

## **INQUIRY INTO BUSINESS COMMITMENT TO R&D IN AUSTRALIA.**

The Australian Industrial Research Group (AIRG) is an organisation devoted to fostering innovation and R&D within Australian businesses. The organisation has existed since 1964 and its membership is largely composed of senior innovation and R&D executives within Australian companies, as well as other groups with interests in the commercialisation of innovation and R&D. Details of AIRG's operations can be found in its website at [www.airg.org.au](http://www.airg.org.au).

AIRG membership has significant representation of established R&D operations in many Australian industry sectors, including,

- mining,
- machinery and equipment manufacturers,
- petroleum, coal and chemical manufacturers,
- food and beverages,
- metal product manufacturing,
- information technology and communication,
- wood and paper product manufacturing, and
- health and biotechnology.

AIRG has, however, faced more challenges in recent years than at any other time in its long history. This is due to the declining role of innovation and R&D in the above sectors, and we therefore believe that this inquiry is most relevant and timely.

A strong view among AIRG's membership is that, while Australian businesses must assume the responsibility for organising, funding and directing commercial innovation and R&D, the responsibility for creating and maintaining the environment which encourages these activities in Australia rests with Government.

### **Economic Benefits for Australia of a Greater Private Sector Investment in R&D.**

Our members are of the view that,

- Private sector investment in R&D is only a part, although a very necessary part, in the whole continuum of inputs into the national innovation process. For that innovation process to work well in creating wealth for Australian and Australians, all of the enabling strategies within a coherent industry policy need to be considered, such as education, science and industry collaboration, etc.
- Innovation and R&D activities within AIRG's constituency have a significant role to play in fostering start-up activities in a number of technological areas, and a large number of these will have significant potential for growth.
- The process of commercialisation is critical to a successful outcome for any research effort. Business innovation and R&D provide the greatest exposure to the lessons and experience of commercialisation needs.

- Greater business alignment and contact with customers and suppliers resulting from private sector R&D translates into a clearer definition of market needs, and leads to a higher level of successful outcomes for research in which private sector R&D is involved.
- Global competition demands continual renewal of product ranges and business innovations, and this is most often achieved through private sector R&D investment. Such investment decisions therefore have significant implications for the long-term globally competitive nature of Australian businesses.

### **Impediments to Business Investment in R&D?**

- The operating environment for innovation and R&D in business has to be matched to the timeframe for successful market outcomes. Innovation and R&D activities are particularly prone to changes in their operating environment, since a successful program may take years to complete. Our members view quite positively the Government's commitment to a 5-year planning horizon for its innovation incentive programs.
- Within Australia there is a particularly low level of appreciation amongst CEO's and senior business leaders of the value of investing in innovation and in R&D. Exacerbating this situation is the often short-term nature of CEO appointments, which provides little opportunity for developing a long-term vision for growth and development of the company.
- A major impediment for Australian business innovation and R&D is the relatively low-level attention given to innovation and R&D by company analysts. The short-term nature of analysts' opinions is particularly damaging for such longer-term investments.
- The view that innovation and R&D activities are a cost to business rather than an investment still exists in many Australian businesses. R&D can therefore become an easy target for short-term profit improvement where the former view is predominant.
- Many Australian firms are multinational in nature. Such globalisation means that R&D activities will be performed where factors such as critical mass, researcher quality and cost-effectiveness are most attractive. The environment in which our business R&D activities operate must take into account such monitoring of the best place to carry out any innovations or R&D.
- Management of business R&D needs to display excellent skills in communicating the economic benefits of their portfolio in terms that are understood by senior executives, while at the same time being focussed on demonstrable returns from the activities under their control. These critical skills are often not well addressed during the education and development of potential managers within Australia.

## **Steps to Better Demonstrate to Business the Benefits of Higher Private Sector Investment in R&D.**

- A key reason for the under-investment in BERD is the lack of CEO/Board conviction that innovation is a major driver of business success. This attitude is at odds with our major competitors and the Government could assist in reversing this under-investment,
  - Alteration of Australian accounting standards so that R&D expenditure is reported in internationally comparable ways.
  - Support international standards for the valuing of intellectual property in company accounts.
  - Take a lead role in setting “innovation benchmarks” for Australian business to aspire to, with particular focus on the stockmarket/market analysts.
  - Greater advocacy of the benefits of innovation as the foundation for business success and economic growth is needed. In particular, there is a need to support innovation awareness and benefit programs for senior executives and company analysts in Australia.
- Optional education programs within undergraduate engineering and science courses on the subject of commercialisation, with particular emphasis on commercialisation outcomes and communication techniques.
- Promotion of advanced level programs on R&D management techniques, including portfolio management and intellectual capital within educational institutions will greatly improve the performance of this function.