

# NAB Special Report:

## A Survey of Business Innovation in Australia: Key Findings

by NAB Group Economics

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Innovation is a key driver of business success and a differentiator of high growth-potential segments of the economy. This survey explores business attitudes towards innovation and opportunities. It also examines whether “highly innovative” firms outperform and the key drivers and motivations to innovate.

### Key Findings

#### Perceptions

- Australian business does not believe that we are a highly innovative nation. Just 13% of all firms rate Australia as “highly innovative” (and only 6% of very large firms).
- But, there is no shortage of firms (more than 1 in 4) across all sizes of business that identify themselves as “highly innovative”.
- Highly innovative firms can be found across all sectors of the economy - including some more “mature” industries such as Manufacturing and Retail (and in both very big and small firms).
- This raises the possibility that business may be underestimating the true level of innovation in Australia.

#### Performance

- Importantly, those firms that identify as “highly innovative” are also stronger performers both in terms of business conditions and their level of confidence. This is true in most industries.
- Out-performance is reflected in all components of the business conditions index - trading performance, profitability and employment conditions.

#### Opportunities

- Innovative firms are typically more optimistic about Australia’s future economic growth in the short & medium-term (except very big business).
- Most “highly innovative” firms (particularly very big business) believe the key opportunities for Australia are linked to Asia, both in terms of increased trade & the growing middle classes.

#### Motivation & Culture

- The primary motivation to innovate is to drive growth and revenues (particularly among ASX300). Innovation is typically defined by a firms’ knowledge of their markets and customers, constant process reviews, learning from failures and passion and drive.

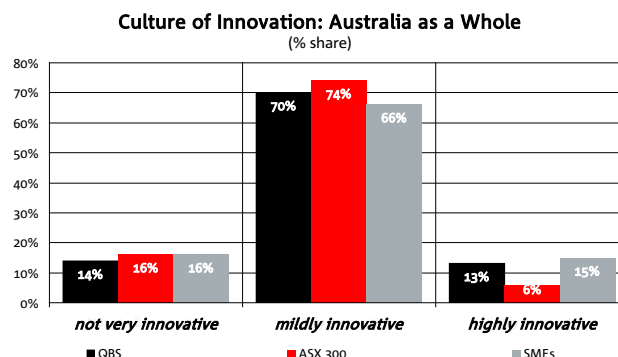
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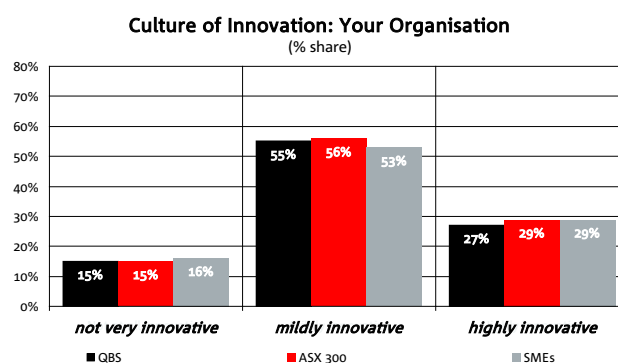
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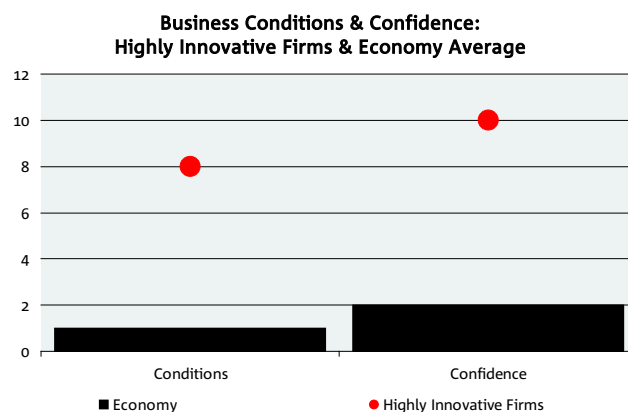
### Australia is not viewed as particularly innovative...



