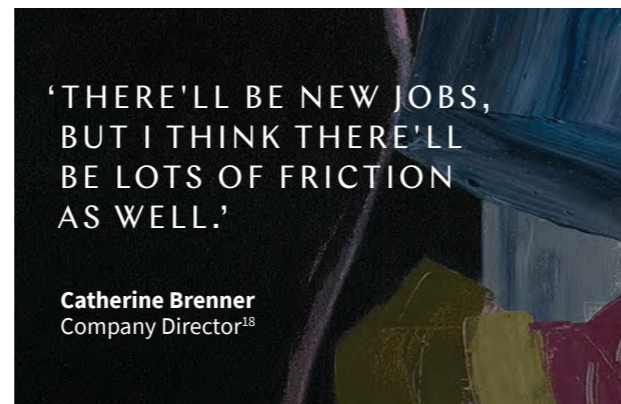


Chart figures are rounded to the nearest whole number.

The interplay between AI and employment remains nuanced. A sizeable minority (41.7%) of organisations have considered or already implemented AI solutions that could materially reduce workforce numbers in specific functions. Several recent announcements by prominent companies underscore that some organisations are well down this path. Yet a slightly larger proportion (45.6%) have not contemplated such measures (with 12.8% remaining unsure).



18. Speaking at the KWM Digital Future Summit, August 2025

If your organisation has not implemented or considered AI solutions, please indicate if any of the reasons below explain your organisation's current position.

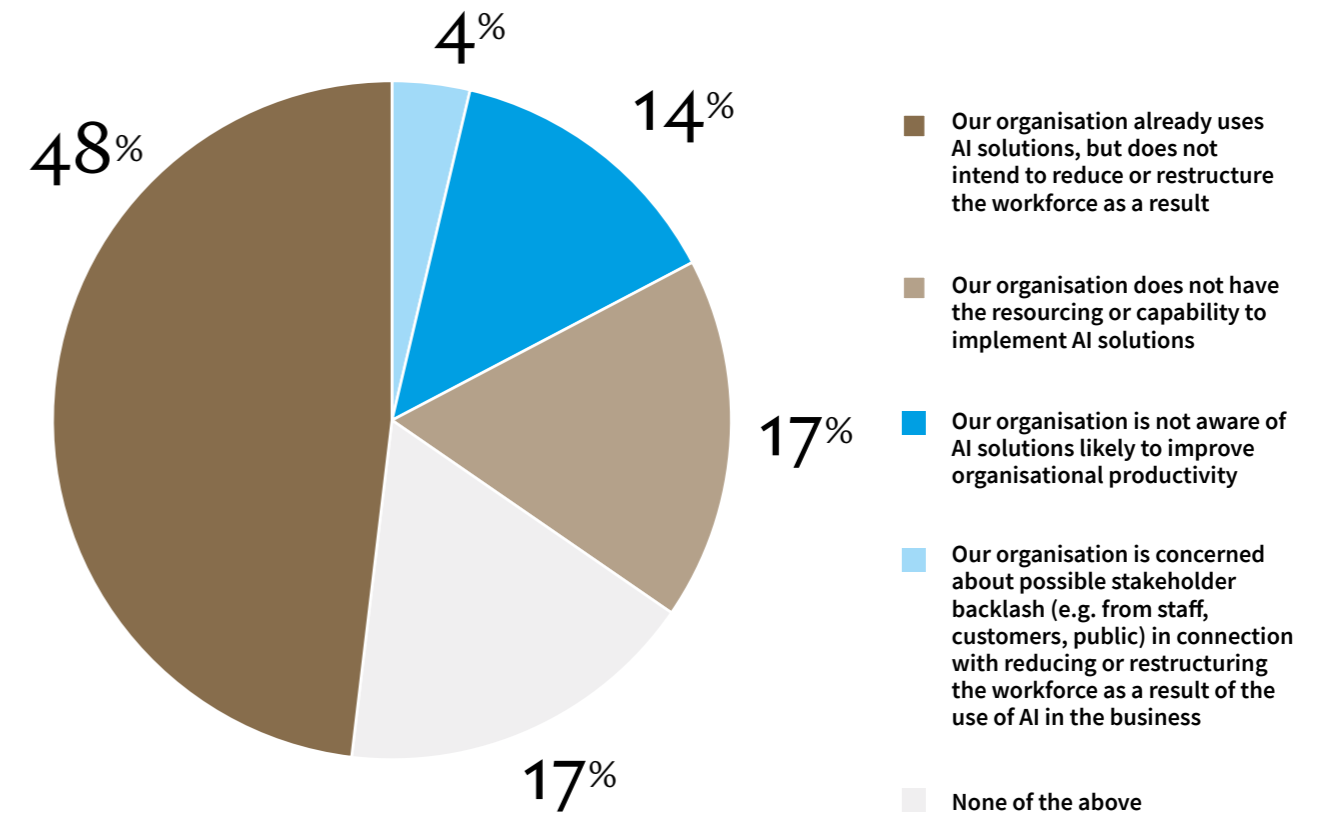


Chart figures are rounded to nearest whole number. Respondents who selected that their organisation has not implemented or considered AI solutions were prompted with this question. Respondents could only select one answer.

The survey data sheds further light:

- 48.1% of those currently not using AI for headcount reduction say they already employ the technology but have no intention of restructuring staff as a result.
- Only 3.7% cite fear of stakeholder backlash as a material deterrent.
- Capability gaps (17.3%) and simple non-alignment with business needs (13.6%) are more significant explanatory variables.

Taken together, the data suggests businesses are adopting an ‘*augmentation first, attrition later*’ mindset. Automation of repetitive tasks is proceeding, but leaders still, at least for now, are placing a premium on redeploying talent towards higher-value analytical or other work. The war for skilled labour – itself cited by 33.2% as a pressing short-term issue – reinforces this preference.

