31 July 2014

Committee Secretary
Senate Economics Reference Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody,

**Australian Innovation System**

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to the inquiry into the Australian Innovation System (the Inquiry). Appendix B includes more information about Chartered Accountants Australia and New Zealand.

**Key points**

- There is a need for a national innovation strategy that outlines Australia's objectives, priority areas and targets. There is also a need for government to allocate the appropriate resources to ensure success in this strategy. There are currently mixed messages around the role of government in promoting innovation with cuts to funding of the CSIRO and universities.

- Australia's innovation system needs to focus less on knowledge creation and more on building connections and capabilities of Australian businesses to adopt, adapt and convert knowledge into novel products and services.

Should you have any queries concerning the matters discussed above or wish to discuss them in further detail, please contact me via email at: rob.ward@charteredaccountantsanz.com; or telephone (02) 9290 5623 or Geraldine Magarey at Geraldine.magarey@charteredaccountantsanz.com or (02) 9290 5597.

Yours sincerely

Rob Ward
Head of Leadership and Advocacy
Appendix A

Government approach to innovation

Chartered Accountants Australia and New Zealand believes there is a need for a national innovation strategy that outlines Australia’s objectives, priority areas and targets, as well as a commitment to allocate the appropriate resources to achieve them.

Leadership is a critical precursor to innovation. To build growth and prosperity in Australia we need cohesive and deliberate action by government to productively invest in each of the elements of the innovation system.

There is a need to develop a coordinated and stakeholder-driven innovation system between industry, government, customers, regulators and universities. Through highly developed linkages, aligned goals, and common ways of working we may be able to co-create a high performing system.

Innovation is ultimately the responsibility of businesses and managers, but it can be significantly enhanced and accelerated with proactive leadership by government.

The focus should be on problems of strategic national importance, things that we can solve, and things that are likely to generate or reinforce Australia’s national competitive advantages. However, to do this Australian businesses need to have a better understanding of what attributes and resources already help Australia to perform at a higher level than our global rivals so they can focus their efforts on extending these advantages and “innovate where we differentiate”.

There is a need to identify national and international comparative advantages by paying close attention to existing networks, clusters and supply chains and then working to identify complementary resources and capabilities.

There is a need to encourage the international mobility of students and academics to discover relationships and cultivate future business opportunities.

Chartered Accountants Australia and New Zealand believes that governments lead innovation through three main channels:

- Incentives
- Capabilities and
- Flexibility
Incentives
There is a need to encourage the establishment of more incubators or accelerators based outside of the tertiary education sector. Although there are many advantages of basing these services within universities, and for that reason we believe they should continue, having a disproportionate number of incubators based at universities tends to narrow the focus of innovation to revolve around the research, capabilities and interests of the university, as opposed to meeting and/or anticipating the needs of customers, embracing business innovation, or leveraging knowledge and technology generated elsewhere.

There is a need to improve the support provided to small and medium sized enterprises (SME’s) to seize opportunities associated with Asian growth by encouraging collaboration for the creation of new-to-the-world innovations. We need to reduce constraints for SME’s to enter international value chains.

Capabilities
The capability of business leaders to support innovation is an essential element to the success of a national innovation system. However, management’s decisions and the consequences of those decisions are conditioned by governments through incentives, building capability and creating flexibility in the economy.

There is a need to address the decline in secondary school students studying science, technology, engineering and mathematics (STEM). We note recent the recent appointment of the Chief Education Scientific Advisor in New Zealand to improve science in its education sector.

Chartered Accountants Australia and New Zealand believes that innovation is about more than funding science and research. To reignite Australia’s productivity there is a need to do more to help businesses lead innovation and build entrepreneurship skills.

A good example of a practical and tangible government initiative for building capability is the New Zealand Trade and Enterprise’s ‘Better by Design’ group. Better by Design supports NZ export businesses to learn and apply innovation and design principles with the aim of improving New Zealand’s international competitiveness. http://www.betterbydesign.org.nz/ However we also believe that the remit of such a service could be much broader than for export businesses alone.

Collaboration between businesses is highly correlated with improved innovation performance. There is a need to facilitate increased collaboration within and between industries and also with overseas firms to promote the development of world-first innovations. Government supported consultancy services should be expanded (in areas such as technology, legal, financing and global expansion).
Flexibility
There is a need to create an economy that is flexible, globally focussed and embraces market diversification. Our national innovation system needs to be agile and oriented towards capturing emerging opportunities. We need to be able to readily reconfigure the way we allocate our innovation resources to ensure we remain focussed on growth domains with high potential.

Exiting from declining advantages is just as important as starting new things. A key element to achieving a flexible and agile economy is knowing when to stop things that are not delivering demonstrable social benefits, or addressing legitimate market failures so that weaker firms can make way for better performers who would then absorb the released labour and capital.
Appendix B

Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand and are known for professional integrity, principled judgement and financial discipline, and a forward-looking approach to business.

We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

Chartered Accountants Australia and New Zealand is a trading name for the Institute of Chartered Accountants in Australia (ABN 50 084 642 571) and the New Zealand Institute of Chartered Accountants – see charteredaccountantsanz.com for further information.