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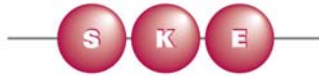
## Response to the Victorian Government's proposed National Innovation Agenda

'Leadership and Culture' Pillar of the NIA

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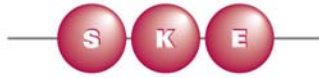
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**Background:**

Senior representatives from all State and Territory Governments and key business, research and academic organisations met on 31 October 2007 to discuss the Victorian Government's proposal for a National Innovation Agenda (NIA). At the Forum, it was agreed that the existing five key themes outlined in the NIA proposal document would be retained, albeit with some modification to supporting arguments and rationale. It was also agreed that a new theme around innovation leadership and culture would be explored. The proposed six innovation themes are:

1. *Increase business innovation*
2. *Provide the infrastructure to enable innovation*
3. *Develop skills for the innovation economy*
4. *Create a better regulatory environment for innovation*
5. *Forge better connections and collaborations*
6. *Leadership and culture*

This response is directed at the 'Leadership and Culture' pillar of the Victorian government's proposed NIA. On the following pages, the response identifies two sub-categories within the "Leadership and Culture" pillar that the SKE believes is important to improving Australia's national innovation performance.



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### **Introduction to the 'Leadership and Culture' Pillar of the NIA**

The roots of innovation and entrepreneurship lie deeper in the social fabric and practices than many innovation strategies and 'systems' seem to understand. Whilst many innovation policies focus on the development of technical, scientific skills, many leave out the 'softer' side, - the 'social fabric' of a nation's Innovation System. Yet, a nation's social value system, - the beliefs, attitudes, spirit, values, and culture of its people, - is often an important facilitating factor of innovation and creativity in society and business.

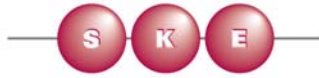
The foundation for an innovative and entrepreneurial spirit is instilled in individuals at a very early stage, be it through schooling, family life and other means of embedding social values. Hence, teachers and the education system are critical to embedding social values, entrepreneurial spirit and innovation capabilities into Australian children. Education policy needs to embrace strategies to this end.

Australian business executives likewise carry a responsibility for building innovation capability and creating an environment and spirit conducive to innovation in their organisations. Indeed, management and leadership in all organisations are particularly important because they are the facilitating factors that allow individual creativity and entrepreneurial activity to develop into a national economic and social resource<sup>1</sup>.

The SKE proposes that these two 'roots' of innovation, - 'Management and Leadership' and 'Australian Culture / the Social Value System' - should be incorporated into the Australian National Innovation Agenda and articulated as strategic priorities and areas for investment and policy development going forward.

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<sup>1</sup> Michael Enrich, Professor University of Hong Kong, rightly points out that it was leadership and management skills that made Bill Gates and Michael Dell successful entrepreneurs. Gates' innovation was in 'packing up' and assembling a software package and making this a standard for operating systems throughout the world. Similarly, Dell's innovation was in businesses modeling, - in rethinking and better modeling the distribution chain in retailing, not in R&D.



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## 1. Management and Leadership in Australian Organisations

With only 35% of Australian organisations being 'active in innovation' (ABS study, cat. 8158.0) there are ample opportunities to improve national innovation (and economic) performance.

The SKE believes that realising the 'innovation potential' of all Australia organisations and the Australian economy requires a fundamental rethink and renewal of leadership and management methods.

From a policy perspective, an opportunity exists to redefine the "workplace relations" debate from one of "Boss vs. Worker" or "Employer vs. Union" to one which is far more forward thinking and which supports and empowers the individual to succeed<sup>2</sup>. The reform agenda should not be restricted to industrial relations legislation or other 'outside-in' interventions. It must also address management and leadership methods inside Australian organisations.

