

Igniting the **'IDEAS BOOM'**

Innovation is central to a prosperous, modern economy. But what role – if any – should government play in fostering a more agile and entrepreneurial business environment?

by Aleks Vickovich



\$1.1bn

The amount National Innovation and Science Agenda initiatives are worth over the next four years

Six weeks after being made prime minister in what the BBC labelled a dramatic “coup”, Malcolm Turnbull faced the national press pack to unveil his vision to remake Australia’s economy in the post-mining boom era.

“I’m here with my good friend and colleague, the Minister for Industry, Innovation and Science, Christopher Pyne, to usher in the ideas boom,” he said.

The former barrister, Goldman Sachs MD and OzEmail CEO – who, with his wife Lucy, has had some success as an investor in early-stage ventures and start-up businesses – then proceeded to outline the government’s new National Innovation and Science Agenda (NISA).

With a four-pronged approach centred on “culture and capital”, “collaboration”, “talent and skills” and “government as an exemplar”, the agenda seeks to bring about a more innovative Australian economy and business culture through a raft of tax, spending and partnership measures to help entrepreneurs thrive.

The policy announcement was bolstered by a controversial \$28 million innovation-themed advertising push and became a central plank of the Coalition’s nail-biting but ultimately successful national election campaign.

Insofar as the NISA has forced the news media to pay attention to these issues and placed innovation on the agenda, it has been a positive development, says the IPA’s Vicki Stylianou.

However, speaking to *Public Accountant* from the United States – following a speaking engagement at an International Council of Small Business forum in New York – Ms Stylianou warned that talk alone will not be enough.

“The IPA has consulted with the government on [NISA]. Two thirds of proposals impact members directly and apparently all are

funded; we think this is a great start,” she said.

“[The election focus on innovation] is helpful as long as it doesn’t politicise the issue in the longer term. Innovation policy should be above politics and non-partisan.”

Innovation adviser and respected financial services industry consultant Stewart Bell of Audere Coaching & Consulting had a similar take, albeit somewhat more blunt:

“Public policy is doing us the service of putting it on the agenda, even though it’s not hard to be a little cynical about the political allure of the innovation spotlight,” he tells *Public Accountant*.

While the politicisation of these issues should face reasonable scrutiny from the business community and the voting public, what is indisputable is the role innovation can play in driving positive economic outcomes.

Stephen Martin, a former federal Labor MP and now CEO of the non-partisan Committee for Economic Development of Australia (CEDA), outlined just how central it is in a speech to the International Summit of Business Think Tanks.

“It is a given that countries need to innovate to maintain and improve living standards in an increasingly competitive global economy,” he said.

Given the priority Mr Turnbull has placed on innovation policy, and the swiftness with which he has sought to associate this agenda with his leadership, you could be forgiven for thinking that government intervention on this topic was a recent development.

But federal governments of both stripes have launched countless initiatives to generate a more entrepreneur-friendly environment over the years – or at least have waxed lyrical on this subject.



\$250m

The amount government will co-invest with the private sector in a new Biomedical Translation Fund to commercialise medical research promising discoveries

“It is a given that countries need to innovate to maintain and improve living standards in an increasingly competitive global economy”

Cutting and spending

Both the Turnbull government’s NISA and similar initiatives by Australian and foreign governments have sought to accomplish their mission through a mixture of tax incentives and government spending.

On the one hand, for example, the NISA offers concessional tax treatments to “sophisticated investors”, allowing them to “support innovative start-ups” and help solve the problem of access to equity finance, which is thought to be a considerable obstacle to

Indeed, in 2008, the Labor government, then led by prime minister Kevin Rudd, launched a 10-year innovation agenda called ‘Powering Ideas’, identifying the need to “invest” more heavily in world-class research, education and international collaboration.

The federal opposition has also made clear that in this most recent election, it too supports greater government focus on innovation.

And yet arguably the Hills Hoist remains Australia’s most innovative contribution to global commerce, while the

Brain Drain of young Australian entrepreneurs and inventors to hubs like Silicon Valley, New York and Tel Aviv continues.

Moreover, according to CEDA, the proportion of joint industry and research patent filings – a generally-agreed-upon yardstick of innovativeness – has declined substantially over the past decade, as has venture capital investment in general.

And so the question remains: do politicians need to do more to engender the Australian ideas boom or are they, indeed, the obstacle itself?



a thriving start-up ecosystem in Australia. It also proposes to loosen insolvency laws to encourage innovation and make changes to the rules governing venture capital limited partnerships.

Through this lens, the government's approach to fostering innovation focuses on deregulation measures aimed to provide greater economic freedom to prospective entrepreneurs.

On the other hand, the government has also announced a significant number of spending initiatives, including \$250 million to establish a new "Biomedical Translation Fund"; \$22 million for a new "cyber security growth centre"; and a \$75 million injection for the CSIRO's Data61 research unit, among a slew of innovation-focused budget allocations.

According to Dr Simon Cowan, an economist and research fellow at the Centre for Independent Studies, governments should focus on the former and not the latter.

"Government can't drive innovation with taxpayer cash but it certainly can kill it with over-regulation," Dr Cowan tells *Public Accountant*.

Tim Andrews, an activist for accountable government and executive director of the Australian Taxpayers' Alliance agrees that the answer lies in deregulation and not government programs.

"The best thing government can do to increase innovation is reduce the high taxes and regulations that are strangling Australian businesses," he says.

