

**COMMENTARY ON *VENTUROUS AUSTRALIA*
REPORT OF THE NATIONAL INNOVATION SYSTEM REVIEW
SEPTEMBER 2008**

- The Australian Business Foundation welcomes the report of the Review of the National Innovation System and congratulates the panel on their work. The Report marks a breakthrough in innovation policy in Australia, and outlines the path towards a high-productivity future for the Australian economy.
- In particular, the panel is to be congratulated for recognising that the patterns of innovation in Australia have changed: from an industrial age focus on increasing the supply and commercialisation of science and research, to the collaboration and knowledge sharing of businesses responding to market and customer needs which characterise innovation in modern services-dominated knowledge economies. The panel suggests that Australia's innovation policies, a generation old, also need to change and be renewed, if Australians are to secure the needed productivity benefits of growth without inflation and the improved social outcomes that result.
- **The Foundation supports the Report's major recommendations, on a medium-term budget timetable:** The Review is to be commended for taking a systems approach to understanding Australia's innovation performance and challenges. This means treating all the elements of the innovation system as a dynamic and interconnected whole, not just concentrating on single components. Consequently, the Review makes recommendations about increased investment in publicly funded research, improved tax treatment for business R&D, and – very importantly – improved support for building capabilities, skills and opportunities for innovation in enterprises and workplaces.
- We endorse these recommendations. In doing so we understand that in relation to these major initiatives, the Panel has laid down a long-term challenge for the nation and acknowledge that the Government is unlikely to be able to fund all these initiatives in a single budget or a single year. Indeed we note the Government's stated view that reform of innovation policy should be seen as a decade-long project, and we accept that reality. The previous Federal Government's approach to innovation failed precisely because of its default preference for big ticket items (research and science funding, support for researchers and revamped tax provisions benefiting mostly high technology start-ups and larger businesses) rather than business innovation in the workplace.
- **The Foundation strongly supports the low-cost pro-productivity measures in the Report and urges immediate steps, especially to boost innovative practices directly in business enterprises and workplaces.** Unlike past innovation reviews, *Venturous Australia* understands innovation as the smart application of knowledge to solve problems and generate ideas for customers and communities worldwide – thereby transforming Australia's businesses, building productivity and creating new value and wealth for Australia.
- Productivity is not about replacing labour with capital. Productivity is not about doing more with less, nor is it about making people work harder for longer. Productivity results from transformations in business capabilities and offerings that are enduring and that have multiplier effects. **So, the innovation test for the Government in responding to this Report cannot be just about more R&D, but must also be about achieving a critical mass of innovative Australian businesses and workplaces competing globally.** As the Review comments "the miraculous alchemy of innovation occurs close to the customer".
- But even when these hidden realities and productivity effects of business innovation are recognised, the Australian Business Foundation observes that governments often fail to act. Through either reluctance about 'business welfare' programs, or laissez-faire short-sightedness that enterprises and their 'animal spirits' will innovate in their own interests without government intervention, policy to foster business innovation is too often missing in action.

- The Australian Business Foundation strongly urges the Federal Government to take immediate action on the National Innovation Review's recommendations to improve innovation capabilities at the business enterprise level and to encourage knowledge flows and applications that allow businesses to more imaginatively and distinctively meet the needs of customers and markets globally from Australia. The aim is to make innovation a distinctive competitive strategy for Australian businesses.
- In particular, the package of business innovation initiatives that the Federal Government should act on as a priority are set out in the following recommendations in *Venturous Australia*:
 - Chapter 3 – extensions to the coverage, objectives and eligibility rules of the Enterprise Connect program to focus on building innovation capacity in business enterprises.
 - Chapter 5 – strategies for investing in training, skills development, management education and research and consultation to strengthen innovation capabilities, leadership skills and management practices in Australia's workplaces.
 - Chapter 9 – programs for strengthening the ability of business enterprises to absorb and apply new knowledge, for facilitating collaborations and for developing capital markets.
 - Chapter 10 – acting on the particular recommendations at 10.3 and 10.6. Recommendation 10.3 provides for prizes for innovation in the public sector to encourage market pull-through of innovative ideas and market-based solutions especially on big social problems and challenges for which the public sector has key responsibility (eg. climate change, healthy ageing). Recommendation 10.6 calls for greater innovation in public procurement practices particularly through a US-style small business innovation contracting pilot program.
- **The Foundation urges early attention to improved governance of innovation research and scholarship.** The National Innovation System Review acknowledges the paucity of Australian data and research on the wider demand-side dimensions of innovation. This has the unfortunate effect of constraining assessments of Australia's innovation performance to indicators that we *can* measure, rather than to the more accurate and representative indicators that we *should* measure.
- The Review at recommendation 12.13 proposes a National Centre for Innovation Research. In endorsing this recommendation, the Australian Business Foundation reinforces the urgent need for continuing investigations into the realities of innovation. For innovation policy reform to succeed, and for the productivity benefits to be harvested for the Australian economy, it is vital to understand the complexity, the real dynamics and drivers of innovation and its causal relationship to improved productivity. This analysis needs to be tailored to Australia's circumstances, industry structure and level of global engagement. It needs to be undertaken not only through aggregated statistical analyses but also through *market-based studies and action research*.
- The Australian Business Foundation's decade of experience as a *private sector research leader conducting high quality research* collaborations and innovation studies, and our networks of domestic and international research providers in universities and business, gives us an informed perspective from which to comment on this recommendation. The concept of a national innovation research centre is more likely to succeed if it operates not as a single centre, but as a distributed expert network with appropriate mechanisms for co-ordinating and communicating this collaborative research effort into Australian innovation studies and policy forums.

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