Several initiatives can be undertaken at a national level to assist Australia realise the 'innovation potential' of all organisations and improve participation rates. The SKE suggests three initiatives to this end, as follows:

### 1. Examination and Inquiry into Barriers / Enablers of Innovation:

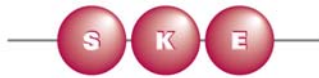
The first step is an inquiry into the organisational *barriers* and *enablers* that impede or assist Australian organisations innovate. Specifically, the SKE recommends an investigation of management and leadership methods and how these aid or impede innovation inside organisations (see Karpin, 1995)<sup>3</sup>. Factors to consider include, but are not limited to: leadership styles, culture, ICT adoption, business processes and procedures, team based work structures, diversity management, training and education, mentoring, coaching, learning and development, symbolic gesturing and other social artefacts.

Such inquiry will help Australian managers and policy makers obtain fact based insights into the drivers of human capital productivity and innovation within Australian organisations. It will also help raise awareness in business of 'what innovation is', 'how innovation is done' and 'who is responsible for innovation'. Last, it will feed into the recommendation and design of new management methods, frameworks and strategies to improve innovation skills and participation rates (see point 2 overleaf).

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<sup>2</sup> The Work Foundation in the UK makes a similar observation in their recent report called "Exploiting Europe's Knowledge Potential: 'Good Work' or 'Could do Better'". The report makes an inquiry into the nature of 'good work' in the knowledge economy. It points out that "Too often, social protection, not tailored for the knowledge economy, will hold workers back instead of empowering and supporting them. The social security models developed at earlier points in the history of the industrial society are increasingly inappropriate for work in the knowledge economy" (ibid, 2007, p. 34) [http://www.theworkfoundation.com/Assets/PDFs/exploiting\\_Europe.pdf](http://www.theworkfoundation.com/Assets/PDFs/exploiting_Europe.pdf) )

<sup>3</sup> See Karpin (1995), "RENEWING AUSTRALIA'S MANAGERS TO MEET THE CHALLENGES OF THE ASIA-PACIFIC CENTURY INDUSTRY TASK FORCE ON LEADERSHIP AND MANAGEMENT SKILLS". The 27 reports resulting from this 3 year study provided the most comprehensive insight ever into the way Australia prepares its managers for work and leadership, also presenting policy recommendations and options based on the Task Force findings.



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### 2. Design of Workplace Methods and Strategies to Improve Innovation Capabilities and Participation Rates

The second step concerns the design of workplace strategies, management methods and frameworks that reduce the 'barriers' and improve the 'enablers' of innovation within Australian organisations (as identified in the research investigation suggested above). Factors to consider include, but are not limited to:

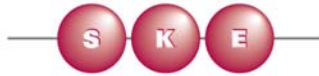
- a. **Human capital management** and improvements to the systems and processes 'surrounding the individual' in organisations and which impact innovation activity.
- b. **Work organisation**, including divisions of task and responsibility (silo based work structures, team based work structures, matrix organisations etc).
- c. **Staff selection**, including criteria of 'best fit' versus the 'celebration of diversity and individuality'.
- d. **Education and development**, including learning and development strategies for developing the 'soft' skills of managers (as related to collaboration, leadership and problem solving at all level of the organisation).
- e. Use and adoption of **information and management technologies**, including responsiveness to change and adaptability to new technologies in the workplace.
- f. **Value based management**, including the symbolic gesturing of executives and others, 'leading by example' and better managing the interpretive and normative aspects of organisations for innovation purposes.
- g. **Performance measurement and appraisal systems**. Most companies and collective systems are mainly driven by productivity requirements, and therefore, any individual or collective action is appraised from this perspective. At present, the shareholder value model is the archetype of reasoning and often this dis-incentivises innovation and risk taking, instead rewarding 'more production with fewer resources at lower cost'. It provides little transparency and visibility of the drivers of innovation.

