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## Narelle's Notes



Welcome to IN THE LOOP, the enewsletter of the Australian Business Foundation (ABF).

Fresh from the Foundation Board's 2006/07 strategic review, and benefiting from the views of our members and stakeholders, I am pleased to report an energetic forward program of new research and more tangible ways for those keen to engage with the Foundation to do so.

A new research project has been commissioned from Professor Peter Liesch of the University of Queensland's International Business School, investigating the international venturing experiences of Australian 'born global' firms and exploring whether the benefits of their global activities are being fully captured to Australia's advantage.

Other research projects are also being worked up, regarding:

- Models of business engagement with China and India.
- Understanding the importance of linkages between individuals in building and sustaining Australia's innovation capacities.
- Uncovering the evidence about future drivers of productivity and prosperity in Australia.

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The Australian Business Foundation welcomes any thoughtful ideas that will help us to shape the detail of these new research priorities.

As foreshadowed in the last edition of *In the Loop*, the Australian Business Foundation plans to introduce a series of open source forums where interested members and stakeholders can share their learnings and ideas and help advance knowledge about issues central to Australian businesses' sustained competitiveness. If this excites your interest, please get in touch with Matthew Steen immediately at [matthew.steen@australianbusiness.com.au](mailto:matthew.steen@australianbusiness.com.au) or (02) 9458 7342.

From these online forums and other Australian Business Foundation events and relationships, we hope to produce and document more original content that provides the 'intellectual nourishment' that our members, partners and sponsors say they value and have come to expect from the Foundation.

In the meantime, catch up with news and views in this *In the Loop*.

Till next time,

**Narelle Kennedy**

Chief Executive, Australian Business Foundation

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## Knowledge-intensive services help firms manage in an open innovation system



On 2 May, 2006, the Foundation co-hosted with corporate member, Telstra, a seminar by Professor Mark Dodgson of the University of Queensland and Imperial College, London, entitled: Innovation Carriers: New Faces of Competition. Professor Dodgson pointed out that enterprises are compelled to innovate in a highly complex and fundamentally uncertain environment. Contemporary processes of innovation involve many more players and more blurry boundaries between manufacturing and services than previously. Accordingly, the shift from individual and corporate innovation to 'open' or 'distributed' innovation has stimulated demand for knowledge-intensive service firms of all sizes and fields. These include legal and accountancy, engineering and design, advertising, market research and management consultancy. Knowledge-intensive services help enterprises manage the (literally) unpredictable costs and obstacles to business transformation.

A central theme of Professor Dodgson's presentation was that innovative carriers are essentially agents who connect problem identifiers with problem solvers. Examples of such carriers are:

- Partners of the enterprise, especially demanding customers and innovative suppliers.
- Consultancies and service providers.
- Technologies (whether new or rearranged) that enable the virtual creation of products and their testing with customers.

The slides used by Professor Dodgson during his presentation can be viewed [here](#).

### The pervasiveness of innovation across Australian industries

Innovative capacity is often linked directly to frontier technologies and heavy expenditures on research and development (R&D). Yet Professor Keith Smith recently challenged this popular notion at a private roundtable briefing of leading manufacturers, co-hosted by the Australian Business Foundation and its principal sponsor, Australian Business Limited State Chamber. Professor Smith is co-founder of the new Australian Innovation Research Centre at the University of Tasmania. He spoke to the research papers he has authored for the Australian Business Foundation, under the title: Innovation & the Knowledge Economy in Australia.

Professor Smith emphasised that while high-tech industries (which invest intensively in R&D) are important, low-to-medium technology industries in manufacturing and services (which spend much less on R&D) are equally innovative in other ways and contribute significantly to Australia's economic growth. In particular, Professor Smith drew extensively on empirical data to make the following striking observations:

- The low-to-medium technology industries in which Australian firms specialise (like food processing, metal products, hospitality and health) are knowledge-intensive, innovative and growing steadily.
- High-tech industries make up a relatively small proportion of OECD economies, including Australia, accounting for an average of 3% of gross domestic product (GDP) in these countries.
- R&D is not the main input in generating innovation capacity, or even the most important one. Two-thirds of innovation expenditure is directed to non-R&D inputs (e.g. marketing, design skills and in-house training) and business innovation depends heavily on indirect flows from the surrounding 'knowledge infrastructure' (consisting of universities, research institutes, industry associations, standards bodies and the like).
- The continual transformation of business capabilities – and not merely technological change – is the key to successful innovation, rapid firm growth and national competitiveness.
- Given Australia's low-to-medium tech industrial base and diverse patterns of innovation, the Federal Government should shift its attention away from the commercialisation of research and towards greater support for our knowledge infrastructure and the alleviation of business risks.

The slides used by Professor Smith during his presentation can be viewed [here](#).

## Extracting greater value from intangible assets



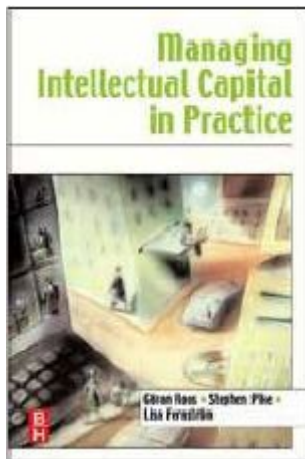
Financial markets are valuing businesses ever higher in real terms, in recognition of their growing stocks of intangible assets. Nonetheless, business commentators generally misapprehend the structure of new enterprises (like eBay and Amazon.com), which rest on knowledge-intensive assets rather than cash or plant and equipment. This is the contention of Professor Göran Roos, Visiting Professor at Cranfield University, UK and Founder of Intellectual Capital Services Ltd. He recently presented his ideas at a briefing entitled: 'Capitalising on knowledge and intangibles', which was co-hosted by the Australian Business Foundation, its corporate sponsor Westpac and the Society for Knowledge Economics.

