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Submission to –

Inquiry into Business Commitment to Research and Development in Australia

As International Director of 16 Australian companies, 1 New Zealand and 1 Japanese company, National President of the Australian Industry & Defence Network, a Committee Member of - AiG National Defence Council, the Defence Exporters Council; Tasmanian Defence Reserves Support Committee; the Tasmanian Manufacturing Industry Council and an Immediate Past Director of the Northern Tasmania Regional Development Board I offer the following -

General Comment -

Based on my 39 years of Australian SME involvement I find the statement in your Terms of Reference, ***“International comparisons indicate that while the public sector in Australia supports R&D at an impressive level, business investment is less impressive”*** to be grossly inaccurate and obviously based upon pure ABS / AusIndustry statistics **not** on factual within industry research or liaison.

I have always found that Australian SMEs tend to be super innovative, when compared to similar enterprises I visit overseas, particularly in respect to new product development and in house operations.

Because SMEs do not register for AusIndustry Tax Concessions (due to the perceived plethora of paperwork) or apply for grants and assistance (again due to the volume paperwork) Federal Agencies are therefore unable to easily ascertain the actual level of SME R&D.

I find the above statement glib and usually uttered by persons who have little contact with SMEs, especially in the manufacturing industry.

Generally speaking Australian SMEs are forced to be innovative with manufacturing techniques and new product R&D due to a lack of cash. I believe that the majority of SME's are often grossly under-capitalised and **“It is from this root that many of the sins appear to result,” not from a lack of R&D.**

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Response to Questions –

- **What would be the economic benefit for Australia from a greater private sector investment in R&D?**

Answer – In my experience I have not found economic benefit to arise from R&D alone, commitment to R&D is the result of thorough prior planning which includes assessment of both technical and commercial risks as well as the impact on company cashflow during R&D (as any R&D involved plant is removed from profitable productive output etc) and more especially in support of the marketing and then market/debtor expansion phase.

The simple answer to this question is YES, greater Australian economic benefit would obtain from greater private sector investment in R&D.

This answer must be tempered by attention to private sector project support especially where there is high technical risk and the cash cost of underwriting that project could have a major impact on the enterprise.

It is not sufficient for Australia as a nation to demand benefits (i.e. company tax on profits, higher employment and thereby additional PAYE tax) from successful R&D projects without supporting non-successful R&D projects.

Of major benefit is the export potential of R&D generated products, but where an SME is not internationally orientated then there must be assistive incentives to entice the enterprise to expand into this arena.

The current Austrade programs are not sufficiently supportive in respect to achieving actual sales results, which lead into another realm not covered by this inquiry.

AusIndustry competitive format for the R&D Start Scheme (when operating) is generally not conducive to SMEs because of the perceived volume of justification paperwork and onerous reporting demands. Industry participants would appreciate a more users friendly scheme.

The economic ‘ripple’ effect of successful R&D projects are most beneficial to regional communities and positively reinforce to community value.

- **What are the impediments to business investment in R&D?**

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Answer - For an SME to grow there must be sufficient cash to support that growth and all too often it is due to a lack of capital and the delinquency of debtors that planned growth is hindered, this then demands a focus on cost cutting to fund growth.

Whilst SMEs have a short-term focus on delinquent debtors, they need to manipulate funds to carry the large corporate and government department debtors that consistently fail to pay 30 days.

I find that generally it is not a lack of innovation, lack of diversity or lack of entrepreneurialism that inhibits the growth of SME's investing in R&D but rather a lack of sufficiently competitive capital, which primarily inhibits Australian SME growth.

R&D requires considerable resource input, including personnel secondment time as well as away from general production routines, thereby requiring specific budgeting allocations to cover all facets of research prior to a program instigation.

It is the physical cost of prior planning on top of the development phase that cause many enterprises from embarking on a large R&D project.

Where the product concept is diverse from the general area of current enterprise operations and a new division of sales/distribution pathway needs instigation then the R&D project becomes all the more daunting to an SME.

A major impediment to SMEs is the perception that CRCs, Universities and established research organisations (CSIRO) (i) only work with major industry players; (ii) always excessively charge SMEs; (iii) plunder an SME's IP and then use it in other projects without recompense to the originator; (iv) are too busy to discuss small projects; (v) do not return phone calls or enquiries; and above all (vi) will not visit the SME to better understand a project until the SME pays over a major deposit.

I put to the inquiry that these community perceptions are major impediments to business investment in R&D.

- **What steps need to be taken to better demonstrate to business the benefits of higher private sector investment in R&D?**

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Answer – (i) By facilitating pathways for proposed R&D end products to be reasonably assessed for end use market ability / demand.

The Department of Defence has recently launched a facility to handle ‘unsolicited proposals’ with due regard to IP protection. What this means is that an enterprise can gain an insight into the demand for a proposed product capability prior to committing to R&D. This concept could reduce the market risk assessment time for prospective R&D projects and could possibly be emulated by other State and Federal Departments.

(ii) The AusIndustry 175% Tax Write Off Program has little appeal to industry players due to any benefit being gained at the FY end. In the meantime actual project cash draw down may starve the enterprise especially when bankrupt debtors impinge upon projected cash inflow.

As debtor demise usually occurs during the first three years of an enterprise and such demises usually impact upon thirteen other enterprises, I suggest that there would be value in legislation being enacted to require anybody going into business to provide a Certificate of Business Management Capability (as is required in Europe) prior to ‘opening for business’. Such licensing could take into account a person’s prior business management expertise but would require any new aspirants to sit a nationally prescribed TAFE course.

This way new operators would have an understanding of basic business management, cashflow projections, capital requirements etc and would be somewhat more insulated in respect to positive business decision making.

(iii) Every businessperson is motivated by profitability and prospective future growth therefore any promotion of R&D benefits must be undertaken in a total scenario format, with identified pathways to simplify directional options to the industry players.

The assistive formation of industry clusters is an ideal stepping-stone to R&D advancement to Australian business.

Mike Turner August 2002