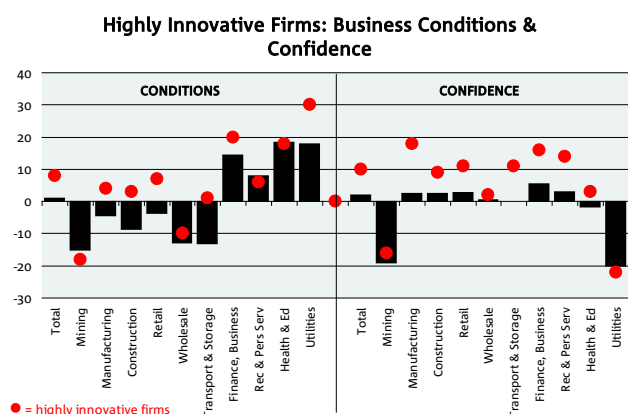
### ...but more firms identify as “highly innovative”



### Highly innovative firms significantly out-perform...



### ...and across most industries



● = highly innovative firms

# PERCEPTIONS

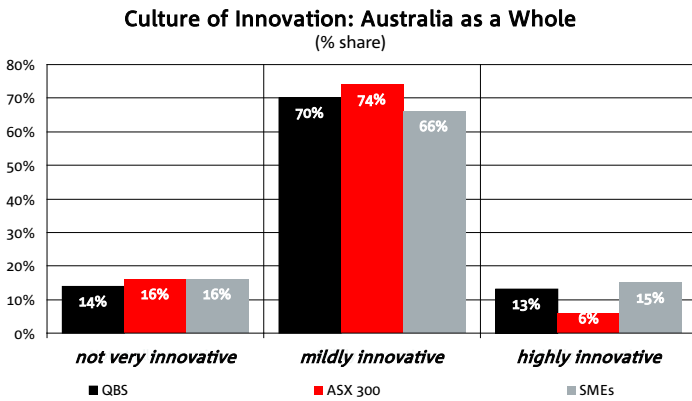
## How does business view innovation both in Australia and in their own business?

**Chart 1:** Australian business does not view the culture of innovation in Australia favourably, particularly very big business.

Just 1 in 17 very big firms rate the culture of innovation in Australia highly.

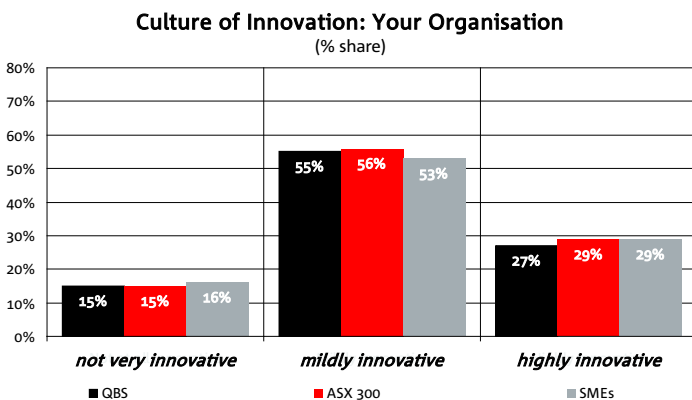
Around 70% of firms believe Australia has a “mildly” innovative culture of innovation.

Only 6% of very large firms rate Australia “highly” innovative, compared to 15% of SMEs and 13% across the broader economy.



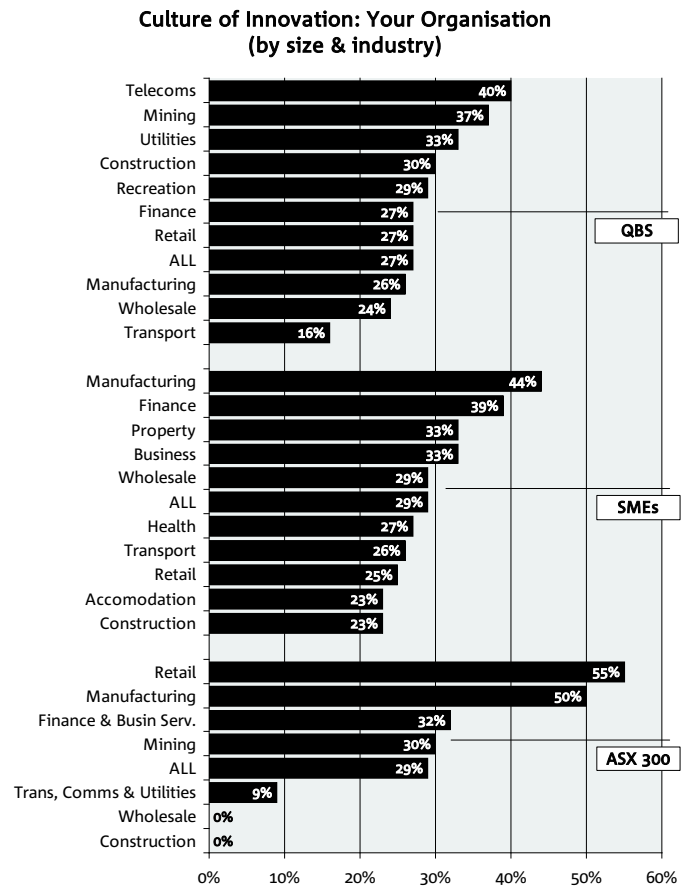
**Chart 2:** But, more than 1 in 4 Australian firms rate themselves as highly innovative.