The revised position of certain organisations with its staff whose roles are potentially impacted by AI at the time of the Federal Government’s Economic Reform Roundtable highlights just how commercially and politically sensitive this issue is.

‘IF I HAD TO MAKE A PREDICTION, I WOULD SAY IT WILL HAVE VERY LARGE AND SIGNIFICANT IMPACTS ON THE WORKFORCE OVER TIME.’

Richard Dammerly
Company Director¹⁹

5. FUNDING STRATEGIES ARE PRAGMATIC AND BALANCED

Which statement best describes your organisation’s approach to funding investment in AI?

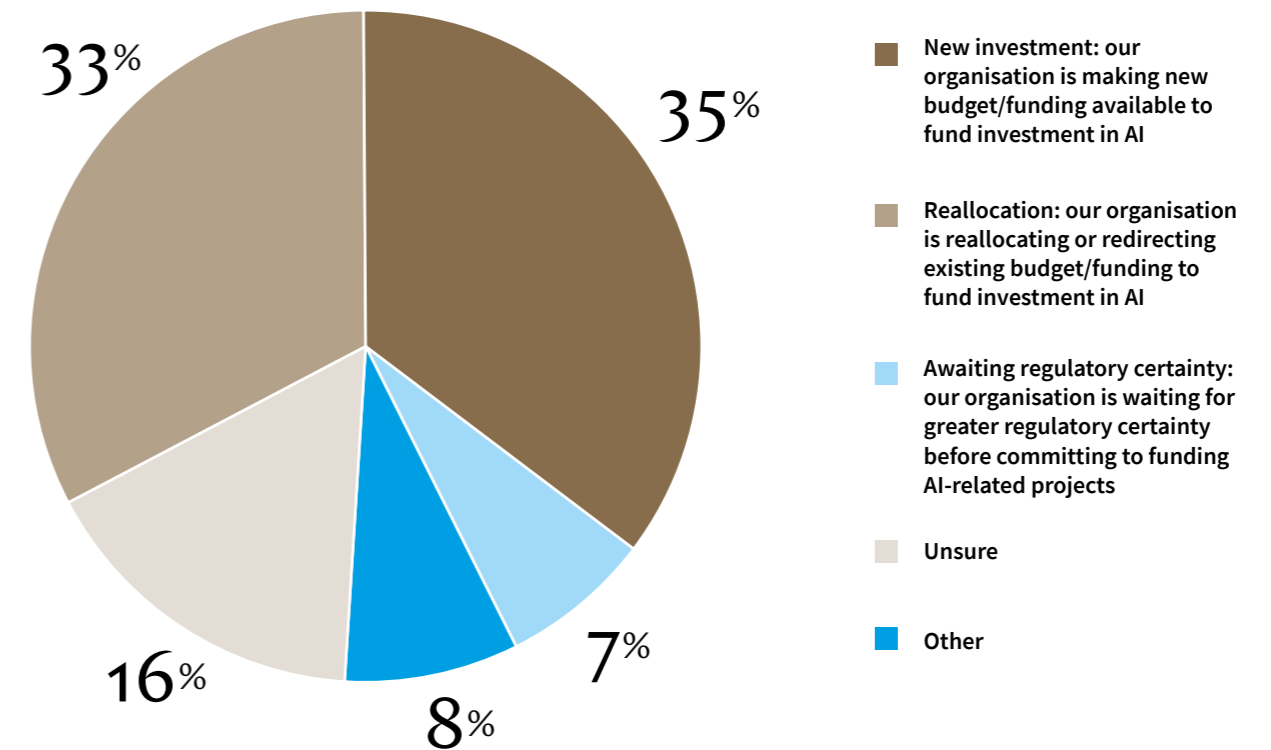


Chart figures are rounded to the nearest whole number. Respondents could select only one answer.

Capital allocation decisions show a blend of ambition and prudence:

- 35.4% of respondents are committing new budget lines to AI programs – a strong indicator that boards are carving out discretionary funds even amid broader cost control exercises.
- 32.6% are reallocating or redirecting existing budgets. This reflects a maturing understanding that AI investments must compete with other digital and transformation priorities, and may need to be ‘financed’ through efficiencies elsewhere.
- Only 7.3% are holding back pending regulatory clarity, while 16.3% remain unsure. The comparatively low ‘wait-and-see’ stance underlines the perceived necessity to act despite potential policy and regulatory uncertainty.

The survey responses reveal diverse funding strategies, from central innovation funds to business-unit experimentation budgets, and from early-stage, low-cost deployments leveraging existing cloud licences, to larger capital outlays earmarked for proprietary models and data infrastructure.

19. Speaking at the KWM Digital Future Summit, August 2025



6. GOVERNANCE FRAMEWORKS ARE EVOLVING, BUT COMPREHENSIVE MODELS REMAIN THE EXCEPTION

Which statement best describes your organisation's current AI governance model?



Chart figures are rounded to the nearest whole number. Respondents could select only one answer. Respondents could also select that they were 'unsure'.

If investment momentum is strong, governance maturity is still catching up:

- 36% of organisations have an 'evolving model in development'.
- A further 34.3% possess partial guidance without a unifying framework.
- Only 13.5% report a comprehensive governance architecture encompassing regulatory compliance, ethics, transparency, privacy and staff training.
- Somewhat surprisingly, 14.6% admit to having no guidance at all.

This distribution mirrors the pattern seen in other emerging domains, where policy and legal guardrails play catch-up after experimentation has begun. The risk is that uneven or poorly designed oversight could undermine the very productivity and trust benefits AI promises. A strategic imperative for many organisations will be to accelerate work on accountabilities, risk management, data governance, and ethical applications consistent with where law reform is likely to head. As noted above, this could well emerge as a generational cultural challenge in business in the years ahead.

