



October 2006 Services & Innovation

ASR is conducting a series of informal monthly discussions across the services sector to try to identify the factors that drive innovation in the services industries. This Newsletter is designed to highlight views expressed and comments made at those discussions.

Notes from September meeting by Don Scott-Kemmis, Australian National University

The issue of services and innovation is complex – because both innovation and services are very broad concepts encompassing a great deal of diversity.

The factors driving innovation in the services industries have been attracting increasing attention and have been the focus of a good deal of research, but only over the last 10 years. Such research has addressed the issue of

the role of services in innovation (in any sector), and the nature of innovation (of any type) in services sectors.

While the very high level of diversity in the services sector cautions against generalization it is clear that innovation in many service sectors involves

(1) a high level of interaction between knowledge providers (eg research organizations) and knowledge users (eg service firms) – to the extent that the term co-innovation is used to emphasise the extent of interdependence.

(2) It is also the case that in many sectors R&D is not so much a specialized activity located in separate parts of a firm but is tangled up with everyday creativity and design. In fact R&D, and particularly R, may be a small part of the process of innovation in services, and hence this shorthand is actually quite misleading for an activity that encompasses research, knowledge acquisition, collaboration, development, system integration, design, prototyping, feedback, redesign, adaptation etc.

(3) It is also clear that there is often a strong complementarity between technological and non-technological innovation and between different types of innovation (product, process, organization, business model)

There is clear evidence of deep change in knowledge generation, knowledge application and production and in consumption/lifestyle. It is important for policy not to assess change in these realms in isolation. With increasing international competition and opportunity, and the far reaching impact of ICT, the extent of outsourcing and offshoring is increasing.

A driver and an outcome of these changes is that firms are becoming more specialized, and a consequence of that is that the role of collaboration in all activities of firms (product/service design and development, production, administration, marketing/distribution, after sales service, and product re-design) is becoming more important. In the Australian context we see many examples of firms increasing



their activity at both ends of this spectrum.

In many economies, including Australia, an important and growing sector is that of firms termed Knowledge Intensive Business Service providers, which includes firms providing software services, product design services, business consulting etc.

Services now account for almost 80% of Australian GDP. Services sector R&D accounts for a growing share of BERD and of innovation expenditure by industrial firms.[Services R&D accounts for over 40% of business enterprise R&D in the US, and probably a higher proportion in Australia.]

Hence, services innovation will have a key role in shaping Australia's position in the global division of labour and hence Australian prosperity. The appropriateness of our education, innovation and research policies for a knowledge based and increasingly service focused economy has not been adequately assessed.

One challenge is the lack of forward looking leadership in the innovation system. While government has been reluctant to play an active facilitation role the sectoral, geographical and ownership dispersion of industrial activity means that there are weak signals shaping investment in knowledge and research."

R&D as defined in relation to the 125% Tax

Concession

Contributed by Karen
Stein, Deloitte Touche
Tohmatsu

"• Section 73B (1) Income Tax Assessment Act 1936 (ITAA 1936) states that "Research and development activities" means:

(core activities)

(a) systematic, investigative and experimental activities that involve innovation or high levels of technical risk and are carried on for the purpose of:

(i) acquiring new knowledge (whether or not that knowledge will have a specific practical application); or

(ii) creating new or improved materials, products, devices, processes or services; or

(supporting activities)
(b) other activities that are carried on for a purpose directly related to the carrying on of activities of the kind referred to in para (a)

• Section 73B (2B) of the ITAA 1936 – describes innovation and high levels of technical risk

2nd Luncheon Discussion on R & D in the services sector

Wednesday 25 October

hosted by
the Australia Council
372 Elizabeth St
Surry Hills, SYDNEY

12.15 for 12.30 to 2pm

rsvp 0404 831159



73B (2B) (a) “activities are not taken to involve “innovation” unless they involve an appreciable element of novelty. At the time the activity commences, the knowledge either does not yet exist or, if it does, it is not available to the company on acceptable commercial terms. The element of novelty must be meaningful or significant in the context of the activities, and there must be some development of technology or a new use of existing technology.

- Section 73B (2B) (b) of the ITAA 1936 – activities are not taken to involve high levels of technical risk unless:

(i) the probability of obtaining the technical or scientific outcome of the activities cannot be known or determined in advance on the basis of current knowledge or experience; &

(ii) the uncertainty of obtaining the outcome can be removed only through a program of systematic, investigative and experimental activities in which scientific method has been applied, in a systematic progression of work (based

on principles of physical, biological, chemical, medical, engineering or computer sciences) from hypothesis to experiment, observation and evaluation, followed by logical conclusions.”

New ASR Members

JAS-ANZ

Grey and Perkins Lawyers

Moulis Legal

What are “Services” Contribution from the Executive Director

The Services sector is composed of a very broad range of activities, all of which tend to be intangible and difficult to measure. The official statistics define the services sector negatively – as all ‘residual’ economic activity other than mining, manufacturing, agriculture, forestry and fishing ie all activity that does not produce a ‘thing’.

This ‘residual’ approach does not stack up against the reality that the services sector accounts for more

than three quarters of Australian economic activity! Nor does defining services as what they are not, help anyone to understand what they are.

Confusingly, many services activities do result in incidental production of a ‘thing’ eg a restaurant ‘meal’ or an Aussie ‘movie’. And significant services sector activities are embedded in every goods-producing industry. Clearly we need to promote a more positive definition of services if we are to succeed in focussing policy attention directly on services activities in their own right. This will be critical if we are to make progress in identifying the drivers of competition and innovation specifically in the services industries.

One possible definition is

“services deliver help, utility or care; an experience, information or other intellectual content – and the majority of the value of that activity is intangible rather than residing in any physical product.”

(The Australian Service Sector Review 2000, prepared by the Allen Consulting Group)