By business size, 29% of very large firms (ASX 300) and 29% of small and medium-enterprises (SMEs) rated their organisation as “highly” innovative.



**Chart 3:** Highly innovative firms are in all sectors of the economy and in very big & small firms.

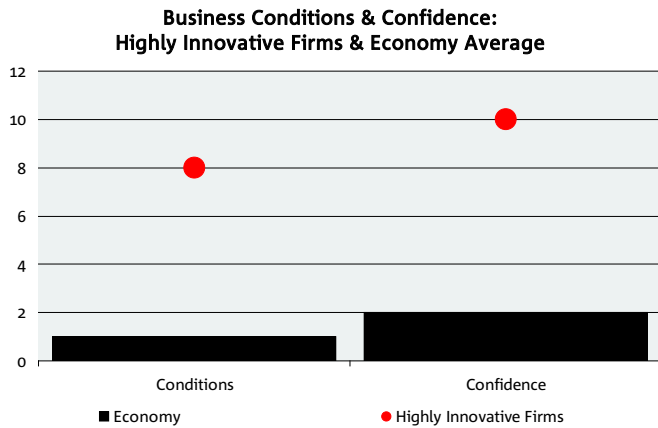
Some industries facing heightened competition (such as Manufacturing and Retail) also report very high levels of innovation (both SMEs and big business).



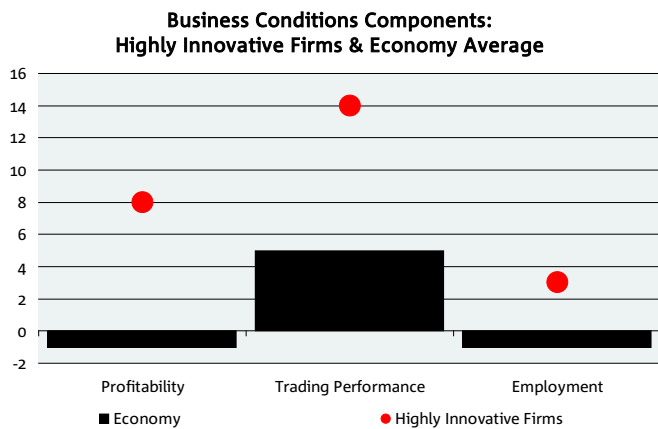
## PERFORMANCE

### Do “highly innovative” firms out-perform?

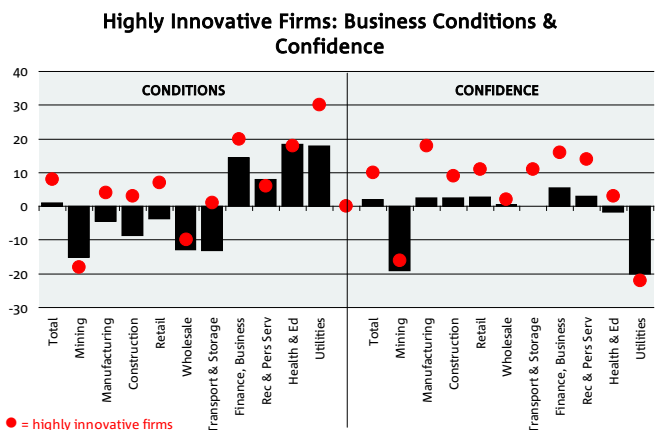
**Chart 4:** Being highly innovative has a strong positive impact on the business performance of highly innovative firms. In Q1 2015, both business conditions and confidence were much stronger in highly innovative firms than the broader economy.