Connecting the dots

The survey findings, when read together, point to 4 strategic imperatives which are on the minds of organisations in Australia:

- 1. The need to move quickly and deliberately:**
 Competitive pressure and productivity growth demand decisive action, yet skills deficits and integration complexity require disciplined program management.
- 2. Investing in people as much as in platforms:**
 The 77.4% capability gap statistic signals a need for organisations to double down on reskilling, recruitment and carefully managing cultural change. Organisations that treat AI literacy as a core competence across functions – not a niche expertise – have the potential to scale faster and successfully embed cultural change.
- 3. Embedding governance into the program design:**
 With fewer than 1 in 7 organisations boasting a comprehensive governance model, the opportunity to differentiate on trust, transparency and responsible AI is emerging as an important factor.
- 4. Aligning funding models with strategic ambition:**
 Where the objective is productivity, incremental 'self-funding' through reinvested efficiencies may suffice. Where AI is expected to unlock new revenue streams or redefine business models, dedicated capital injections and longer payback horizons will be necessary.

What comes next?

The *Directions 2025* survey underscores that Australian organisations are embracing AI with an accelerating velocity, primarily viewing it as a powerful driver for productivity growth. While there is a strong appetite for AI, significant challenges remain, particularly around developing internal capabilities, embedding cultural change, funding investment and navigating regulatory ambiguity.

The current state of AI governance is largely underdeveloped, presenting a critical area for improvement as businesses seek to harness AI's full potential responsibly and effectively – something which may emerge as a generational cultural challenge in business globally. Addressing the skills gap and establishing clear, comprehensive governance frameworks will be paramount for Australian businesses to successfully leverage AI in the coming years.

AI DISSONANCE AND THE OMNIPRESENCE OF CULTURE

As highlighted in the previous section, 77.4% of survey respondents pointed to a lack of internal skills, training or cultural readiness as the key challenge in implementing AI. However, survey respondents were 11% less concerned about attracting and retaining skilled labour in the short-term compared to the prior year. There has also been a gradual easing of Australia's skills shortages and a more stable post-pandemic labour market.

Together, these findings are arguably an early indicator that the implementation of AI may well emerge as the greatest organisational cultural challenge in a generation.

On the one hand, in the search for productivity and efficiency gains, organisations are actively encouraging (and expecting) their workforces to be 'AI-enabled', and integrating the use of AI into day-to-day tasks. Simultaneously, and in the pursuit of profitability and cost control, organisations are actively reassessing the size and shape of their workforces, with AI solutions a key driver of productivity (and potential redundancy). In our educational institutions, a cruel irony is that students are naturally embracing AI in the pursuit of vocations where the opportunities for paid work may ultimately be materially diminished by the very same technology.

Which leads us to wonder, what role will corporate culture play in the years ahead in the context of this 'AI dissonance'?

In the wake of the *Hayne Royal Commission into Misconduct in the banking, Superannuation and Financial Services Industry*, our *Directions 2019* survey highlighted that 'maintaining an appropriate corporate culture' was the number one issue keeping directors awake at night. Underlying this concern, borne out by some of the failings which emerged from the *Hayne Royal Commission*, was the emergence of 'systems risk' and the linkages between technology, culture and reputation (particularly when things go wrong).

This in turn prompted a wave of regulatory enforcement action and the dawn of the 'Why not litigate?' era, with our *Directions 2019* survey commenting that '...emboldened by political and media calls that they toughen-up, the nation's key regulators appear to have seized corporate Australia's 'culture' moment with considerable zeal.'

An outworking of this, exacerbated by the socio-economic uncertainty which ensued courtesy of COVID-19, was that Australian business became more risk averse in the years that followed, with a key focus on governance and compliance practices and the management of non-financial risks.

Fast-forward to today, our 7 years of survey data bears out that corporate culture has diminishing prominence in relative terms in the eyes of business leaders. Moreover, promoting (and extracting value from) innovation has overtaken maintaining an appropriate corporate culture as a key issue of concern. These trends, coupled with the sheer velocity of AI adoption (and associated organisational embedding), indicate that we may well be, once again, at a cultural crossroads.

Historical survey results for 'maintaining an appropriate corporate culture' and 'promoting innovation'

