

AUSTRALIA-ISRAEL CHAMBER OF COMMERCE

# INNOVATION INDEX

Q2 2017 Release

## WELCOME

Welcome to the Q2 2017 Innovation Index, in collaboration with Sky Business – our fifth dynamic measure of the Australian business community's attitudes and behaviours in the innovation space. The key indicators in this index are continually updated to reflect the evolution of the concept of innovation. As such, we incorporated three novel indicators this quarter: firstly, to address the challenges that companies face going global; secondly, to assess how long the process of innovation takes in organisations; and thirdly, what types of innovations organisations are creating. The major findings were:

- **Businesses are increasingly focusing on training programs to boost innovation and growth:** when asked 'What does innovation mean for your company in 2017?' the most popular response (with 43%) was implementing training programs to make workplaces more supportive of innovation. There has also been more than a 10 percentage point quarter on quarter increase in the number of executives indicating that training programs are an area of future focus for their businesses innovation plans.
- **Australian businesses are focusing broadly on innovation:** Executives have indicated that their businesses are innovating across product, process and business model innovation. The most popular focus of innovation was business model innovation, with two in five executives indicating that this type of innovation was most important for their business.
- **Three quarters of Australian innovation projects are at least somewhat geared to building international business growth:** three in five executives indicated that their innovation projects were somewhat geared towards building international growth, while sixteen percent of executives indicated that their innovation projects were largely geared towards building international growth.
- **The majority of Australian innovations take less than a year to implement:** Three out of five executives indicated that innovation projects took less than a year to implement within their organisation.

It is a year and half since the Australian government launched the National Innovation and Science Agenda (NISA) and dedicated \$1.1 billion to innovation. However, this month's Global Innovation Index 2017(7) shows that Australia has slipped a further four places to 23rd in the world. Australian businesses are clearly taking steps to embrace innovation. Our index sheds light on the process of innovation that corporate Australia is taking and its approach towards innovation and growth.

Thank you once again to the Australian business community for taking the time to contribute your experiences in this quarterly survey. I invite you to complete our survey for next quarter [here](#).

**Michelle Blum**  
Chief Executive Officer

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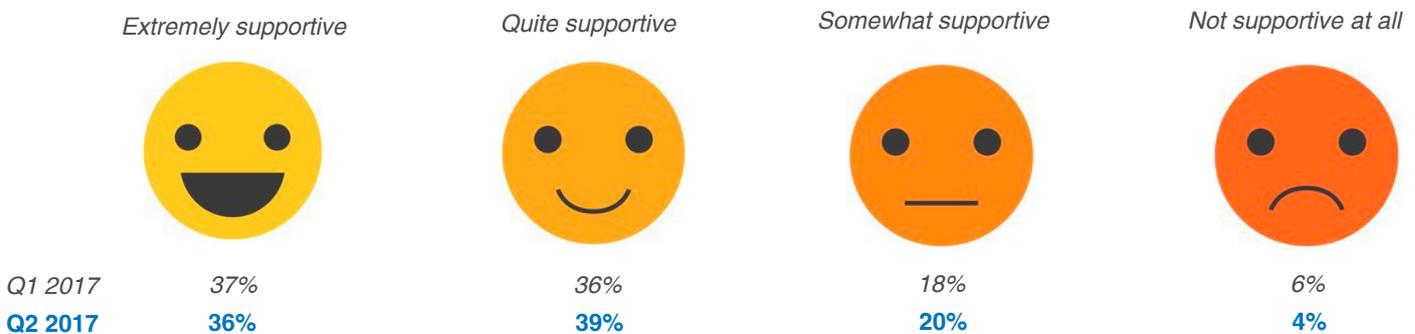
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## INNOVATION AND WORK CULTURE