New performance measurement and appraisal systems are needed to improve national innovation participation rates. Emerging initiatives, such as intellectual capital measurement and reporting<sup>4</sup>, for example, provide a more 'holistic perspective' on company performance and an opportunity to counter tendencies to 'short-termism' and 'anorexic' investment decisions. New appraisal methods will also be required to respond to changes in individual workers' search for recognition and prosperity.

- h. Unpacking and possibly questioning **prevailing attitudes, beliefs and assumptions** amongst business leaders about 'what innovation is' and 'where the responsibility for

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<sup>4</sup> See for example the OECD "the World Intellectual Capital Initiative", started in Paris on October 31, 2007. The WICI brings together industry and policy experts from the EU, Japan and Australia to collaborate on promoting the management and reporting of intellectual capital/assets at company level throughout the world and to develop business management and reporting frameworks to this end. See also the Australasian Capital Reporting on Knowledge Award for an example of an Australian initiative. ([http://www.arawards.com.au/criteria\\_a.html](http://www.arawards.com.au/criteria_a.html)). See Boedker et al (2007) for an overview of international trends and developments in Intellectual Capital Measurement and Reporting ([www.ske.org.au](http://www.ske.org.au)).



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innovation resides’.

Currently most innovation activities in society are targeted at products and production. Few are addressed directly at innovations in business management. Yet, much of innovation takes place in management process and emerges from incremental, sometimes mundane, day to day management activities (see BCA, 2006). Innovation is not solely an R&D activity restricted to senior elites, or scientists in ‘white coats’ performing complex experiments in laboratories. Indeed, innovation is also a very incremental process, undertaken by many people in many locations. We call this the ‘democratisation of innovation’ in society and organisations.

If innovation is indeed an incremental process, undertaken by many people across all levels of organisational hierarchies, greater attention needs to be directed at ‘the individual’ as an innovator and the opportunities he or she *is given* to contribute to innovation in business.

Indeed, the SKE believes it is the responsibility of Australian executives and managers to create a workplace environment where individuals are given the opportunity to contribute their ‘fullest’ to innovation activity. This requires the design of new support systems.

The starting point is a fundamental rethink and shift in management thinking as to ‘who is invited to partake in innovation and who is not?’; ‘who is empowered to innovate and who is not?’

### 3. Collaborative Hubs and an ‘Inside-out / ‘Bottom Up’ Approach to Change

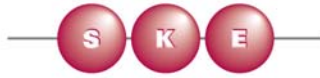
Change in management and leadership requires a different approach to that pursued by traditional policy interventions. Change to management and leadership methods needs to be ‘inside-out’ (not outside-in) and ‘bottom-up (not top-down), in contrast to, for example, the reform strategies pursued in industrial relations.

The SKE suggests the creation of ‘collaborative hubs’ and ‘networks’ that bring together industry practitioners, policy makers, academics and other stakeholders to *jointly* identify problems and opportunities and design work place strategies for a better future (as outlined above)<sup>5</sup>.

It is through collaborative forums, hubs and networks, and by leveraging the collective insights and capabilities of diverse stakeholders, that Australian workplaces can be reformed and better positioned to create for a more sustainable and prosperous nation in the future.

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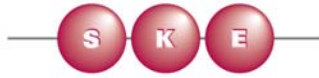
<sup>5</sup> The SKE suggests to form an ‘Innovation Task Force on Leadership and Culture’ to oversee research investigations and strategy recommendations in the ‘Leadership and Culture’ pillar of innovation. The Task Force will comprise industry practitioners, academics, policy makers and others with a demonstrated expertise and senior leadership in managing business for innovation purposes.



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In summary, the SKE believes “Workplace Relations of the Future” is about attracting, developing and retaining people to participate in a workplace that is;

- Progressive, encourages people to make a difference and values their contribution.
- Led and managed by people with a forward looking mindset and the right skills and values
- Employs management and information technologies in an effective way.
- Is accountable to all stakeholders for their contribution to the economy and the society more broadly.
- Puts in place the frameworks and support systems that enable people to contribute their ‘fullest’ to innovation activity



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## 2. Australian Culture and Social Value System (including the Pedagogy of Innovation)

Building a social value system that fully embraces entrepreneurial activity and innovation will also require a different approach to innovation across schooling, family and social life.

