

Labs aren't the only ones with ideas

The workplace, as well as the laboratory, is a vital innovator. Stephen Mills takes the spotlight to give the Foundation's perspective.*

Amid the pre-Budget clamour for increased funding for university research, it is worth pointing out that – from a productivity point of view – Australia does not necessarily need more research.

What we really need is a greater ability, especially at the level of the firm and the workplace, to absorb and apply the knowledge we already have.

This is because productivity cannot and does not emerge fully-fledged from the laboratory. No amount of R&D spending will, alone, create it.

Productivity arises where businesses innovate by converting ideas, knowledge and technology into competitive goods and services.

In this sense, the heart of innovation beats as strongly in the firm as in the laboratory or university. Innovative managers and workplaces create productivity by transforming the capabilities of their businesses: finding imaginative new ways of problem-solving; collaborating with customers, suppliers and even competitors; adapting existing technologies and processes to new uses; and devising fresh solutions to meet the needs of demanding customers.

The importance of business innovation to productivity is supported by a growing amount of international evidence. Cambridge Professor and Director of the UK National Innovation Centre, Professor Alan Hughes, in a study last year for the Australian Business Foundation, found that the sectors contributing most to Australia's productivity gains from 1980 to 2004 were not the high-tech producers but the high-tech users. The productivity contributions came from business transformations achieved through application of enabling technologies, strong management capabilities and leveraging the benefits of regulatory reform.

Miserably, the debate in Australia since the release last year of the Cutler Review of the National Innovation System has failed to capture this essential point.

Rather than recognising innovation as knowledge-sharing and collaboration across the value chain – that is, the product of a system that includes researchers, firms, governments and customers – most commentators have fallen back into traditional postures on either side of the old divide separating industry and research.

Increasing the supply of research is, of course, relatively easy to do. And there is probably a good case for increased Government funding of university research. But it is a lot harder to increase the demand for research – that is, to build the innovative capacity of business to absorb new knowledge and apply it to produce a good or a service that a customer somewhere on the face of the globe will pay for. But if we want genuine, non-inflationary, 'next generation' productivity growth, then this is where we will find it.

In particular, we will find innovation-driven productivity in the services sector. Again, much of the post-Cutler debate has focussed on 'hard' research that builds new machined or wired goods. A more likely source of big productivity gains is, as Cutler noted, from innovation in services, where

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firms compete on the basis of their intangible assets and their ability to use and re-use knowledge to provide innovative solutions for paying customers.

The Prime Minister has already championed the need for economic stimulus that also delivers long-term productivity growth. The previous boom years were wasted in that our infrastructure investment stalled and productivity fell. The current crisis indeed offers the opportunity to reverse this trend and create a lasting legacy of skills and capabilities that Australia can leverage in the upswing.

So what might this mean for the Federal Budget? Here are four low-cost targeted initiatives that could unleash productivity benefits through building business and workplace innovation:

As part of the immediate economic stimulus effort, provide infrastructure subsidies that seed new capabilities, practices and technology uptake, currently not commercially viable, providing firms an incentive to search for and develop new innovative solutions and designs for infrastructure projects.

Fund teams of cross-disciplinary problem-solving experts and deploy them to ensure that opportunities for innovation are built into even short-term, time-sensitive stimulus measures, eg: re-engineering school building specifications to be more environmentally friendly.

Under the existing Enterprise Connect Program, create a new Workplace Industry Innovation Centre to provide direct and practical help for enterprises to boost their innovation skills and management capabilities

Establish a National Innovation Research Centre along the lines of that in the UK, as recommended by the Cutler Review, to further advance our knowledge of innovation-led productivity and harness the benefits for Australia.