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I am delighted to have been asked to speak to you today. Our subject this afternoon is close to my heart. I am convinced that institutionalising a culture of innovation in our companies, public service, non-profits indeed across all aspects of the State is central to the future prosperity of our State and to the wellbeing of all of us fortunate enough to live here.

Today I want to cover 4 points:

First, I will discuss the question “What is innovation?”

Second, I will share some South Australian examples of Innovation

Third, I will describe from my experience four approaches to innovation that I have seen work

And fourth, summarize the urgency for innovation in South Australia

I want the take away from today to be that all organizations can be innovative but it takes a disciplined approach, hard work, a willingness to fail but never to be defeated. A collective shift starts with a change of attitude and consciousness at the individual level.

“What is innovation?”

It’s probably easiest to nail down a definition by saying what it isn’t as well as what it is.

Innovation is not invention whether based on ideas or scientific research. Innovation is the commercialization of the invention or the bringing of invention into use.

Although many innovations are created from inventions, it is possible to innovate without inventing, and to invent without innovating.

‘Innovation’ is not ‘creativity’. Peter Drucker said *Innovation is the specific instrument of entrepreneurship... the act that endows resources with a new capacity to create wealth.*

I think this statement is important to remember because innovation is often misunderstood as creativity. Innovation isn’t about creating new things. It is about identifying a lack or for a better word, opportunity and using practical steps and resources to make the most of opportunity and fulfil a lack.

Innovation is not just new products, services or ideas – what is the innovation in starting a car by pushing a button rather than by turning a key when you need the key in your pocket anyway?

Innovation is not necessarily a radical departure from the past.

I say innovation is the application of new ideas to solve previously insoluble problems in order to meet unaddressed – and sometimes unrecognised – demands. It is the introduction of new products, services and processes – often a combination of all of these, to deliver benefits not realised before. Benefits that matter, create value and for which people are willing to pay.

Innovation can take many forms:

- ▲ It can be an Innovative *offering* like the Nintendo Wii – giving us family-friendly gaming with a motion sensing controller that brought gaming “for the rest of us”.
- ▲ It can be a *delivery mechanism* like Salesforce.com which delivers application software in a new way, resulting in dramatic reduction in deployment time, costs, and up-front capital investments.
- ▲ It can be a new *process* such as the way Tata distributes its Nano car by shipping “kits” to local entrepreneurs resulting in lower distribution costs and decentralized service expertise.
- ▲ It can be an innovative *pricing mechanism* such as the way Casas Bahia in Brazil prices appliances and consumer durables based on ability of urban lower-income customers capacity to pay on a monthly instalment basis.

In my opinion the hardest and most important attribute to being innovative is spotting and articulating the problem which when solved will make the biggest difference to your ability to be successful. Innovations solve real problems and the impact of the innovation is measurable.

I would suggest that innovation has four components or stages:

1. Identifying the problem
2. Coming up with new ideas, processes, inventions to address the problem
3. Institutionalising the innovation, that is making it the natural way you go about doing your everyday business; and
4. Commercialisation – measuring the financial benefit to you and your customers

What of South Australia? If you caught my address to CEDA last August, you heard me talk of South Australia’s DNA. I said that part of our DNA is designing very practical approaches to seemingly insurmountable problems. That just as our forefathers invented the stump-jump plough and the Ridley stripper, which enabled agriculture to sustain the state, this practical approach to innovation is now reflected in emerging fields of value-creation like technology, bioscience, advanced manufacturing and the clean-tech industries.

Let me give you a some examples. First I want to acknowledge my fellow panellist, Donald McGurk, CEO of Codan. You can hear direct from him how Codan does innovation.

Meanwhile, I want to talk about two other companies, both headquartered right here in Adelaide that use technological innovation to carve out markets in Australia and internationally.

Living in the driest state of the driest continent on the planet has given South Australians global environmental leadership in water management. Osmoflo, the largest Australian-owned reverse osmosis desalination and water recycling company, is a great example. They collaborate with commercial partners and universities, driving continuous research, development and innovation, to keep them at the technological leading edge of their industry. They apply technological innovation to business processes and to engineering solutions, for example, to monitor water treatment plants anywhere in the world from a remote 24-hour control centre. And to design and deliver the world's first fully mobile desalination plant, for a coal seam gas operator. Their resulting success speaks for itself, with over 320 water management projects delivered worldwide and a compound annual growth rate of 27% over the last 12 years. This, from a company that started life in 1991 as a designer and fabricator of medical equipment. They are a great example of the potential that comes from not focusing on what you "do" but on what you are good at - your core competencies and applying those core competencies to develop new product offerings.

Another child of South Australia's climate, combined with a big dose of technological innovation, is air conditioning and heating manufacturer, Seeley International. Founded in a garage in 1972, it is now a world-leader in climate control systems, exporting to more than 100 countries. Seeley is leading by example when it comes to innovation and automation, and is reaping the rewards. The company has recently launched two world firsts in energy efficient heating, including the first six star ducted gas heater. Its revolutionary, ultra-energy-efficient air conditioner, Climate Wizard, is now going global, and the company is gearing up to launch a ground-breaking new industrial cooler, Braemar EnviroMagic. Seeley International makes a significant commitment to research & development in order to continue innovating and developing new products. Seeley holds more than 300 patents.

