

13 December 2019

The Hon. Gabrielle Upton MP  
Parliamentary Secretary to the Premier  
330 New South Head Road  
DOUBLE BAY NSW 2028

Dear Ms Upton

### **Accelerating R&D in NSW**

Thank you for inviting us to make a submission on how to accelerate R&D in NSW.

The Australian Institute of Company Directors (**AICD**) has more than 45,000 members drawn from directors and senior leaders from large, medium and small business, government and the not-for-profit sectors. The mission of the AICD is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD achieves its mission through provision of governance education, resources and tools for members, practice guides, advocacy and membership services. In total, the AICD has over 13,000 NSW-based members.

This letter covers the key findings of our recent research with the University of Sydney regarding approaches of the Australian director community to innovation; specific feedback from members of our Technology, Governance and Innovation Panel on questions posed by the NSW government's consultation; and some areas where the AICD may be able to collaborate with government.

In summary:

- In an increasingly, complex regulated environment, Australian directors continue to struggle to prioritise innovation with more needing to be done to lift their digital and technology literacy;
- The primary way in which the NSW government (Government) can promote R&D and innovation is by being a key anchor customer for business;
- The Government should play an important role in connecting the various parts of the ecosystem including industry and academia; and
- The AICD would like to explore ways of collaborating with the Government to promote R&D and innovation in the state.

More detailed comments are outlined below.

As an overarching observation however, it is critical that federal, state and territory governments work together to meet the significant innovation challenge facing Australia. Only by having a coordinated approach across the various tiers of government will real impact be achieved. This should include states clearly voicing their concerns when they are opposed to Commonwealth policy changes.

## 1. AICD-USYD Innovation Study

In September 2019, the AICD published a first of its kind, in-depth look into innovation in Australian boardrooms across all sectors: “Driving innovation: the boardroom gap”. The study was carried out in partnership with the University of Sydney Business School and drew on data gathered from member survey results as well as one-on-one interviews with directors, and a global literature review.

There were three key findings from the study which may be of interest:

*Finding 1: Australian directors recognise the importance of innovation, but more needs to be done to prioritise its delivery*

- Australian boards play a key role in fostering, driving, and monitoring innovation – but there remains a significant gap between strategy formulation and strategy implementation.
- Comparatively, directors’ responses indicated Australian boards are not prioritising innovation or disruption risks to the extent seen in overseas boardrooms, suggesting Australian boards under-estimate looming strategic risks.
- Directors identified key barriers to innovation as: human talent shortages; limited financial resources; and a focus on short-term financial performance. Directors see Australia’s regulatory environment as contributing to a risk-averse corporate culture.

*Finding 2: Australian boardrooms have low innovation and digital literacy levels*

- Australian boards lack critical technical and innovation skills and need to increase access to specialist advice. More must be done to broaden the director talent pool to include individuals with science and technology backgrounds, as well as bringing in stronger international experience.
- While boards can take steps to address these specialist skills gaps by, for example establishing a specialist committee or advisory panel, it remains each director’s responsibility to understand how technology will impact their organisation.

*Finding 3: Board-Executive collaboration leads to better performance*

Boards that collaborate with their executive team to set and oversee an organisations’ innovation strategy are much more likely to realise their innovation objectives. This includes ensuring innovation features regularly on board agendas.

Following on from these findings, the study identified five key recommendations for boards:

*Lift directors’ technology and digital literacy*

- Innovation requires a clear mindset and focus. It also requires shared experiences amongst board members rather than allocating responsibility to a “tech” person on the board. It is each director’s responsibility to make informed decisions on the proposals put forward by the executive, and, where necessary, to lift their level of digital and technological literacy. Directors do not need to be technical experts, but they must be able to understand how key technological developments will impact

their business. Innovation should form part of directors' program of continuing education.

*Set clear expectations of management regarding calculated risk-taking to drive innovation*

- This is fundamental to fostering a culture that allows innovative ideas to surface, be tested, and then implemented promptly. This includes rewarding successes and failures and encouraging continuous learning. True innovation exists by learning from failure. It is the board's role to set clear expectations of the executive regarding what calculated risks they are expected to take. In some organisations, this might require the board re-evaluating the organisation's risk appetite entirely.