**Chart 5:** This out-performance of highly innovative firms is also reflected in all sub-components of the business conditions index - trading performance, profitability and employment conditions.



**Chart 6:** Business conditions and confidence were also typically stronger in highly innovative firms across most industries.

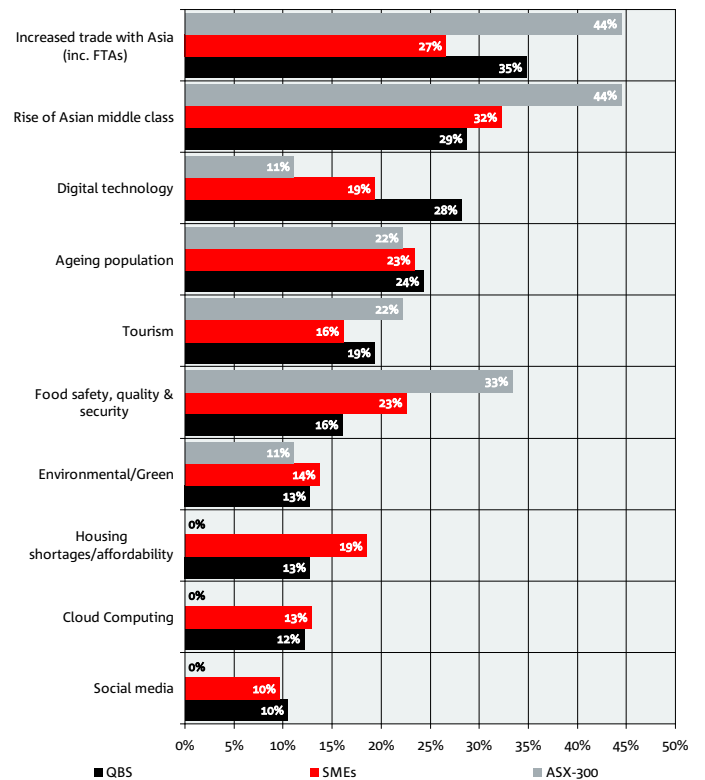


## OPPORTUNITIES

### Where do “highly innovative” firms see Australia’s future opportunities & growth?

**Chart 7:** Most highly innovative firms believe the key opportunities for Australia are linked to Asia, both in terms of trade and growing middle class. Digital technology, ageing population and tourism also feature. SMEs see a broader range of opportunities while very big business is more focussed on Asia and food safety, quality & security.

**Top 10 opportunities for the Australian economy in the short to medium-term**  
(% of total responses)



**Chart 8:** Highly innovative firms are typically more confident about Australia’s growth prospects in the short and medium-term (both in terms of the wider economy and SMEs). However, highly innovative ASX300 firms are notably less confident.

**Will Australia's Economy be Stronger?**  
(average)



## MOTIVATION

What motivates “highly innovative” firms to innovate?