So I can confidently say that we in South Australia know how to do innovation. Because, we have done it historically, and we are doing it now.

I can say another thing with equal confidence.

Where we are now, what we do now, isn't enough. We can't stand still. If we do, we will be overtaken. We live in a more and more competitive globalised world. A world in which technological advance is becoming ubiquitous. Where low cost developing economies are advancing rapidly up the technological ladder. Our ability to maintain and increase our enviable prosperity depends on staying ahead of the game, on adding more value in our economic activity, on continuously driving up productivity.

We should all be seriously concerned that Australia's productivity growth has slowed substantially over the last decade. Because in the long term, the only way we can secure higher living standards is through productivity growth. There are a number of measures for productivity. But by any measure, Australia's performance in the last decade was abysmal. For example, productivity growth in Australia is running at less than of the European manufacturing belt. And our labour productivity declined from just under 92 per cent of the US equivalent in 1998 to just over 84 per cent in 2010 – a decline of 7 percentage points while unit labour costs in the US and European manufacturing belt declined by 1% per annum Australia's increased by 2% per annum.

It's not my business to tell you how to run yours. But I will share some approaches that worked in my business to foster innovation.

In Kanbay and Capgemini as we worked with our clients we identified a number of recurring barriers to innovation. These included:

- ▲ Lack of an innovation culture within the organisation
- ▲ Lack of alignment especially between marketing and R&D initiatives
- ▲ Inadequate collaboration both internally and with customers to solve problems that really matter
- ▲ Funding priorities were not focused on innovation areas
- ▲ Ineffective Product or Solution Lifecycle Management
- ▲ Difficulty getting manufacturing and purchasing to play stronger roles in innovation programs

So what are some approaches that work to enable innovation in organisations? While I could talk for hours on this I want to touch lightly on four that I believe are essential. And I can assure you much of this is not my original thinking but the insights gained from listening to and working with my colleagues, consultants and clients.

1. Build a culture that values innovation

The corporate culture is the total milieu within which we bring success to our clients, our associates and our shareholders.

I use the metaphor of a tree to describe the organization's culture.

The roots of the tree represent the Values and beliefs. Like the roots of a tree, they are hidden and not visible. The branches, leaves, flowers, fruits represent behaviour or actions, which are visible.

As both what is above the ground and what is below are very important for the health of a tree, so is the alignment of values and actions for the cultural strength of an organization.

By putting the focus of governance on building a living corporate culture rather than on rules, regulations or structure you are shifting the burden of responsibility to every associate and emphasizing what all the people can do to proactively support the innovative well being of the organization.

In Kanbay we had seven core values. They represent the highest expression of what we consider as “most valuable”. By way of example one of the values is:

- ▲ *We value an ownership mentality that encourages innovation and risk-taking.*

Each of our seven values are translated into desirable behaviours and actions which we call **success habits**. We have success habits in three areas:

First, **organization practices** - these are what any associate in the organization can expect or count on from the organisation. For this value an associate should expect that the Kanbay would

- ▲ Implement processes to support entrepreneurship, and
- ▲ Structure a reward system to encourage innovation – such as stock ownership or options programs

Second are the **Individual success habits** - practices and disciplines which help make an individual successful in the organisation. An example of a behaviour we expect from each individual for this value is:

- ▲ Be proactive at recommending better ways of working
- ▲ Be receptive to others ideas and inputs
- ▲ Present solutions don't just raise issues

And third, **Taboos** – the actions and behaviours that are considered poisonous to the culture. Taboos in this area include:

- ▲ Putting people down for failing
- ▲ Holding back on potential breakthroughs to protect one's own safe haven

All structures, systems, processes and infrastructure are aligned to reflect the values. Within Kanbay, **culture** consistently ranked as the number one reason people wanted to stay with the company.

2. Create diverse teams that are unholy alliances of talented and empowered people

In thinking about innovation, the fashion industry is often used as a model. Every successful fashion company essentially reinvents its product line every season. Fashion companies have refined a way of operating that fosters innovation year in year out.

In a Harvard Business Review study of the industry they saw that at the top of virtually every fashion brand is a distinctive kind of partnership. I quote “One partner, usually called the creative director, is an imaginative, right-brain individual who spins out new ideas every day and seems able to channel the future wants and needs of the company’s target customers. The other partner, the brand manager or brand CEO, is invariably left-brain and adept at business, someone comfortable with decisions based on hard-nosed analysis. In keeping with this right-brain–left-brain shorthand, we refer to such companies as “both-brain.”

