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Narelle's Notes



Welcome to the final edition for 2005 of *IN THE LOOP*, the newsletter of the Australian Business Foundation (ABF).

This was a year in which ABF completed and launched several important pieces of research, including:

- an analysis of success factors for future Australian growth industries, conducted with the Australian Stock Exchange (ASX);
- assessments of Australia's particular patterns of innovation by a team of international researchers at Australian National University (ANU) led by **Professor Don Scott-Kemmis**, who examined the dynamics of innovation at the sectoral level;
- a comparison of the innovation systems of Australia, Finland and Sweden by **Professor Göran Roos** of Intellectual Capital Services Ltd, London; and
- Melbourne University's **Suzy Goldsmith** and **Professor Danny Samson's** work on corporate sustainable development.

There are details of some of this research in this edition of *IN THE LOOP*. We also report on two events hosted recently by ABF:

- our AGM Forum, which asked the question *Is Australia Prosperous?* and which featured several expert speakers; and
- presentations by international authorities, **Professors Keith Smith** and **Jonathan West**, on the determinants of sustained innovation.

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In 2005, we have made significant advances in producing fresh and original content from our body of research work. There is also evidence that our stronger communications programme is having an effect, with some good media coverage and increasing calls for ABF's advice and commentary.



ABF has undergone some changes to its team during the year. **Dr Matthew Steen** joined us as Research Analyst in October, replacing **Peter Clifton-Smith**. Matthew is a postgraduate economist with qualifications from the Universities of Newcastle and Sydney. Matthew's doctoral research dealt with issues of innovation and national policy, and he has already contributed to the Foundation's knowledge by writing a key issues paper for our AGM Forum. Some of you may have met Matthew already; and he looks forward to getting to know more of our members in 2006. Matthew also takes on the role of Editor of *IN THE LOOP*.

However, ABF's long-serving Executive Assistant, **Pauline Constantine**, is leaving at the end of this year to embrace a change of lifestyle (which will include a holiday in Egypt!). Pauline was originally employed by our principal sponsor, Australian Business Ltd., in 1988, and has worked for the Foundation since its inception in 1997. I know all ABF members join with Pauline's friends and colleagues to wish her every success in her future life and career.

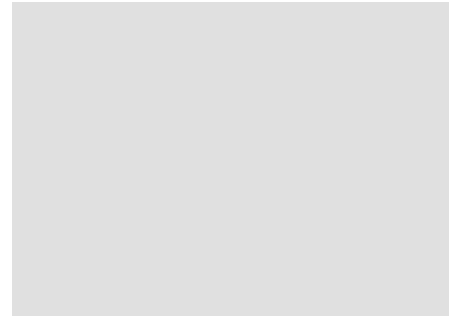
Finally, on behalf of everyone at ABF, I wish you a happy and safe Christmas and a prosperous New Year. As Australia's premier business think tank, we shall to continue to uncover fresh intelligence and promote new thinking and practical action for innovation-led growth in Australia.

Regards,

Narelle Kennedy

Chief Executive, Australian Business Foundation Ltd.

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No Simple Solutions: Innovation in Sectors

Professor Don Scott-Kemmis of the ANU led a team of international researchers, who explored Australia's patterns of innovation by conducting detailed analyses of seven industry sectors. ABF was a partner in this study. The ANU's findings are published in a report entitled: No Simple Solutions: How Sectoral Innovation Systems Can Be Transformed.

By looking at the dynamics of industry sectors, the ANU study uncovered the close connections between innovation, competition and how the benefits of innovation are captured, as firms respond to the sequences of opportunities and problems they face.

ABF plans to provide opportunities in 2006 for further debate and exploration of the No Simple Solutions research findings, particularly the implications for business leaders and public policy makers in managing and fostering innovation.

De-mystifying Innovation

ABF is committed to challenging conventional wisdom and doctrinaire thinking, and to fostering informed debate on what will ensure Australia's long run growth and competitiveness. This commitment was evident in the very first study commissioned by the Foundation in 1997, in which **Professor Jane Marceau** and others made the case for an innovative 'high road' to economic growth and development.

It was in this spirit that ABF hosted a forum on 27 October 2005, in which two internationally renowned speakers appraised how far we have advanced in understanding the causes and dynamics of sustained innovation. This event was co-hosted by **Daniel Phillips**, Executive Director of Investment Banking at Macquarie Bank, and featured presentations by **Professors Keith Smith** and **Jonathan West** of the University of Tasmania.

Some of the more uncommon and provocative ideas that arose from the forum were that:

- Innovation is rarely based on science or research and development (R&D); rather, it proceeds from enterprises continually seeking to meet market needs with better business offerings.
- The high-tech sector does not drive productivity and the rate of national economic growth.
- Innovation is evident in low-tech industries, as well as in high-tech ones.
- Australia's industrial composition accounts for its poor R&D performance relative to other OECD countries.
- Government policy does not provide incentives for local ownership to capture the value of innovation locally.