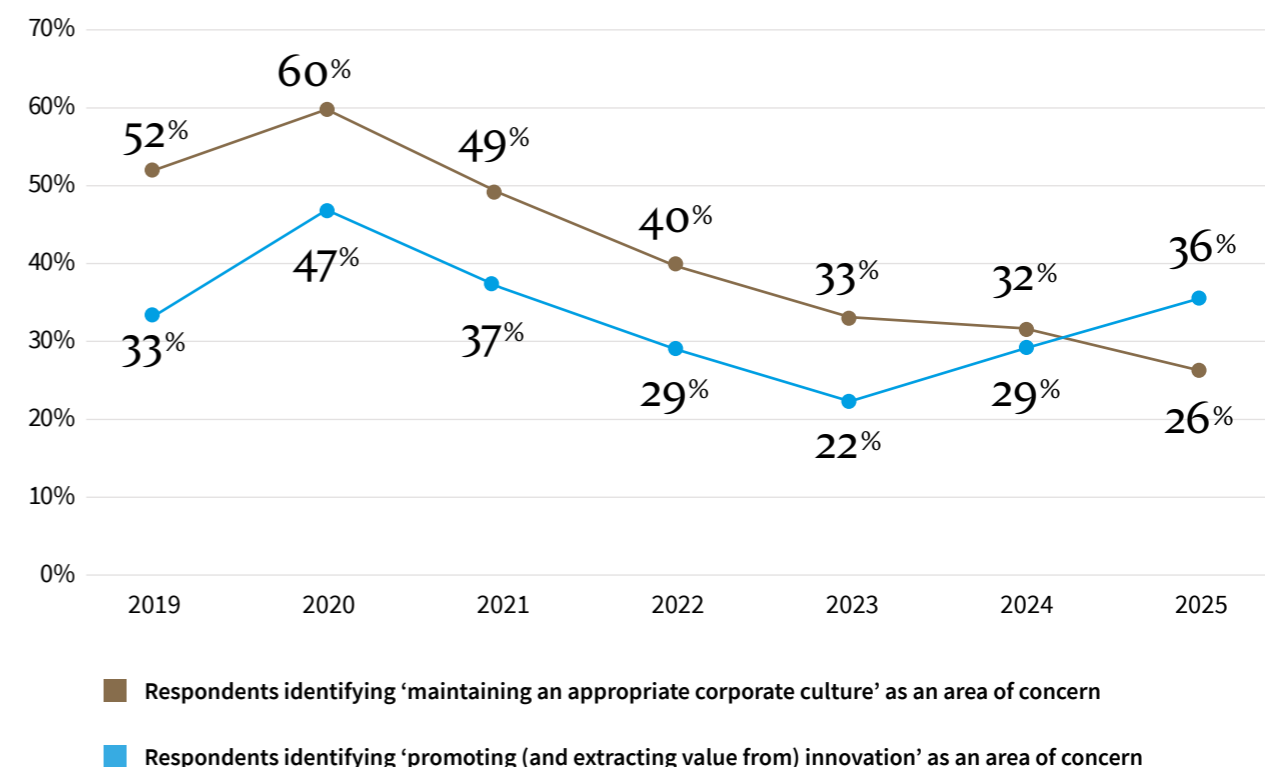


Chart figures are rounded to the nearest whole number.

Systems risks, which remain ever-present, are likely to be overtaken by different (and more complex) kinds of technological risks associated with the use and deployment of AI-enabled technologies. This time, however, the humans will not necessarily be 'on board' – in the sense of being organisationally and remuneratively motivated to facilitate enterprise-wide enablement or to be the appropriate 'check and balance'. The failings of the 'Robodebt' scheme were unfortunately one such example which carried with it significant personal and broader socio-economic and political consequences.

Whilst this is certainly not the first seismic shift in organisational practices since the industrial revolution, the sheer pace of change will make the organisation and cultural adjustment challenging, and the inevitable failings which are to come will shape the AI-driven cultural evolution. Organisational design, remuneration structures, risk management, accountability and governance frameworks, educational and training pathways, not to mention workplace and other laws, will all require reimagining and refinement. As AI diffusion expert Jeffrey Ding said at the *2025 Digital Future Summit*, 'we don't yet know which AI skills will be the most advantageous'.²⁰

One thing we all learned off the back of the *Hayne Royal Commission* is that 'corporate culture' is not a ship that can be turned around quickly, but in the age of AI, it might just have to be.

20. Speaking at the KWM Digital Future Summit, August 2025

RED TAPE AS A BARRIER TO PRODUCTIVITY GROWTH

The *Directions 2025* survey results again highlight the perennial productivity growth challenge: regulatory red tape.

Australia's complex regulatory requirements and approval pathways are seemingly discouraging investment and stifling productivity growth. Overlapping requirements, duplicative approval pathways and a perceived lack of policy clarity and coordination amongst regulators are the top concerns.

Over the short-term (next 6 months), 39.1% of business leaders view excessive regulation and red tape as one of their highest areas of concern. The immediate impact of regulatory overload is clearly front of mind as businesses try to maintain momentum and respond to changing market dynamics. Over the medium-term (next 3 to 5 years), just over a quarter of respondents (27.6%) cited managing excessive regulation and red tape as a key area of concern, highlighting that this issue is manifesting across the economy, not just certain sectors.

'WE MUST CUT THE DELAYS AND DUPLICATION SO THAT WE SPEED UP PROCESSES AND GET HOMES BUILT FASTER.'

Bran Black
CEO, Business Council of Australia²¹

In your view, which of the following are the most important for improving productivity growth in Australia?