In the following, the need to better understand how social values impact innovation in Australian society and the role of education in improving innovation capabilities in children are discussed.

### 1. Prevailing Social Values and Their Impact on Innovation:

Australian people are creative, they have lots of ideas and a high interest in technology, but their inclination for social visibility and risk taking is low. The larger problem is the lack of a social value system that encourages and celebrates innovation and entrepreneurship in all aspects of societal life. These social disadvantages should be better understood and recognised more clearly as major obstacles for entrepreneurship and innovation in Australia.

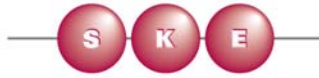
Yet, whilst many anecdotes exist about Australian culture, we do not, in Australia, have a good, *fact-based*, understanding of the social fabric of our society and its contribution to national innovation. We do not have a comprehensive understanding of how our social values and belief system affect Australia's capacity for entrepreneurship and innovation. A possible 'National Innovation Barometer' may be one way to broaden insights into the 'state of the nation' and its social value system in regards to innovation.

Questions that we need more 'fact based' insight to include:

- What social values do Australians currently bring to bear and how do these impede or aid national innovation.
- To what extent can Australia innovate in 'social-modelling' in such a way that this creates a point of differentiation and advantage over other countries in a global, competitive economy?
- What characteristics of Australian social value system can, and ought to, be celebrated as the enablers of innovation and entrepreneurship in society?
- To what extent do Australians celebrate the contributions and achievements of 'the individual' to national innovation?<sup>6</sup>
- Which symbolic gestures and social artefacts are created and leveraged to celebrate and increase innovation achievements in society?
- How can Australia improve its social value system (and through which mechanism) to create for a more innovate and sustainable nation in the future?

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<sup>6</sup> The Ernst and Young 'Entrepreneur of the Year Award' is one of many examples of an accolade, which celebrates and encourages innovation and entrepreneurial activity in Australia.



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## 2. The Pedagogy of Innovation:

Instilling an entrepreneurial spirit and developing innovation capabilities in Australian children also has implications for education policy.

Improving the innovation capabilities of Australian children through schooling will involve investing not only in the 'hard or scientific skills', as understood in the traditional sense of science and math skills development. It will also involve investing in the '*soft skills*' of Australian children (as related to adaptability to change, curiosity, initiative, creativity, problem solving, leadership, communication and collaboration skills).

Improving Australian children's aptitude for innovation will also require different *teaching methods* in primary, secondary and tertiary schools, starting with an assessment of and inquiry into how existing teaching strategies support and enable the development of innovation skills throughout schooling. Class sizes, teaching aids (i.e. PowerPoint versus interactive workshops or group discussions), as well as industry collaborations and exchanges all impact on our children's' innovation skills and these need to be addressed in education policy.

Questions that should be debated, and issues that we need more insight into, are suggested in the following:

- How does the Australian education system (primary, secondary and tertiary levels) and curricula support the development of an innovation culture?
- Which mental models and value frames are Australian children educated to believe in and how do these influence our attitudes and behaviours and our children's capacity to innovate now and in the future?
- What pedagogic and teaching methods are deployed by teachers in our schools to improve the 'soft' skills (adaptability to change, curiosity, initiative, creativity, problem solving, leadership, communication and collaboration skills) of Australian children?
- How can the Australian education system be improved, via educational policy, to create for a more innovative nation?

In summary, the SKE recommends that Australia can (and should) foster innovation and creativity by investing into its social value system equally to other 'pillars' of the nation's innovation system (such as R&D, technical skills development etc).

Indeed, social values (and their linkages to innovation) should be prioritised as education and social objectives in national innovation policy.