But in thinking about this, this idea of creating unholy alliances within teams has been at the foundation of many companies that we label “innovative.” Hewlett was the ideas guy, Packard focused on the business; Bill Bowerman was the coach who had the domain and technical knowledge to design the shoes and Phil Knight was the commercial and operations driver at Nike; and of course Steve Jobs was the ruthless creative at Apple and Tim Cook drove profitability – I wonder how they will replace the Jobs dynamic now Cook is running the business.

I found at Kanbay that creating diverse teams of people through-out the organisation, teams that crossed the various organisational divisions, people who are incentivised to work together, was critical for not only coming up with new ideas and approaches but in being able to implement and commercialise them.

3. Structure for innovation

The old paradigms for innovation will not work today. The McKinsey Innovation Report in 2007 states ***“In the past, it seems that innovation was handled by the research folks, and it was a gigantic black box... This was a recipe for failure”***

There are really smart people through out every organisation and many more ideas and smart people outside your firm than you can ever hope to hire. There is a tremendous amount of knowledge and expertise among your customers and partners waiting to be harnessed. Using social networking tools and other technology can harness the power of networks and communities to amplify innovation reach, accelerate innovation speed, and improve the quality of innovation outcomes.

Netflix, the online movie distributor, offered a \$1m prize for anyone who could show how to get a 10% improvement in the accuracy of predictions about movie recommendations. Netflix received over 44,000 valid submissions from over 5,000 different teams from 186 different countries. A team from ATT called Bell-K won the prize and shared the money. And Netflix got all the other innovations that didn’t win as well.

With the pressure on budgets it is important to focus and prioritize innovation initiatives. Choices have to be made based on priority channels and customers.

The creation of an innovation board made up of people with P&L responsibility - people who have the power to make decisions and benefit from them can be a

helpful tool.

4. Execute for Innovation

Think big, start small, scale fast. Rapid, dirty and cheap pilots are key to speed.

Break down projects into manageable chunks. No project at Cisco is more than 90 days in duration.

Avoid “percentage people”. Dedicated personnel are the only way to get focus and speed around innovations.

Make executives accountable for progress.

Manage the cost of failure. The objective is to manage the *business risk* while testing key assumptions.

Lastly, Fortunately we in South Australia have both a solid platform from which to build our growth and a huge opportunity to innovate.

The platform is there:

- ▲ Our 175 year history has given South Australians a DNA or set of qualities that are vital for responding to this very unique time in our history;
- ▲ South Australia has a broad-based economy and is the home to some of the world’s leading companies in the sectors of agriculture, food and wine, defence, resources, information and communications technology, bio-tech and automotive;
- ▲ We have a skilled workforce, world-class research, education and health institutions;
- ▲ We have a pristine environment and, in Adelaide, one of the world’s most liveable cities.

And the opportunity!

Since I addressed CEDA last year, there has been a watershed moment: the signing of the Olympic Dam indenture agreement in October, and its ratification by the South Australian Parliament.

And it is just one of 30 mining projects in development adding to 19 in production and under construction which has resulted in extraordinary growth in the state’s mineral and energy sectors; a veritable mining super cycle.

So we are at a turning point – and there is huge opportunity that we can seize.

The real opportunity is use the growth of our natural resources sector and the strength of our agricultural sector to drive the wider economy forward by adding value add industries.

For businesses to find new markets and grow we need to:

- ▲ Capitalise on the opportunity to use mining as the platform to capture, in South Australia, the support and service demands of the mining expansion and to drive SA businesses up the value chain, building knowledge-intensive, high-value adding service, technology and manufacturing industries.
- ▲ To build industry clusters on the back of that demand. Industries capable of exploiting opportunities in mining, agriculture, clean-tech, defence and others, in South Australia, interstate and overseas;

I am delighted that Professor Göran Roos has decided to move to Adelaide and change his role from “Thinker in Residence” to “Doer in Residence.” We are very fortunate to have Göran provide leadership in this area.

I believe this decade will be viewed by future generations looking back as the most transformative decade in the State’s history. Our State’s transformation can be left to chance – and who knows maybe we will get lucky and prosperity will thrive, or worse, we may become a case study in “Lost Opportunity.”

Alternatively, we can make a choice to seize this very unique and enviable moment, by working together to make South Australia a magnet for people, capital and innovation in order to increase opportunity and prosperity for all the people of the State. And do it in an inclusive and sustainable fashion that preserves the environment and maintains the liveability that we all treasure.

Therein lies the opportunity for everyone in this room and for the businesses and organisations that you represent. Carpe Diem – Seize the Moment. Or as Mahatma Gandhi put it “The future depends on what you do today. Live as if you were to die tomorrow. Learn as if you were to live forever.” Perhaps we could paraphrase that to “Live as if you were to die tomorrow, work together, learn and innovate as if you were to live forever.”

I challenge you:

- ▲ To build innovation into your business development plans;
- ▲ To partner with other businesses, with universities, research organisations, anyone that can help build your innovation capabilities to bring on new products, services, processes.;
- ▲ To engage in the community especially with your local schools to encourage the development of skills in our young people;
- ▲ To recognise the business benefits of building inclusiveness and diversity in your workforce.

The opportunities are here: it is for you to seize them.