*Develop a shared language with management, and clear narrative for investors/members on innovation*

- Directors and management should clearly distinguish incremental innovation from disruptive innovation. Innovation generates growth but requires acceptance of risk-taking. Directors should support management in balancing continuous improvements to current processes and products, while also investing in products and services that will become available in a five to ten-year horizon. Agreed language and a clear narrative will set expectations for the executive team, broader workforce, members/shareholders, and other stakeholders.

*Ensure innovation features regularly on boardroom agendas*

- Boards should assess how their innovation strategy is being realised and what are the key obstacles to implementation. Having regular conversations on innovation via periodic agenda items, can help make innovation a more mainstream boardroom topic. Governance arrangements should be reviewed to determine whether formal board committee or advisory panel structures, drawing on outside experts, would help organisations achieve their innovation goals.

*Establish a budget and executive incentives for long-term innovation*

- If innovation is to become a priority, boards need to assign time and a budget for it. This assists the executive team to prioritise initiatives and offer regular visibility of innovation projects. Similarly, performance and remuneration frameworks need to be re-calibrated such that innovation, including innovation with longer horizons, is encouraged within the organisation.

Over the coming 12-18 months, we will be making a concerted effort to take the study's learnings and help drive a change in mind-set and practice in the Australian director community.

## **2. Role of the NSW Government - feedback from Technology Panel**

To provide input to this consultation, the AICD sought comment from our Technology, Governance and Innovation Panel. The Panel is comprised of Australian and international practitioners and experts who have helped guide the AICD in its work in this area, including our recent study (discussed above).

Key elements of feedback, grouped by theme, are outlined below.

*Innovation is more than just R&D*

Promoting R&D is crucial to the current and future economic health of NSW, including by driving creation of high value employment opportunities in the state. By underpinning productivity, it will help boost overall economic growth at a time when traditional businesses are being disrupted and the need for international competitiveness is becoming more and more acute. Foreign investment will also be attracted if NSW can develop a reputation as being a home for innovation, supported by a highly skilled workforce.

That said, we would encourage NSW to adopt a focus on innovation that is broader than just R&D. For example, many of the most successful recent NSW start-ups (e.g. Canva, Atlassian) aim at creating new categories of value in established markets. Others such as Uber and, Airbnb do not even produce a tangible, physical product, but rather their success has lay with business model innovation. A narrow focus on technology and R&D should not distract from steps the NSW government can take to help foster growth in these businesses. For example, measuring success through metrics such as patents, risks missing some of the other forms of value that could be created within NSW.

Accordingly, we would caution against the Government focusing solely on driving R&D.

#### *Government as anchor customer*

The Government has an important role to play in supporting innovation through its procurement policies and, in particular, as an anchor customer for new and emerging sectors and technologies. Silicon Valley, for example, was founded on the back of a request from United States Department of Defence to build semi-conductor chips. By Government itself seeking to become more innovative and technologically driven, including through the services it provides to the people of NSW, it will help create a demand that can be met by the market, with flow on effect for the local economy.

As a major purchaser of goods and services, the Government should review its procurement processes/policies to ensure they do not effectively lock-out new, innovative market entrants by being overly resource-intensive. While compliance with relevant laws are essential, procurement policies should look to reward innovative companies rather than only larger entities which are able to meet onerous tender requirements.

Taking the lead from other jurisdictions such as California, the Government should also look to stimulate open innovation around critical state problems and opportunities (for example, transport and housing). An open, collaborative attempt by Government to solve critical challenges, working with industry and academia, could be crucial to these challenges being effectively met.

#### *Connecting the ecosystem*

The Government can take the lead on innovation by modelling desired behaviours, including collaboration alongside industry and academia. Innovation should be seen as a specific task for government with appropriate resources and staff allocated. Currently, it is unclear to external stakeholders which government department/agency is tasked with driving innovation in the state, and with whom industry and members of the research community should seek to engage. There should be a clear champion of driving innovation within the Government, especially since the recent absorption of Jobs for NSW into Treasury has left matters unclear.

The Government could also look to support specific partnerships between universities and industry, particularly when there is shared intellectual property to be produced. This would

help address the continuing disconnect between the research and business communities that has been identified in multiple studies.

#### *Developing specific sectoral expertise*

There are mixed views within our membership on whether governments should seek to “pick winners” and consciously select certain economic sectors to support. That said, there are widespread concerns that Australia’s economy has entered a period of slow growth, and that without significant investment in productivity enhancing reforms, Australian living standards will decline over time. As noted in various studies, the Australian economy is also relatively unsophisticated compared with our OECD peers including based on R&D metrics.