The crux of Professor Roos's argument is that commentators seek to analyse new, knowledgeintensive companies with concepts and indices that are only applicable to traditional enterprises based on financial or physical capital. There are several serious problems with this approach.

- Unlike financial or physical assets, those which consist of tacit knowledge (e.g. the competencies embodied in staff) do not diminish in value the more they are used. On the contrary, the more business knowledge is applied, the more valuable it becomes.

- The transformation of assets, not their quantity, is the basis of value-creation for knowledge-intensive firms. While a doubling of real investment in physical means of production can be expected to increase the output of goods, a doubling of R&D expenditure will not heighten productivity unless it positively changes the way that a company does business.
- Managers of traditional companies often wrongly interpret signs of business decay as inefficiency, when in fact they are efficiently producing commodities that no one wants.
- Whereas enterprises resting on physical capital strive for economies of scale (i.e. a decreasing average total cost of production owing to a higher rate of output), companies based on knowledge-intensive assets strive for economies of scope (i.e. a decreasing average total cost of production owing to an increase in the number of goods or services produced, or the integration of existing activities).
- Discussions about innovation generally confuse it with creativity or technological change, and fail to appreciate that innovation is fundamentally about the transformation of business models.

The slides used by Professor Roos during his presentation can be viewed here.



Professor Roos new book, *Managing Intellectual Capital in Practice* is available to Australian Business Foundation members and stakeholders with a 10% discount and free delivery when they place their orders direct with Elsevier Australia Customer Service.

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### Results of our Survey of Foundation members and stakeholders

The Foundation's member and stakeholder survey for this year was conducted in May and June using an online survey. As part of the Foundation's commitment to provide opportunity for member and stakeholder involvement, the survey sought opinions about the Foundation's research priorities and nominations of emerging issues and ideas for future research.

The headline information from the survey was:

- The level of seniority of respondents and the pleasing response rate to the survey.

- Almost universal support for the Foundation's decisions on priority research topics, with various useful suggestions for research ideas that either refined or added depth to the selected topics.
- Positive response to open source online forums with over one-third responding as certain or highly likely to participate and a further 50% as possible participation depending on the topic. Provides a potential addition to face to face engagement with members and stakeholders.
- Reinforced the importance of the Foundation's independent, well-researched viewpoints. The Foundation valued as apolitical, non-partisan.
- Overall, the survey reinforced the strength of the Foundation's fundamentals, with a highly engaged audience, connected to the subject matter and with positive sentiments for the Foundation's success.

A full report on the survey is available on our website.

### Upcoming Events of interest

#### **Challenges and Choices for Australian Exporting** - 10 August 2006.

Exploring the changing international trading environment for Australian businesses and a wider definition of exporting – Tim Harcourt, Chief Economist, Austrade.

#### **Australian Innovation in Manufacturing** - 25 August 2006.

Launch of comparison survey of approaches to innovation in Australian manufacturing firms by Professor Mark Dodgson and Dr Peter Innes, University of Queensland.

For further details on the above events please go to the Australian Business Foundation Website.

### How can Australia foster and sustain more 'born global' enterprises?

One of the Australian Business Foundation's current research projects is an inquiry into the success factors of 'born global' enterprises that were initiated in Australia (but not necessarily owned by Australians). These are companies that:

- Are formally registered in Australia.
- Enter a foreign market within 3-5 years of their legal birth.
- Derive at least 25% of their revenue from foreign activity.

The Foundation has commissioned Professor Peter Liesch of the University of Queensland to conduct a series of case studies of Australian 'born global' enterprises. He will be focusing on the 'platforming' stage of these companies' development; that is, the stage at which they undertake real investment in production and/or distribution abroad.

The aim of this research is twofold:

- To advance knowledge on the means by which 'born global' enterprises build their transformative capacities and create value for themselves.
- To explore how much – and in what forms – 'born global' businesses add to the value of the Australian economy. Critically, Australian ownership is not being treated as a precondition for national benefit; the study delves deeper into how value can be captured to Australia's advantage.

Here, again, the Australian Business Foundation is probing beyond the obvious; both by investigating a phenomenon that is under-researched, and considering that the national economic interest may not hinge on local ownership of assets.

We'll keep you in touch with preliminary findings as they emerge from Professor Liesch's research over the following months.

## Our Sponsors

The Australian Business Foundation is principally sponsored by its founder, **Australian Business Limited** - the eminent industry organisation.

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

- **Australian Business Limited State Chamber**
- **Westpac**



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 Australian Business Foundation membership community since the last issue of In The Loop. Feel free to forward this newsletter on to your colleagues and associates.

Many thanks to those members and friends who completed our annual member survey. Your insights, comments and suggestions have been most helpful in developing and building a more interactive membership. Your thoughts and suggestions are welcome any time - please feel free to contact us.

Remember that this newsletter is not only the primary communication between the Foundation and its valued membership, but 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 Foundation membership community.

If you or your organisation 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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