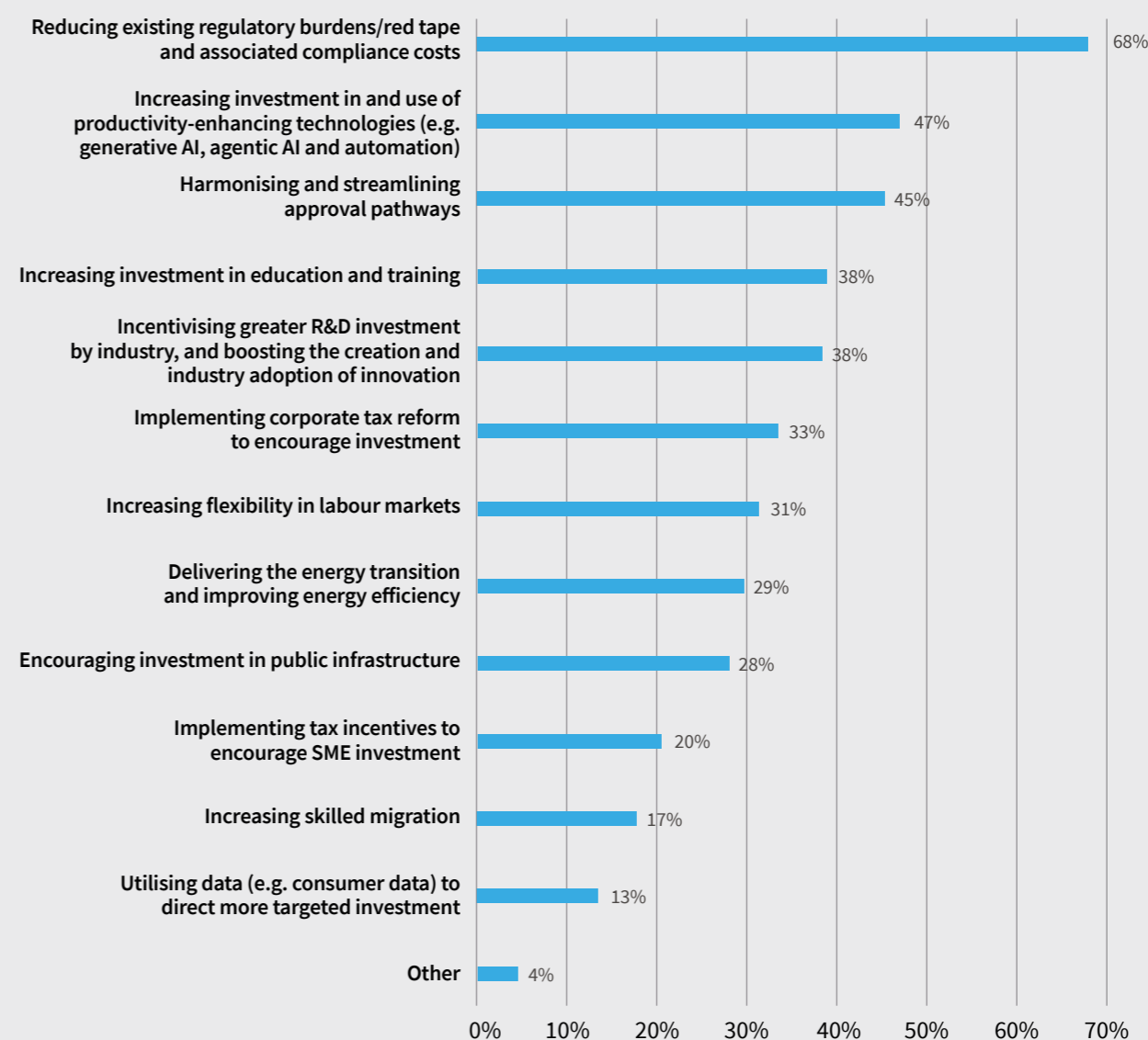


Chart figures are rounded to the nearest whole number. Respondents could select up to 5 answers. Respondents could also select to write a response.

21. Economic Roundtable Press conference, 20 August 2025



When asked what levers can be pulled to improve Australia's lagging productivity growth, the survey data reveals that:

- **Reducing red tape is the most important factor in improving productivity growth:** A resounding 68.1% of business leaders identified reducing existing regulatory burdens, red tape and associated compliance costs as the greatest lever for improving productivity growth in Australia. These factors are perceived as obstacles to business efficiency and competitiveness.
- **Streamlining approvals pathways:** Regulatory approval processes are also a significant barrier to productivity with 45.4% of respondents calling for approval pathways to be harmonised and streamlined. Delays and lack of coordination between regulators and across jurisdictions are increasingly cited by business leaders as a major concern.
- **Productivity-boosting tax reforms:** In the context of productivity-boosting tax reforms, an overwhelming 60.6% of survey respondents cited reducing tax compliance red tape as their number one measure.
- **Green tape in the energy sector:** In terms of the most important energy initiatives the Federal Government could implement in the next 3 years to reduce energy prices and increase productivity, 41.1% of survey respondents cited reducing green tape (e.g. faster approvals with less onerous conditions) as a key measure.

Interestingly, there was a material year-on-year reduction in 'Responding to changes in Federal and State Government policies' (14.3%, down from 26.1%) and 'Implementing net zero commitments and other energy transition changes' (12.4%, down from 24.3%) as key issues to manage over the medium-term, indicating that organisations are somewhat further along the implementation curve in addressing these issues.



Our survey respondents suggested the following regulations are the most burdensome for their organisations:



Excessive Regulatory Approvals

'Merger approvals, as well as regulatory restrictions around development.'

'Building approvals/safety accreditation.'

'Development approvals, with government-funded organisations and other activists gaming approval processes and challenging approvals by government regulators.'

'Environmental approvals, Modern Slavery and Payment Times Reporting Scheme also have a burden that seems out of balance.'



Burdensome Reporting Requirements

'Excessive reporting requirements for ASX companies.'

'Various reporting obligations that could be streamlined.'

'It is the cumulative effect of all the regulation that is the issue and the lack of coordination or experience within the regulator to know what they are requesting from a company overall and what is relevant rather than just asking for everything they think of.'



Regulatory Complexity/Inconsistency

'Nonalignment of regulations from different departments and functions of government.'

'Cumulative impact of new regulation often introduced in a non-coordinated manner, rather than any single piece.'

'Introduction of new requirements with limited guidance – critical infrastructure, cyber reporting, modern slavery, climate-related financial disclosures.'

'There is no one regulator that is burdensome, but rather the number of regulators which is burdensome. For example, there are multiple regulators if in the health insurance world – APRA, ASIC, AFCA, AUSTRAC, ACCC, ATO, Fair Work Commission, Aged Care Commission, Health Minister (re pricing), Financial Ombudsman Service.'



Onerous Prudential Regulation

'APRA's prudential regulation is more conservative than its global peers so it impacts the ability for banks to support the financial system. It's too risk averse and duplicates the amount of capital that needs to be held.'

'Complexity of financial services regulation.'

'The disconnect between regulators such as ASIC and APRA which seem to be at odds with each other in terms of priorities.'

'Numerous regulations faced by financial institutions, many of which are required – but it's the constancy and pace of change, as well as inconsistency/lack of co-ordination between layers of regulation that is most burdensome.'



Over-Complicated Tax Compliance

'Income tax compliance.'

'Tax legislation – overly complex and an uncertain environment given the heavy-handed approach taken by the ATO.'



Case Study:

WHAT DOES IT TAKE TO GET REGULATORY APPROVAL TO BUILD A DATA CENTRE IN AUSTRALIA?

Large-scale data centres are widely acknowledged as critical infrastructure for the AI age and are required to power AI-driven productivity-enhancing technologies companies are investing in.