By contrast, Universities Australia – the lobby group representing Australia's higher education institutions – has consistently called for greater public investment in science and innovation, pointing out in late 2015 that Australia has dropped from sixth place to second last in the OECD for share of GDP invested in tertiary education and is number 17 for "business-university collaboration".

\$51m

The amount the NISA will invest in helping young Australians to create and use digital technologies

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Other organisations, such as the National Research Alliance and Australian Academy of Sciences, have also called specifically for greater public funding of innovative research, as opposed to simply providing a less burdensome environment for the private sector.

The IPA takes a balanced approach, with Ms Stylianou

agreeing that "bold" tax measures and incentives are an important part of the plan, but also welcoming the government's financial commitment to the cause.

The IPA's *Small Business White Paper*, released in 2015 in conjunction with Deakin University, recommended a number of deregulation and spending items.

In the first group, the paper suggests government introduce a "tax allowance for companies investing in intellectual property protection (through patents, copyright, trademarks, design rights etc.) in-house" – akin to the UK's much-lauded patent box regime – and another for "companies that generate licensing income from in-house new technologies".

On spending measures, the paper argues in favour of a state-backed loan guarantee scheme to "increase the availability of much-needed affordable loan finance to the small business sector" as well as the introduction of a publicly funded venture capital fund, also with a focus on ensuring access to capital.

On this particular topic, the NISA does make some positive

noises on equity crowdfunding laws, but some in the crowdfunding industry believe the government's commitment is lukewarm.

Paul Niederer, equity crowdfunding expert and CEO of the Australian agency of Wealth Migrate, a top 10 global real estate crowdfunding platform, says further changes to the country's crowdfunding laws are necessary to truly allow for capital access benefits to flow on to the start-up community.

"Existing operations either use accredited (i.e. sophisticated and professional) investors only or the small scale offerings legislation," he explains in an interview with *Public Accountant*. "To spur growth, the [government needs to] use a sandbox approach and scrap everything that has been done to date."

And so it seems that while there is consensus that a combination of tax incentives, removal of currently obtrusive laws and licensing regimes and investment in research and development are key ingredients for an innovative economy, commentators are split on the extent to which government funds specifically need to play a role.

Largely, that split comes down to philosophical battelines. Dr Cowan, for instance, points out that often government efforts to encourage R&D just mean it "finances things businesses would do anyway", while Mr Andrews says the "evidence is overwhelming that governments can't pick and choose winners and scientific investment is best left to the market".

Universities Australia, among other stakeholders, would likely disagree, indicating that while the goal of innovation might be bipartisan, de-politicising the issue entirely is highly unlikely.

Culture club

Creating a more innovative economy is not simply a matter of dollars and cents. Economies are made of up individuals, who make decisions that determine outcomes such as whether to start a business or pursue an inventive idea or leave these dreams unfulfilled on the notepad. Culture, therefore, matters greatly.

Having recently had a glimpse into the US business environment, Ms Stylianou saw first-hand the stark difference in attitudes towards innovation. "Australia needs to get a lot better at commercialisation," she says, listing "cultural change" as right up there with public-private and academic collaboration and tax incentives.

Stewart Bell, whose consulting business deals with innovation on a daily basis, suggests there are some fundamental attributes causing Australia's relative lack of success in innovation, well beyond politics and tax regimes.

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The number of jobs today's young people may hold during their working lives, according to the Foundation for Young Australians



>\$13m

The amount government will invest to support the greater participation of girls and women in a range of innovative areas

“The best thing government can do to increase innovation is reduce the high taxes and regulations that are strangling Australian businesses”



“It may be simply the challenges of our smaller population, or aspects of our cultural attitudes towards risk or even the good old tall poppy syndrome,” Mr Bell suggests.

But it is not only prospective entrepreneurs that might be in need of a cultural shake-up; other stakeholders might be too. Mr Bell explains that regulators and venture capital investors could also loosen their somewhat “conservative” approach to innovation.

In this way, government support for innovation can play an important symbolic role, keeping it front of mind for the media and voters and ensuring it stays on the agenda.

Mr Niederer says the example of other countries proves government

can play an effective role in shaping cultural attitudes that are conducive to innovation.

“The government can support an ecosystem that fosters innovation; examples are Israel and Singapore,” he says.

“Start-ups thrive knowing there is a national infrastructure that supports them, but at the end of the day it is up to the company to innovate and grow.”

Going it alone

Irrespective of the role played by the state in fostering innovation – and the debate over whether government-sponsored programs hurt or hinder the goal of a more innovative economy – there are steps individual entrepreneurs

can take to help create a more innovative culture within the businesses under their remit.

Mr Bell advises that, chief of all, they stop looking for great ideas and start looking for problems.

“Uber wasn’t created because a corporate entity decided to launch a new cab company,” he says.

“It came about because some smart people noticed that people were sick of overpaying to ride in substandard cabs and waiting 40 minutes by the side of the road.”

He also recommends “learning to say no and to eliminate” and realising that your business destiny lies in your own hands alone, not those of your licensee or parent company or manufacturer or any other third party.

The same, of course, could be said of the federal government.

The message, therefore, is that rather than wait for favourable policy environments and rely on helpful handouts, businesspeople who truly want to see a culture of innovation thrive within their organisations, and the wider economy, should take the advice of one of the sporting industry’s most innovative brands and just do it. 📌