

Submission by **James Sinclair**

to the **Standing Committee on Science and Innovation**  
Enquiry into pathways to technological innovation.

Through  
Committee Secretary,  
Standing Committee on Science and Innovation,  
House of Representatives,  
Parliament House,  
CANBERRA ACT 2600

Dear Investigators,

I wish to draw your attention to the substantial negative effect of financial accounting procedures currently in use on the process of bringing innovations to market.

In the case of a private individual who wishes to develop an idea he or she cannot make **any** account for his or her own time invested in the initial stages of a project. As far as the accountant is concerned such effort is wasted time of no value when in fact if the project is eventually successful that time expended is a substantial capital value invested in the intellectual property of the project.

In the case of a company (with public listing on the share market for instance) there is a requirement that every six or twelve months the operation is halted and a balance sheet is prepared and money spent on development of a project not yet commercially viable is counted as a loss. While the recording of a loss is appropriate for some forms of activity such as that of a retail trader or a road maintenance contractor where there is no expectation of a future return once that project is completed and paid for; in the case of a company which is involved in an innovation project it is only a real loss if the company is forced into bankruptcy and the innovation never gets to market.

For an innovation company **all** expenditure currently recorded as a loss should more properly be accounted as a capital expenditure building up value in intellectual property.

A am aware that your present investigation is focussed on finding examples of successfully bringing innovations to market and that this subject is a side issue to that search however it is a very big side issue and does affect all players; even the successful ones. While I can draw attention to this problem I cannot offer a comprehensive solution, any changes to accounting procedures would be so wide open to abuse that they would be detrimental to the overall business community.

In the relatively narrow field of private individuals with an idea in the mechanical, electrical, electronic or chemical engineering fields it may be possible for a business corporation to be established which would provide an environment in which such an

individual could work for the several years required to get through the prototyping and trial stages and to initial commercial production. In such an organisation it would be essential that initial entry is available to people with undeveloped (and possibly un-patent-able) ideas and maybe even those who do not yet have the full skills required to complete their project. If any Government money was used to support such a corporation it would be essential that control be kept at arms length, innovators and bureaucrats are at opposite ends of a psychological scale and would be continually accusing each other of straining at gnats and swallowing camels. The organisation would need to have some of the functions of a technical college, some of the characteristics of a sheltered workshop and some of the characteristics of a branch of Telstra or one of the armed services.

To put the foregoing in context my experience of the general subject of innovation is:-

My father was a farmer and I worked on the family farm for the first six years after I left school.

I was employed by the Post Office/ Telecom Australia (now called Telstra) for 21 years in the radio field as a technician or technical officer and for a period acted as a senior technical officer.

In both these roles I was involved in development, one-off manufacture and testing of dozens of minor, informal innovations.

I started a small business in the radio communications field and while that was active I constructed and tested several prototypes of equipment for specialised purposes; none got past the prototype stage.

I was the holder of a patent for a mechanical device for collecting and using wind energy directly for heating; it never became commercial.

I am the author of two technical books in the radio field which have been published by McGraw-Hill; these are on sale and are producing a minor income.

I have inherited a portion of my father's estate and now have a shareholder's interest in the fortunes of several innovative companies.

Yours Faithfully,  
Jim Sinclair.