Given this, there is a case to be made for governments seeking to support certain sectors where they are seen as critical to the long-term health of the society and economy. Governments should particularly look to sectors where there is already robust competition and assisting those sectors take the next step, particularly in accessing international markets.

It will be crucial that there is a clear evidence-based methodology for identifying which sectors to support, clear metrics to evaluate their progress/success, and sufficiently long-time frames so as to allow the impact of policies to be measured.

Without targeted government intervention, the risk remains that Australia, and its constituent states, will be left behind by other economies. As noted above, a coordinated approach across the various levels of government is preferable to each state and territory developing standalone policies.

#### *Attracting and retaining talent*

Although immigration is of course primarily a Federal government issue, there is a role for the Government in attracting domestic and international students to be educated in NSW and to attract from offshore, quality people with skills to work with high growth companies in NSW.

State-based programs could be developed which could support social integration of new migrants and allow for sharing of ideas and experience with the local ecosystem.

#### *Taxation policies*

There is limited scope for the Government to alter its taxation policies to encourage innovation given many of the policy levers lie at the Commonwealth level.

However, one option would be to grant payroll tax exemptions for salaries paid to employees engaged with work that is classified as eligible R&D expenditure by Innovation and Science Australia and the Australian Taxation Office. This would help remove a significant cost of doing business for those organisations engaged in R&D and help promote NSW as an attractive place to operate.

#### *Examples of successful state-government initiatives*

Positive feedback was received on the strong partnership established for R&D with Data 61, the NSW Transport Digital Accelerator and the Sydney Start-up Hub.

The Western Aerotropolis was also raised as an important piece of new infrastructure, which requires careful planning to support the development of the AgTech supply chain, including access to export markets.

Examples from other Australian states that were viewed favourably include:

- The Connected & Automated Vehicle Industry Trial Grant funding program recently executed by the Victorian government where industry takes the lead on executing the technology innovation trial project with the government (TAC & VicRoads) providing the contract management and governance role; and
- South Australia is seen as demonstrating good practice with a Premier-led focus on innovation and entrepreneurship. It is regarded as highly visible and accessible to industry, start-ups and universities. The team leading the initiative are focussed on removing barriers, connecting the ecosystem and identifying commercialisation opportunities for the industry. A good example is the \$10m Future Mobility Lab Fund which provides support to projects that drive the development and deployment of connected and autonomous vehicle technologies. The Future Mobility Lab Fund received a strong response with 42 applications worth more than \$26m from the opening round.

### **3. Possible collaboration opportunities with the AICD**

Since our study was published, we have received positive feedback from a wide range of stakeholders including federal and state governments looking to explore ways to engage with the director community and contribute to a lifting of the focus on innovation across Australian businesses, NFPs, and government bodies.

The AICD would be pleased to explore possible collaboration opportunities with the Government, specifically focused on lifting practice in NSW. These could include:

- Initiatives aimed at connecting entrepreneurs and innovators with established members of the director community. For example, a two-way mentoring program could lead to an upskilling of entrepreneurs by experienced directors, and those directors themselves gaining insight into new technologies and business models;
- Developing a scholarships program aimed at helping start-up and scale-ups to develop their governance knowledge. Similar scholarships programs have been successfully delivered with other Australian governments, with the AICD currently piloting a Women Entrepreneurs program with the Commonwealth;
- Events which will bring together the various parts of the innovation ecosystem including executives, directors, government and academia, anchored by global leaders in their field; and
- Targeted roundtables between the Government and directors aimed at exploring the results of the Study, and how Government can help address identified challenges.

At a more principled level, we would encourage the Government to consider the impact of regulation upon the development of a more innovative, R&D-intensive state economy. Consistent member feedback is that excessive government regulation is holding back calculated risk-taking that drives economies. For example, in the AICD's Director Sentiment Index (our twice-yearly member survey) the main reason consistently identified for a risk-averse decision-making culture is as an "excessive focus on compliance over performance" due to federal, state and local government regulation.

#### **4. Next steps**

We hope our comments will be of assistance. If you would like to discuss any aspect further, please contact Christian Gergis, Head of Policy, at [cgergis@aicd.com.au](mailto:cgergis@aicd.com.au). We look forward to continuing the conversation in this critical area of importance to the NSW and Australian economies.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Louise', with a long horizontal flourish extending to the right.

**LOUISE PETSCHLER**  
General Manager, Advocacy