To illustrate Australia's complex regulatory environment, below is a summary of the various approvals and permits, and the associated approval timeframes and costs, required to establish a data centre in Australia:

	REGULATORY REQUIREMENT	TIME	COST
PLANNING APPROVAL	Submit development application to state planning authority. Environmental assessment and community consultation are necessary.	~12-24 months ²² from lodgement to approval	\$120K-\$320K ²³ (application fee for development valued between \$100M-\$400M) \$320K-\$720K (application fee for development valued between \$400M-\$1B)
BUILDING PERMIT	Submit detailed construction plans to relevant authority or certifier to obtain construction certificate and commence work.	~1-6 months (to obtain construction certificate)	Nominal
UTILITY APPROVALS (ELECTRICITY)	Make connection enquiry with licenced Network Service Provider (NSP) negotiate connection arrangements; and connection infrastructure upgrades.	~6-9 months to negotiate connection agreement following connection enquiry	\$100M-\$500M ²⁴

22. Ranges for time and cost assume the application is State Significant Development in NSW, does not require any court appeal against the authority's refusal, nor any other planning-related applications (e.g. modification applications, staged applications, further development applications for expansion, rezoning applications, applications for federal environmental (EPBC Act) approval, water access licences or approvals, etc.). Time range provided does not include time required to prepare supporting environmental assessment documentation and indicates only the estimated timeframe between initial application being lodged with authority (i.e. request for SEARs) and approval of the application.

23. Ranges for costs refer only to initial application lodgement fee to planning authority (based on current CPI and regulatory calculation formulas) and does not include any other application, administration, or assessment fees or costs. The amount of documentation that would be required to be prepared prior to lodgement of the application would be substantial and could cost in the order of \$500K and take up to 12 months to prepare depending on the environmental issues, site constraints, and scale of development.

24. Ranges for cost will depend on the extent of the network augmentation and new facilities required. This will depend on the size and energy requirements of the data centre as well as the potential impact on the network at the location of the data centre. We have assumed a reasonably large AI-based data centre with smaller data centres potentially requiring fewer costs.

	REGULATORY REQUIREMENT	TIME	COST
FOREIGN INVESTMENT REVIEW BOARD (FIRB) APPROVAL	Required for foreign investors acquiring land or starting a data centre business if thresholds under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (FATA) are met.	~6 months	\$75K ²⁵
TELECOMMUNICATIONS APPROVALS	Carrier licence generally not required unless owning certain telco infrastructure known as 'network units'.	~1 month	\$3K
SOCI ASSESSMENT	An assessment will be required to determine if the data centre will be a critical data storage or processing asset under the <i>Security of Critical Infrastructure Act 2018</i> (SOCI). If so, the data centre will need to be registered with the Critical Infrastructure Security Centre.	SOCI registration to be completed within 6 months after the data centre becomes a critical data storage or processing asset	None
HOSTING CERTIFICATION FRAMEWORK (HCF) CERTIFICATION	Required for data centres hosting sensitive government information – involves compliance with Security Construction and Equipment Committee standards.	~3–6 months	None
ENVIRONMENTAL PROTECTION LICENCE	May be required for certain activities associated with running facility (e.g. high volume chemical storage or electricity generation). Application is made to the state environmental authority, which reviews impacts and may set conditions.	The timeframe for planning approval (see above) ²⁷	\$5K-\$35K ²⁶
ACCC AND MERGER CLEARANCE (from 1 January 2026)	Required for mergers or acquisitions that may affect competition. The ACCC reviews the deal and can approve, block or set conditions.	Waiver – up to 20 business days from notification Phase 1 – up to 30 business days from notification	\$8.6K for a waiver \$56.8K for Phase 1
SUSTAINABILITY RATINGS	Demonstrates energy efficiency and environmental standards. Assessment is by an accredited body such as NABERS, based on design and operations.	40 days–12 months	\$5.5K–\$15K

25. FIRB filing fees are determined by land value and use type. The above estimate assumes a \$100m commercial land value, and includes associated filing costs.

26. Range for time assumes the application is a State Significant Development in NSW, and therefore application for required EPL cannot be refused per s.4.42 of EP&A Act if necessary to carry out development as approved.

27. Range for cost refers only to initial application lodgement fee to environmental authority, based on current CPI and regulatory calculation formulas, and does not include any other application, administration, or assessment fees or costs.



SO WHAT IS TO BE DONE?

Australia's productivity challenge has seemingly reached a critical juncture, with business leaders, policymakers and economists united in their call for reductions in regulatory red tape. There is a growing consensus that 'thickets of regulation'²⁸ have crept into almost every sector, elongating approval times and diverting resources away from innovation and growth. This has prompted the Productivity Commission and recent Economic Reform Roundtable to place the issue of burdensome regulation at the centre of the national agenda.

To address the regulatory bottleneck, a suite of targeted reforms has been proposed by government, business and independent experts. Central to these recommendations is the harmonisation and streamlining of approval pathways, with 45.4% of business leaders calling for clearer, more coordinated processes. The Productivity Commission has advocated for a 25% reduction in red tape by the end of the decade, urging governments to 'replace delay with delivery, fragmentation with follow-through, and process for its own sake with process that works.'²⁹ The government is also considering freezing changes to the National Construction Code, accelerating planning approvals and reducing duplication across federal state, and local levels.

In the same vein, regulators such as ASIC are seeking to drive regulatory simplification, such as through the *Simplification Consultative Group*, whilst not eroding consumer protections – read our recent alert on that [here](#).³⁰ Similarly, APRA has recently published 2 letters to the Treasurer and the Minister for Finance outlining 9 actions APRA is taking to support productivity while maintaining the strength and stability of the financial system in a balanced and efficient way.³¹ The ACCC has also committed to a 'right-sized, risk-based regulatory approach'.³²

The Productivity Commission has also advocated for using advanced digital tools such as AI to simplify approvals and improve access to critical data. This is supported by our survey data, with 47% of business leaders pointing to the need for increasing investment in productivity-enhancing technologies, such as AI, as a top priority for fostering productivity. By embedding AI into regulatory approval process frameworks, decision-making can be sped up and resources reallocated to higher value activities. This shift reflects a broader recognition that digital transformation is not just a tool for efficiency but a strategic imperative for stimulating growth, innovation and competitiveness.