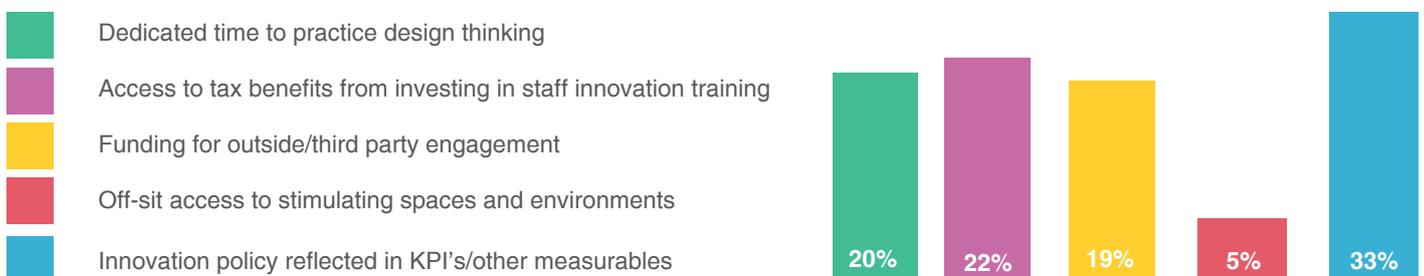
Corporate culture has been identified as the pre-eminent factor in driving innovation that disrupts markets or creates new markets altogether (1). A dynamic business environment, where businesses have the opportunity to rapidly adapt and excel on the global stage, is vital for the continued prosperity of Australia and the success of its 2 million businesses. An innovative culture is one where people are empowered to try things differently and are encouraged to creatively think about the problems they have in front of them. However, executing a global innovation strategy and creating lasting value is a challenging task for any corporation to implement.

### To what extent do you perceive your work environment allows for innovation to flourish?



The survey reveals a slight positive change in workplaces allowing innovation to flourish. Although organizations are generally supportive of innovation, there has been almost no quarter on quarter improvement in the extent to which executives perceive that their environment allows for innovation to flourish. The results this quarter are still a marked decline in results compared with the end of 2016 – currently 76% of employees perceive that their workplace environments are either extremely or quite supportive of allowing innovation to flourish. In contrast, at the end of 2016 this was 96%. There is still a call for action needed to gear attitudes towards a culture of innovation in the workplace.

### What opportunity would provide most value in the workplace for exploring innovation?

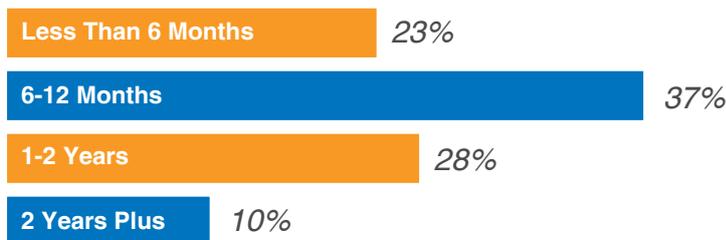


Innovation policy reflected in KPIs/ other measures was seen by executives as the opportunity that would provide most value in the workplace for exploring innovation (33%). This factor has been slowly and steadily increasing quarter on quarter (with a 5% increase on last quarter). Repeatable innovation requires investment, structure and needs to be continuously encouraged, developed, supported, and rewarded. Executives need to be clear about what innovation means in their corporation from the outset and how it will be measured and rewarded.

**How long does it typically take to implement an innovation project in your organisation?**

This quarter we added a measure of speed of innovation to our Index. No one would expect sluggish companies to thrive. Indeed, four out of five CEOs feel that speed to market in product development efforts is a critical business innovation tactic (2). Speed of innovation and agility can pose a major challenge for organisations responding to external change. A high rate of change can be seen in the shortening of product life cycles, increased technological change, increased speed of innovation, and increased speed of diffusion of innovations. These are key challenges for organisations, as the profit generation of new ideas must fit into a slimmer chronological window—thus underlining the great value of being a first-mover.

Finding the correct innovation cycle timeline is a major challenge for organisations – if they take too long, they fall victim to a new competitor disrupting their market. However, rushing to innovate without structure runs the risk of under-delivering on initiatives, coupled with lost momentum.



**TYPES OF INNOVATION**

Innovation is about change, be it radical or incremental. There are several different forms of innovation: Product innovation consists of changes or inventions in product attributes which lead to changes in how the product is noticed by consumers. Process innovation consists of changes in the production process through technological or other efficiencies, but does not necessarily have an impact on the final product. Business model innovation implies changes in the way a product is brought to market, without necessarily implying a change in product.