ABF in South Australia



In a continuing initiative to broaden the reach of ABF's research messages, we took Professor Göran Roos on the road to Adelaide (on 27 November, 2005) for an event organized by ABF Director, Frank Wyatt. Professor Roos (who is Chairman of Londonbased Intellectual Capital Services Ltd) spoke to the research paper written for ABF entitled National Innovation Systems: Finland, Sweden and Australia compared. His audience comprised 30 personally invited senior government officials, business leaders and educators.

Among the issues debated were:

- The importance of viewing innovation as a system with many components, all of which must be acted upon (i.e. not confining action to one or two components like R&D and venture capital).
- Close proximity to a demanding customer is key to successful innovation and capacity -building in economies.
- The issue of economic gravity pulling in skills and opportunities means that your largest demanding customers are a crucial ingredient for sustained business performance.
- Regional industry clusters can be built and fostered. There is a need for catalysts to promote collaboration between businesses and other stakeholders.
- There is a proper role for government in deciding the type of investment it wants and leveraging its expenditure and incentives to foster that investment in its economy.

A more detailed summary of the issues raised in this forum will soon be added to the ABF website. Professor Roos's report will also be made available soon. Alternatively, it can be purchased in hard copy.

Fostering Global Growth Industries in Australia: an analysis by the ASX ABF collaborated with ASX on a study on 'Fostering Global Growth Industries in Australia'. This built on previous ABF research done on the wine industry by Professor Ian Marsh and Brendan Shaw, while adding observations from two other industries: mining and listed property trusts. It also introduced the perspective of capital markets on the connections between innovation, finance, industry regulation and international competitiveness.

The authors of the study were Robert Bladier of the ASX and Colin Ramsay of Amani Consulting Pty Ltd. Their findings were presented on 8 November, 2005 at an event co-hosted by ABF Director, Stephen Mills, General Manager of Corporate Relations at the ASX.

The authors identified several steps or 'levers' that can transform an industry from a modest domestic success into an internationally competitive exporter. Some of the insights that emerged at the event launching the study included:

- Entrepreneurial champions are required to bridge the gap between creative agents and financiers, as outstanding business ideas often lack funding.
- Access to liquid, public financial markets is more important to growing an innovative national industry than the support of venture capitalists.
- Internationally successful industries are those which enjoy a regulatory regime that is well understood and trusted by investors.
- Active industry associations are essential to securing a suitable regulatory regime and to the processes of knowledge transfer between firms in industry sectors.

A more detailed summary of the issues raised in this forum will soon be added to the ABF website.

AGM Forum: Is Australia Prosperous?

It is ABF's practice to hold a forum in conjunction with our AGM to deliberate on a theme central to the Foundation's work during the year. The 2005 AGM Forum (which took place on 23 November, 2005) probed the question of Australia's prosperity. More specifically, it explored whether conventional indicators of economic growth, innovation, productivity and well being are adequate to a contemporary, interconnected, highly open economy.

Three authoritative speakers were invited to led the discussion of whether Australia can continue to prosper:



Dr John Edwards, Chief Economist, HSBC Australia, who described Australia's recent productivity record as a small open economy and the challenges for continued growth.



Dr Elizabeth Webster, Principal Research Fellow, Melbourne Institute of Applied Economic & Social Research, who spoke about new patterns of skills and employment in Australia.

Linda Funnell-Milner, Chair, Global Reporting Initiative Stakeholder Council, who addressed the problem of accounting for social and environmental intangibles.

These presentations prompted an energetic discussion from ABF's members and guests. The main conclusions that were canvassed can be summarized as follows:

- Australia's recent strong economic performance and sound 'fundamentals' were recognized – over a dozen years of positive economic and productivity growth, low inflation and low unemployment.
- But 'softer' social and environmental issues are likely to be increasingly important to future business and economic performance.
- The polarization of skills and people in work is a significant issue. While there is a rise in high-end, 'knowledge work' jobs, the unskilled have fewer and fewer opportunities. There is a hollowing out of the middle of the labour market.
- Businesses cannot afford a 'profit at any price' mindset. Intangible assets such as the trustworthiness and integrity of companies are the risks that lie just beneath the surface, like icebergs. The recent experience of major corporate collapses shows that loss of reputation and public confidence can sink a business.
- There are winners and losers, costs and benefits of Australia's current prosperity. Australia, therefore, must work on both, recognizing that we live in a society and not just an economy.
- This is an argument for companies to compete on the basis of know-how and innovation. Leading companies are the ones that learn, that respond in better ways to meeting customer needs, and that do old things more intelligently. They do not succeed just by cost-cutting and down-sizing.
- The same innovation mindset should be brought to finding market-based solutions to intractable community problems, such as health and aged care, environmental degradation and salinity.