28. Ronald Mizen, *Labor minister says 'thickets of regulation' need to be slashed*, AFR, 2 June 2025

29. Ronald Mizen, *Labor minister says 'thickets of regulation' need to be slashed*, AFR, 2 June 2025

30. Caroline Chong, Belinda Prior and Peta Stevenson, *Cutting the Red Tape, Not the Corners: The ACCC's Fresh Take on Smarter Regulation*, KWM, 8 September 2025

31. *APRA Letter to Treasurer Chalmers and Minister Gallagher*, 31 July 2025, APRA, 4 September 2025

32. Gina Cass-Gottlieb, *2025 Competition and Consumer Workshop: ACCC keynote address*, ACCC, 4 September 2025

A FOCUS ON THE ENERGY TRANSITION AND TAX REFORM

While reducing unnecessary or overly burdensome red tape is clearly a priority for the government, business cannot simply 'cheer from the sidelines'.

Designing and implementing meaningful reforms ultimately requires political ambition, stakeholder engagement, consensus building and compromise, and there are many productivity priorities where business can play a role in shaping the reform agenda.

With this in mind, we asked our survey respondents about 2 key areas ripe for productivity-boosting reforms: the energy transition and tax.

ENERGY TRANSITION

When asked what are the most important energy initiatives the Federal Government could implement over the next 3 years to reduce energy prices and increase productivity, nearly half (49.7%) of survey respondents said securing long-term gas supply (including domestic gas reserves), closely followed by re-committing to a national approach to regulation (45.7%), additional financial support for energy infrastructure, including transmission infrastructure (41.7%) and reducing green tape (41.1%).

Calls for a consistent national energy policy were clear, with one leader summarising the sentiment as follows: 'Cease meddling in the market and distorting investment signals – instead, set stable policy and allow the market to work'.

In your view, what are the most important energy initiatives the Federal Government could implement over the next 3 years to reduce energy prices and increase productivity?

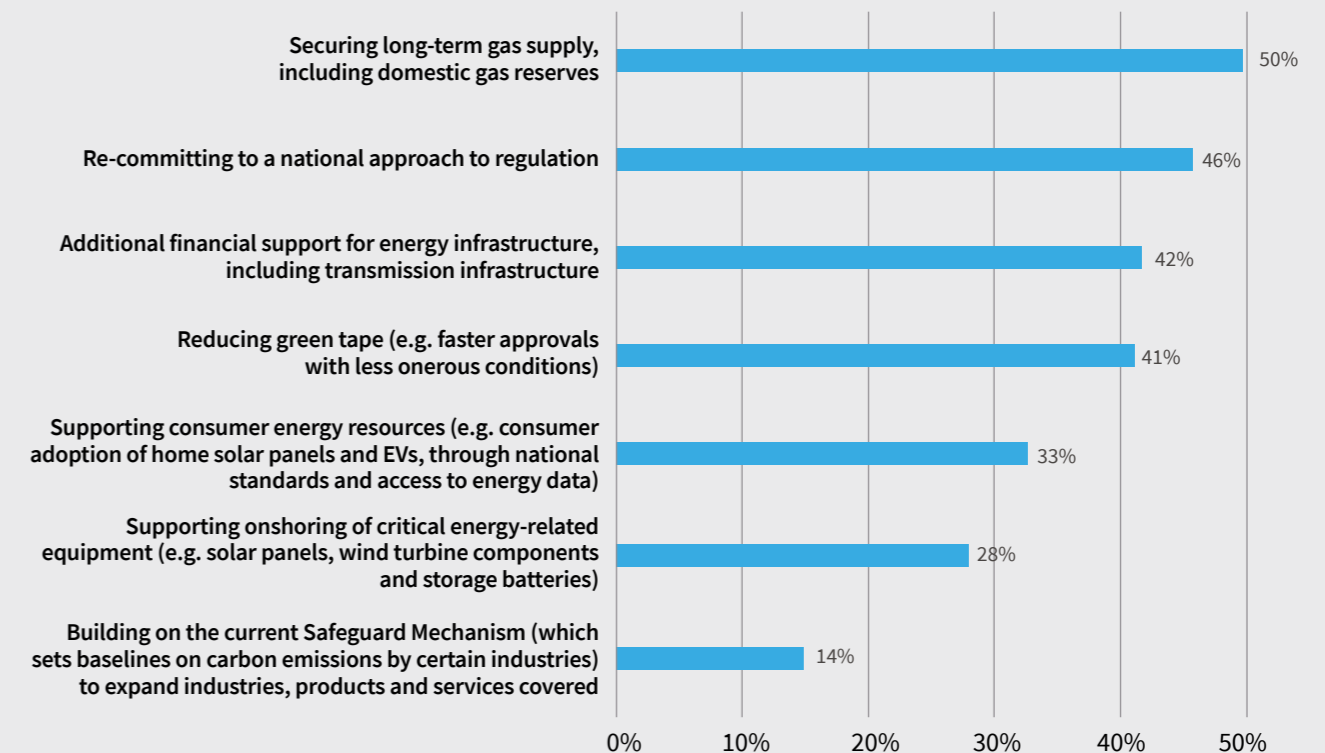


Chart figures are rounded to the nearest whole number. Respondents could select up to 3 answers. Respondents could also select to write a response or answer that none of these initiatives apply.

This year's survey results indicate a relative deprioritisation in connection with implementing net zero commitments and other energy transition changes, with only 12.4% saying this was a top concern over the medium-term (down from 24.3% in 2024).