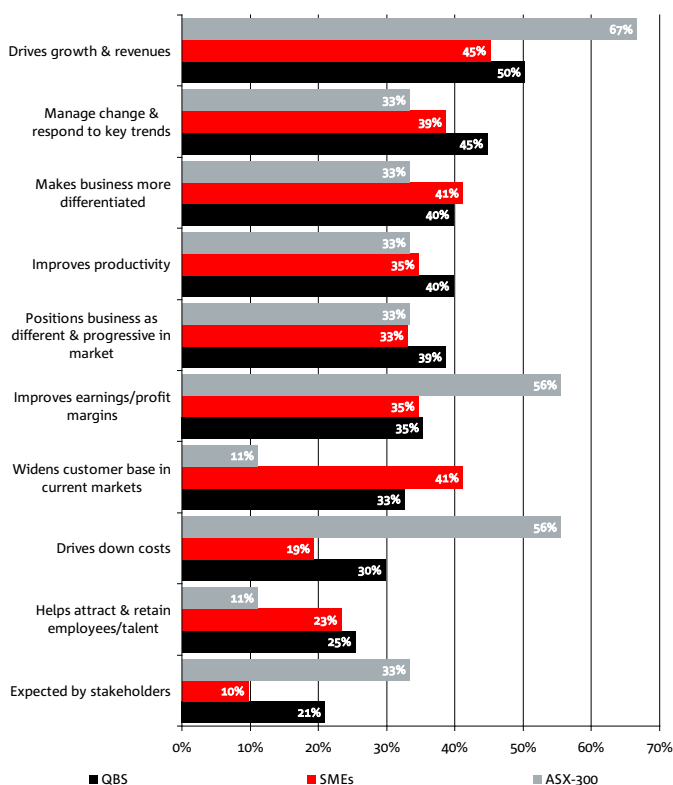
**Chart 9:** The number one motivation for innovation across the economy and for SMEs and ASX300 firms is to drive growth and revenues. However, this was a much bigger driver of innovation in ASX300 firms than in SMEs. For SMEs, other key motivations included differentiating their business, widening their customer base and enabling them to manage change and respond to key trends. In ASX300 firms, improving earnings/profit margins and driving down costs were the next most important motivators driving innovation.

## CULTURE

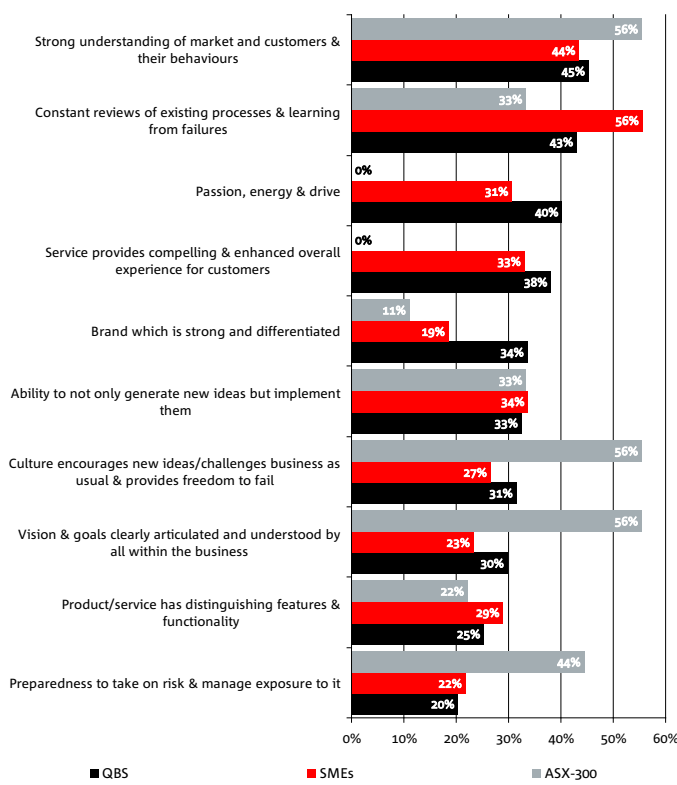
What are the key cultural aspects of “highly innovative” firms?

**Chart 10:** Knowing their markets and customers, constant process reviews and learning from failures and passion and drive were the most common aspects of culture of innovation that allowed firms to be innovative. SMEs also identified their ability to generate and implement new ideas, while more very large firms said having a culture that encourages new ideas, challenges the notion of business as usual and provides freedom to fail and having clearly articulated and understood visions and goals as key aspects.

**Top 10 motivations behind your culture of strong innovation**  
(% of total responses)



**Top 10 most important aspects of culture of your organisation that allows you to be innovative**  
(% of total responses)



### ABOUT THE SURVEY:

NAB’s Quarterly Business Survey (QBS) has been tracking Australian business conditions and confidence for over 22 years. In this special addition to the survey, we asked firms to assess innovation within their organisation, their industry and in Australia. ASX300 & SME’s were also surveyed.

**Part 1** of the survey looked at how business viewed the culture of innovation within their organisation and for Australia as a whole.

**Part 2** looked at whether “highly innovative” firms perform better and have higher levels of confidence relative to the broader economy. The key drivers and motivations of innovation were also identified. Finally, highly innovative firms were asked where they saw the best opportunities for the Australian economy in the short and medium-term. Copies of these detailed reports are available upon request.

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