Our results show that from large corporations, to SMEs, to start-ups and government organisations, Australia’s businesses are embracing a holistic approach across product, process, and business model innovation. This finding is particularly positive as Australian innovation is usually characterised as incremental rather than new-to-world.

**What type of innovation is most important to your business?**



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## START-UPS AND GROWTH

### What are the areas of future growth for your business?

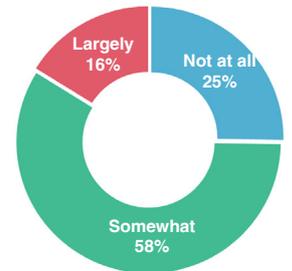
	Q1 2017	Q2 2017
• Customer engagement	50%	<b>55%</b>
• Technology & Innovation	65%	<b>64%</b>
• Products & services	55%	<b>52%</b>
• New markets	47%	<b>45%</b>
• <b>Training programs</b>	21%	<b>34%</b>
• <b>Marketing strategy</b>	37%	<b>52%</b>
• Other	0%	<b>4%</b>

There was more than a 50% increase this quarter in the proportion of executives indicating that 'Training programs' were an area of future growth for their business. This focus on training could be a response to the government changes in the 457 visas and the need to generate skills from within.

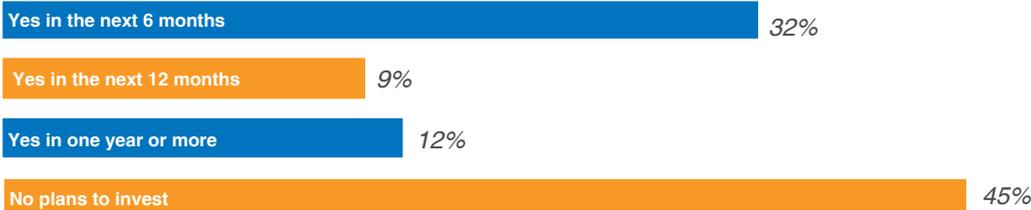
### To what extent are innovation projects in your business geared towards building international business growth?

Recent data has shown that businesses that engage with export markets are more successful (3). Research shows that firms that regularly export are more likely to be 'innovation-active' than domestic-only firms. Foreign investment also often brings access to technology, skills and global value chains that assist firms in their international business development and growth.

Australia performs poorly on high-tech exports, the amount of money we spend buying foreign technologies versus the amount the world pays us for ours, and introducing new products to the market (4). Our Index found that 75% of Australian businesses' are at least somewhat gearing their innovation projects to building international business growth.



### Is your company planning to invest in any start-ups?



Another obvious factor for growth is start-ups. The digital revolution that has transformed the commercial face of innovation is reliant on entrepreneurship and the rise of global-born start-ups. Australian start-ups have an outsized impact on economic growth, they create opportunities for exports, investment and jobs right across the country.

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The executives in this survey have continuously indicated that they plan to invest in start-ups, with more than half of executives this quarter indicating that their company was planning to invest in start-ups.

Partnering with start-ups can breathe life into companies that have not previously focused on innovation. Australia's challenge is growing these start-ups to be the next unicorns through attracting the right funding, scaling internationally and attracting the right talent.

In the context of globalization, it is becoming increasingly easy for businesses to target partners and small start-ups from the world over to boost their growth. In 2016, Israel maintained its position as the country with the highest density of start-ups per capita in the world – with 1,400 new start-ups in a country of eight million people. Indeed, more money was invested in Israeli high-tech start-ups in 2016 than in Silicon Valley start-ups (5). The reality of location not being a factor in finding a best-suited partner for innovation is coming nearer, although it poses many challenges.

## R&D

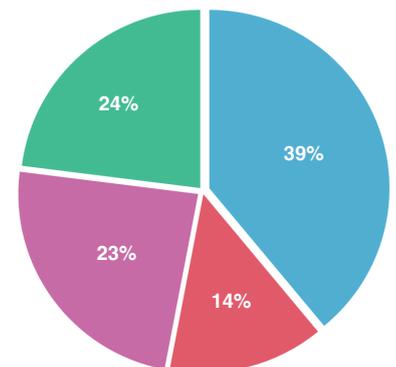
### What does innovation mean for your company in 2017?

