

Finance

INNOVATION THE KEY TO SURVIVAL

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506 mots

11 octobre 2011

The Australian

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Competition, not protection, generates manufacturing ideas

ANDREW Liveris, the Australian-born chief executive of US multinational Dow Chemical, and co-chairman of US President Barack Obama's manufacturing advisory committee, told The Australian last week: "Manufacturing is a natural for Australia based on innovation."

This echoes views put by Minister for Innovation, Industry, Science and Research Kim Carr. On his website, Carr says: "The innovation portfolio is committed to creating high-wage, high-skill jobs by transforming existing industries and establishing new ones."

There are many theories, models and hypotheses about innovation. They go back at least to Adam Smith's view, in 1776, that increased productivity is associated with specialisation and the division of labour, implying technological advances in business processes and organisation.

Alfred Marshall, in 1890, saw innovation arising out of economies associated with specialist suppliers of goods and services, giving rise to agglomerations of businesses in particular locations. This idea has been the foundation of most subsequent thinking, leading to "regional innovation systems", "learning regions" and a "triple helix" of interacting players (enterprises, universities and governments).

In this mix are the Depression-inspired ideas of Joseph **Schumpeter**, who saw that innovation came in waves as a result of actions by entrepreneurs drawing on accumulated scientific advances when the time was right.

Some modern theories emphasise entrepreneurship, others unique resources, and others interactions among a variety of players. Some have seen research and development as the heart of the process of innovation. Others have emphasised different competitive conditions facing firms in different markets.

The Australian Bureau of Statistics' 2003 Innovation Survey aimed to measure many variables associated with these theories. Using ABS data, it's possible to identify six characteristics of innovating Australian firms.

In descending order of importance, they are: sensitivity to a large range of business drivers, seeking a range of skills, acquiring knowledge from a range of sources, seeking ideas from a range of sources, being collaborative in a number of ways, and adopting new corporate strategies, techniques and structures.

Business innovation is not particularly dependent on interaction with Australian universities, to mention one view that has sometimes been popular in Australian thinking.

After further modelling analysis, the evidence shows that innovative businesses in Australia are more responsive to the various demands of their business environment, more skill, knowledge and ideas-intensive; more collaborative, and more likely to be developing strategies.

In summary, business innovation in Australia is mostly about the character of each business. It is essentially driven by entrepreneurship.

Innovation by Australian businesses can be regarded as mainly a response to competitive pressures.

Business protection is the enemy of business innovation. Steve Jobs was technologically gifted but his innovativeness came essentially from his entrepreneurial magic in the face of competition.

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