A more detailed summary of the issues raised in this forum will soon be added to the ABF website.

Australian Business Foundation in the media

ABF's research messages have been covered recently in the media.

- An interview with Narelle Kennedy on 2SM Sydney Radio (24/11/05, 8:06 AM).
- A cover story in the Business Review Weekly ('Innovation for everyone', 24-30/11/05), which contained substantial contributions from our CEO, Narelle Kennedy, and ABF Research Advisory Committee Member, Professor Mark Dodson.
- A feature in the Australian Financial Review ('In pursuit of business innovation', 28/11/05), which presented assessments of Australian innovation policy by Catherine Livingstone (the Immediate Past Chairman of ABF), as well as academics who have written for the Foundation, such as Professors Don Scott-Kemmis and Ian Marsh.

New research by the OECD and the UN

Two new reports by the Organisation of Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) confirm the structural trend towards a knowledge-based, transnational economy.

OECD. 2005. *Science, Technology and Industry Scoreboard 2005 – Towards a knowledge-based economy*. Version: Print (Paperback). Publication date: 12 October, 2005. ISBN: 9264010556. Price: US\$63.00. <<http://hermia.sourceoecd.org/vl=4800408/cl=12/nw=1/rpsv/scoreboard>>

Points of interest:

- Expenditure on R&D, software and higher education in the OECD area reached approximately 5.2% of Gross Domestic Product (GDP) in 2001, compared to around 6.5% for investment in machinery and equipment.
- China has become the third largest R&D performer behind the United States and Japan (mainly owing to rapid growth in researchers' salaries).
- Small and medium-sized enterprises account for around 30% of total R&D spending.
- In 2001, 82% of the world's scientific articles originated in the OECD, two-thirds of which were from G7 countries.
- Shares of science and engineering degrees (as a total of new degrees awarded) have been declining in many OECD economies since 1998.
- In 2003, China had the world's second largest number of researchers (862 000), after the USA (1.3 million in 1999).
- Patenting activity is heavily concentrated. In 2001, France, Germany, Japan, the UK and the USA accounted for 84% of all patent families within the 'Triad' of the USA, Europe and Japan.
- In 2001, the ICT sector represented 10% of business value added in the OECD area. Its share was highest in Finland (16%), followed by Ireland (13%).

UNCTAD. 2005. *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D*. New York and Geneva: United Nations. <http://www.unctad.org/en/docs/wir2005_en.pdf>

Points of interest:

- World flows of foreign direct investment (FDI) picked up in 2004 (after three years of decline), but advanced-capitalist economies together suffered a 14% drop in their inward FDI. (However, in the EU, this to some extent reflected repayments of intra-company loans and the repatriation of profits.)
- The top three recipients of FDI in 2004 were the USA, the UK and China (in that order).
- In 2004, the share of newly capitalist and non-capitalist countries in world FDI inflows reached 36%, the highest level since 1997. Asia and Oceania was the top destination among developing regions.
- The top ten national spenders by R&D expenditure account for more than 80% of the world's total.
- Cross-border companies based in the USA and Japan tend to be less transnational than their counterparts in Europe.

- The R&D activities of cross-border firms are becoming increasingly transnational, although the share of R&D by foreign affiliates varies between nations. (In 2002, the figure was 13% for the USA; in 2003, it was over 50% for the Republic of Ireland and Singapore, about 40% for Australia, Sweden and the UK, and less than 10% for India, Japan and the Republic of Korea.)
- For the first time, cross-border companies are setting up R&D facilities outside advanced -capitalist countries, for reasons that go beyond product adaptation for local markets.
- This tendency is being driven by intensifying competition, rising costs of R&D in advanced-capitalist economies, the scarcity of skilled workers in developed nations and the growing supply in the developing world, the increasing complexity of R&D, the ongoing transnational mutation of manufacturing, and large and rapidly growing markets in some developing countries.

Something to think about

'The real difficulty in changing any enterprise lies not in developing new ideas, but in escaping from the old ones.'

- Lord John Maynard Keynes, First Baron of Tilton (1883 -1946)

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The Foundation is also delighted to have major corporate sponsorship from:

- **UBS** and
- **Westpac Business Bank.**



These prestigious firms are thought leaders, and we are pleased to work with them to advance knowledge and debate about the future prosperity and growth of Australian business.

The Last Word

A big welcome to the new members who have joined the ABF membership community since the last issue of IN THE LOOP. Feel free to forward this newsletter to your colleagues and associates.

Remember that this newsletter is not only the primary communication between ABF and its valued membership, it is also an instrument for members to interact with each other. The Foundation encourages its members to use this forum to contribute to the knowledge network that is the ABF membership community.

If you or your organization is working on a product, service, research project or event that furthers new thinking on Australia's business competitiveness, innovative capacity and opportunities from a knowledge-based economy, please contact us and we will spread the word!

Comments, questions, suggestions, please contact us:

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