



# Innovation for the 98%

Established government policies, such as the R&D tax incentive, support traditional channels for new-to-the-world innovation. However, most businesses do not operate at the technological frontier. Government policy needs to place more emphasis on the 98% of businesses that benefit from diffusion. Supporting the **diffusion of existing good ideas and effective business models** will increase economy wide productivity. Currently, the World Intellectual Property Organisation ranks Australia at 78th in the world in knowledge diffusion and 52nd in knowledge absorption.



Diffusion of innovation in government services can also lead to large productivity improvements. Government spending was about \$880 billion in 2020-21, or 42% of GDP, so even **incremental adoption of best practice in government services can lead to significant service quality improvements and cost savings**. Innovative approaches in service delivery, policy and system design are already evident throughout the public sector, though innovation is often slow, piecemeal, disorganised and inconsistent across jurisdictions. Improving the efficacy of government spending and achieving diffusion of better processes and approaches in government services could lead to major productivity gains and yield better citizen outcomes in areas such as health, education, infrastructure provision, community services and the criminal justice system.

## Recommendations

Governments can support innovation diffusion to the 98% of businesses not at the frontier by:

- Improving the **skilled migration** program — skilled migrants bring knowledge about frontier technologies and practices developed overseas into Australian businesses (Volume 7).
- Reducing barriers to **trade and foreign direct investment** — overseas linkages via trade and foreign direct investment give Australian businesses access to information and ideas about innovation from the global frontier, while also bringing expertise and good management practices (Volume 3).
- Using **government agencies' data** collected from businesses (e.g. data collected by ABS, ATO and ABARES) to help benchmark business performance and exploring opportunities for other government held data to be used in benchmarking (e.g. APRA and ASIC data for financial services and ACCC data for various consumer products) (recommendation 5.5).
- Better leveraging the **university sector** by making industry and researcher linkage programs more industry agnostic to encourage diffusion in services sectors (recommendation 5.2), and facilitating lower barriers for academics to consult with both the public and private sectors (recommendation 5.4).
- Implementing changes that improve the information flows to businesses such as by:
  - (i) **partnering with intermediaries** when implementing programs to support diffusion (e.g. industry associations and other advisory or network bodies) (recommendation 5.3);
  - (ii) trialling government funded **extension services** tailored by sector;
  - (iii) requiring **open access for government funded research** in journals, papers and publications.

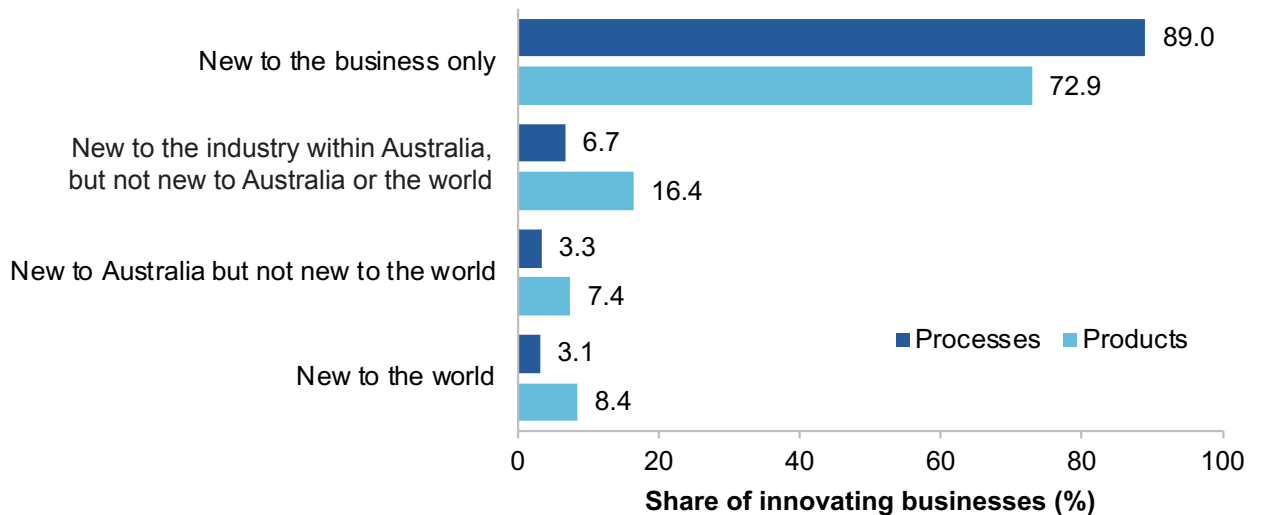
To improve **innovation diffusion in the public sector**, governments can:

- Use **health and human services funding arrangements** to encourage adoption of best practice by:
  - regularly updating the Medicare Benefits Schedule to reflect effective treatments via rolling annual reviews undertaken by the Medical Services Advisory Committee (focusing on treatments where emerging evidence or clinician feedback questions their efficacy or cost effectiveness).
  - having longer contract lengths for government-funded services delivered by community organisations, with default lengths of 5 to 7 years depending on the type of service.
  - taking a person-centred approach to service delivery, such as in healthcare, by accelerating and scaling up long-term co-operative funding mechanisms that align the incentives of primary and hospital providers to avoid costly hospital admissions and support integrated care, and in other human services including housing assistance, end-of-life care and public dental services (recommendation 5.6).
- Use **alliance contracting or collaborative contracting** for major infrastructure projects and build incentives into contracts for achieving certain targets or standards (recommendation 5.7).
- Make better use of **cost-benefit analysis (CBA) for decisions about major infrastructure projects** (and other government spending such as defence and social services). This could include independent evaluation of CBA assumptions and inputs (e.g. by the proposed Evaluator General); transparency around the CBA analysis; and government accountability for how CBA outcomes are used in project selection (recommendation 5.8).
- Collect and use **data on service outcomes** and provider performance to benchmark government service delivery and diffuse best practice (recommendation 5.9).
- Loosen security and citizenship requirements and reduce overly bureaucratic processes to recruit more **public sector workers from overseas** to bring in global best practice (recommendation 5.10).
- Expand or strengthen the role of existing **diffusion bodies**, such as the Australian Commission on Safety and Quality in Health Care, CSIRO and Australian National Audit Office, and trial innovation funds in selected public services where there is no existing body for diffusing best practice, such as in mental health service delivery (recommendation 5.11).
- Support greater use of **productivity-enhancing regtech** by providing regulation in forms that lend themselves to regtech solutions (e.g. coding regulatory rules into machine-interpretable documents) and working with software providers to improve foundational regulatory settings (recommendation 5.12).
- Promote no-cost or low-cost access to ideas that have large public good value such as by (i) making mandatory **standards freely available**; (ii) requiring **open access to research** principally funded by governments; and (iii) reforming fair use provisions in intellectual property regulations to adopt a **principles-based fair use exception** (recommendation 5.13).

**Key figures on next page**

# Key figures

Most product and process innovations adopted by Australian businesses are not new to the world (in 2 years ending June 2021). Diffusion is where most of the innovation action is. (Volume 5, p. 7)



Innovative ideas mostly come from within businesses or from clients and customers (2019-2021). (Volume 5, p. 43)