These results likely reflect several prominent trends:

- Shifting global sentiment towards Paris-Agreement targets, following the change of US direction under the Trump administration.
- The transition to renewables taking longer and being harder than originally anticipated.
- Because of the delay, there has been a pronounced move away from investment in sustainable activities and towards transitional energy supply, in particular natural gas.
- Capital flows, which are less constrained by ESG considerations than they perhaps were 5 years ago.
- A perception that most organisations have more bedded-down ESG reporting and governance models, consistent with obligations now in force.

TAX REFORM

Tax reform has become a focal point in the national productivity discussion. The *Directions 2025* survey underscores the desire for urgency, revealing widespread frustration with the current system's inefficiencies and its role as a drag on productivity.

Business leaders are calling for a smarter, more efficient tax regime that reduces compliance burdens, rewards investment and adapts to the realities of a rapidly evolving economy. These demands reflect a broader recognition that modernising Australia's tax system is essential to unlocking productivity gains and securing long-term economic prosperity.

'I think our tax system is imperfect, and one of its most troubling imperfections is best seen through an intergenerational lens, which is why we take our responsibilities to the coming generations seriously.'

Jim Chalmers³³
Treasurer

Which of the following productivity-boosting tax reforms would you support?



Reducing tax compliance red tape



Reducing the corporate tax rate



Simplifying, improving and expanding upon the R&D tax incentive regime



Accelerating depreciation for capital investments



Providing universal access to the childcare subsidy



Improving and expanding upon foreign investment tax incentives

Chart figures are rounded to nearest whole number. Respondents could select up to 3 answers. Respondents could also select to write a response.

When asked about the most important tax reforms to boost productivity, business leaders identified several key areas for improvement:

1. **Complex tax compliance curtailing productivity:** Business leaders overwhelmingly support reducing tax compliance red tape, with 60.6% of respondents arguing that tax processes should be streamlined and simplified (up from 50.5% in 2024 data). The complexity and cost of tax compliance are evidently seen as significant barriers to productivity.
2. **Louder calls for lowering the corporate tax rate:** There was a significant increase in support for reducing the corporate tax rate with almost half (46.3%) supporting the change (up from 8.4% in 2024). A third (33.5%) of all respondents viewed corporate tax reform as the most important way to improve productivity. This reflects a view that a more competitive tax rate would attract investment and create better conditions for long-term economic dynamism.

3. **Utilising tax to improve innovation:** A substantial portion of respondents (42.3%) supported simplifying and expanding the R&D tax incentive regime, highlighting the importance of fostering innovation. A streamlined and more accessible R&D tax incentive regime would encourage businesses to invest in new technologies and processes, driving productivity improvements.

The survey results reflect a clear mandate for tax reform that addresses both structural inefficiencies and emerging economic challenges. Australia's tax system, with its heavy reliance on income taxes, has long been criticised for discouraging innovation and investment. Business leaders are advocating for a rebalancing of the tax mix, shifting towards measures that support productivity and economic dynamism. Simplifying compliance processes, lowering corporate tax rates, and enhancing incentives for innovation and investment are seen as practical steps that could yield significant productivity gains. These reforms, if implemented effectively, would not only address immediate business concerns but also lay the groundwork for sustained economic growth and competitiveness in a rapidly changing global landscape.

33. John Kehoe, Treasurer Jim Chalmers puts younger workers at heart of tax changes following Economic Reform Roundtable, AFR, 21 August 2025

KEY CONTACTS

MEREDITH PAYNTER

is a Partner in the Sydney office of King & Wood Mallesons. Meredith advises a wide range of Australian and international clients on public and private M&A transactions, joint ventures and strategic investments, IPOs and capital raisings, and governance matters, and brings over 25 years' experience to her practice.



**PARTNER
SYDNEY**
TEL +61 2 9296 2277
MOB +61 418 698 126
EMAIL meredith.paynter@au.kwm.com

RHYS CASEY

is a Partner in the Brisbane office of King & Wood Mallesons, specialising in public and private M&A, joint ventures, reconstructions and capital raisings. Rhys also provides general corporate advisory support to clients across a range of sectors, with a particular emphasis on corporate governance, directors' duties and securities law.



**PARTNER
BRISBANE**
TEL +61 7 3244 8062
MOB +61 421 603 690
EMAIL rhys.casey@au.kwm.com

LIZZIE KNIGHT

is a Partner in the Canberra office of King & Wood Mallesons. Lizzie brings to the table extensive experience in handling large-scale foreign investments in Australia. With over 25 years' experience, she is acknowledged for her ability to successfully navigate the FIRB process collaboratively and efficiently. Her extensive expertise spans large offshore and significant onshore acquisitions across a variety of sectors.



**PARTNER
CANBERRA**
TEL +61 2 6217 6164
MOB +61 402 793 072
EMAIL lizzie.knight@au.kwm.com

JASON WATTS

is a Partner in the Sydney office of King & Wood Mallesons. Jason has a broad practice with a focus on public company mergers and acquisitions, equity capital markets, governance and private equity. He regularly advises ASX listed entities and their boards on complex restructures, capital raisings, takeovers and mergers, continuous disclosure and corporate governance issues.



**PARTNER
SYDNEY**
TEL +61 2 9296 2489
MOB +61 419 645 251
EMAIL jason.watts@au.kwm.com

Media Enquiries



SARAH GATES
CORPORATE AFFAIRS MANAGER
MELBOURNE
TEL +61 3 9643 5616
MOB +61 437 952 828
EMAIL sarah.gates@au.kwm.com

Methodology

King & Wood Mallesons' *Directions Report* is based on the results of our annual *Directions* survey, this year conducted in June and July 2025. The results discussed in this report are drawn from the responses of 230 directors and senior executive/executive business leaders.

Contributions

Bryony Evans

Josh Thorneycroft

Sam Wilson

James Bennett

Simon Cooke

Roderick Smythe

Harry Pottinger-Coombes

Sarah Gates

Jerome Tse

Francesca Giorlando

Iris Melia

Damien Window





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