	Q1 2017	Q2 2017
• We will invest in internal R&D	40%	42%
• We will look for collaborative R&D partnerships with universities, research centres and others	38%	36%
• We will partner with start-ups to drive innovation in our business	36%	30%
• We will implement training programs to make our workplace more supportive of innovation	28%	43%
• We don't plan on making any changes	10%	11%

This quarter, when asked 'What does innovation mean for your company moving forward?' the largest proportion (43%) of executives answered 'implementing training programs and other incentives to make our workplaces more supportive of innovation'. This factor also showed the largest quarter on quarter change (an increase of 15 percentage points). The current accelerating rate of market change means that skills will potentially lose their value more rapidly in future.

### Which of the following global innovation learnings do you think would benefit Australia most?

- Cohesive collaboration across industry, government and academia
- More available and specific investment opportunities from government
- Focus on innovation (e.g. coding) as part of early education
- Tax benefit from internal investment



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Collaboration fosters innovation, and a regular exchange of knowledge is crucial in order for ground-breaking ideas to be created and commercialised. Indeed, collaboration with research organisations such as the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and universities has been found to more than triple the likelihood of businesses reporting annual productivity growth (6).

## JOBS

Technology is transforming the economies of the world and existing jobs are set to change as a result of automation, innovation and increased digitisation. Innovation is ubiquitous across industries, but it will mean something different in each company and industry.

### How do you anticipate innovation affecting jobs in your organisation?

	Q1 2017	Q2 2017
• Innovation, including new technology will reduce the need for some staff	25%	20%
• Innovation will generate jobs	40%	50%
• Innovation will enhance our business and won't affect jobs	20%	26%
• No direct effect on jobs in our business, but we will invest in start-ups	14%	4%

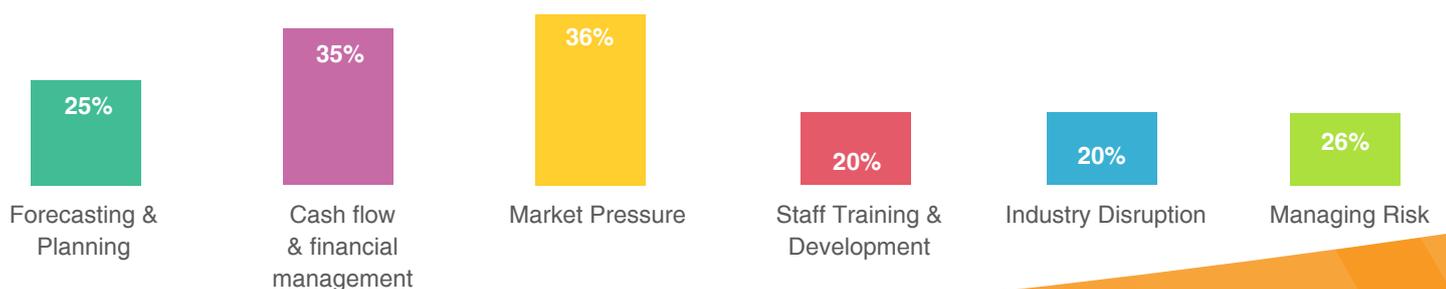
Executives this quarter showed increased optimism towards jobs with 50% indicating that they thought innovation would generate new jobs.

## CHALLENGES

Market pressure remains the top factor that executives find most challenging in growing their businesses. This quarter, managing risk, and cash flow & financial management overtook forecasting and planning, and industry disruption as the second and third factors.

As companies increasingly recognise failure to innovate as a major risk, it is clear that executives see the need to prepare for some serious adjustments to survive the innovation revolution. We can expect to see companies strive to implement innovation internally, while also keeping up with the innovations of competitors and disruptors. Business need to meet customers' needs by continually innovating in order to stay ahead of the competition.

### Within your business, which factors are the most challenging in growing your business?



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## FURTHER INFORMATION

For further details on the innovation index and our survey results, please contact Michelle Blum, Chief Executive Officer at the Australia-Israel Chamber of Commerce at [michelle@aicc.org.au](mailto:michelle@aicc.org.au) or (02) 9326 1700.

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