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Australian Institute
for Commercialisation

ANNUAL
REPORT
2002-03

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The word 'market' is written in a large, white, italicized, sans-serif font. To the right of the word are two large, white, stylized arrows pointing to the right. The background is a solid blue color.

*"Just 250 new high growth start-ups can add
\$20 billion per annum to the Australian economy.
The AIC is working to fuel this growth."*

Dr Robin Batterham, Chief Scientist, Commonwealth of Australia



**Working with
Australian
research
institutions
and industry
to maximise
returns from
research and
development
investment**





WHO WE ARE.

COMPANY PROFILE

The Australian Institute for Commercialisation (AIC) is a national, not-for-profit company, limited by shares, that delivers programs to improve commercialisation of Australia's research investment.

Programs and activities are directed to address key barriers to improved commercialisation outcomes. These barriers relate to the adequacy of co-ordination, skills, and analysis within the commercialisation sector.

The company was registered in May 2002 as a "Smart State" initiative by the Queensland Government, to improve commercial returns from the Australian public sector's \$5.2 billion investment in research. The initiative has been underwritten by the Queensland government by \$10 million over five years.

After one year of operation, the AIC has secured additional funding (independent of Queensland Government support) exceeding \$ 1,200,000 from the States, Northern Territory and Commonwealth Governments and various research institutions to undertake joint projects during the coming financial year. Significant co-operation has developed with the Victorian Government across a variety of joint projects. The AIC has also secured funding from a number of universities and research organisations.

The AIC is overseen by a Board of Directors, with a staff of eight, with head office in Brisbane and a second office in Melbourne.

VALUE PROPOSITION

The challenge for Australian industry to remain globally competitive over the next 20 years demands the innovative development and application of leading edge technology to derive new products, processes, and services.

The AIC's role within this broader innovation process is to improve the way in which the potentially valuable research undertaken within public institutions can be successfully transformed into commercial opportunities. We participate by concentrating on our three operational programs to provide best practice solutions that address the major barriers to commercialisation.

We are a catalyst that can pull together scarce resources in key areas to enable social and economic outcomes to emerge. Our close relationships with the States and individual research bodies has meant that we can share local solutions nationally, to enhance the work of existing agencies and institutions across the country and provide the scale necessary to effectively drive innovation and productivity.

OPERATIONAL APPROACH

The AIC does not duplicate programs with other agencies or organisations. Its intent is to co-ordinate activities for greater effectiveness and efficiency on a national level, responding to areas of market failure.

Vision: To foster enhanced economic growth, jobs and lifestyle for Australians by improving commercialisation of public research.

Mission: Working with Australian research institutions and industry to maximise returns from research and development investment.

AIC BOARD OF DIRECTORS AND STAFF

CHAIR

Dr Peter Jonson

BOARD MEMBERS

Mr Ross Adler (AO)
Professor Adrienne Clarke (AO)
Professor Paul Greenfield
Professor John Hay
Sir Leo Hielscher
Mr John Read
Professor Malcom Richmond
Mr Ross Rolfe

CHIEF EXECUTIVE OFFICER

Dr Rowan Gilmore

ADVISORS

Dr Robin Batterham
Mr Mike Hefferan
Dr John Sime

ADVISORY COMMITTEES

Human Resources

Dr Peter Jonson (chair)
Sir Leo Hielscher
Mr Ross Rolfe
Mr John Read
Dr Rowan Gilmore

Intellectual Property

Mr John Read (chair)
Dr Rowan Gilmore
Professor Brad Sherman
Dr Andrew Christie
Dr Adrian McCullagh

Education

Professor Paul Greenfield (chair)
Mr Colin Melvin
Ms Pamela Murray-Jones
Professor Adolf Hanich
Mr Michael Quinn
Professor Edwina Cornish
Professor Sandra Harding
Dr Rowan Gilmore

Audit and Risk Management

Sir Leo Hielscher (chair)
Mr Ross Rolfe
Mr Michael Back
Mr Mike Hefferan

Policy and Best Practice

Dr Peter Jonson (chair)
Mr Ross Adler
Professor Adrienne Clarke
Professor Malcolm Richmond
Dr Robin Batterham
Dr Rowan Gilmore

AIC STAFF

Mr Garry Butler
Ms Ruth Drinkwater
Ms Paula Macdonald
Ms Leanne McDonald
Ms Tara Young
Ms Megan Katsanevas
Ms Lisa Martin



Dr Rowan Gilmore



Ms Ruth Drinkwater



Ms Paula Macdonald



Ms Leanne McDonald



Mr Garry Butler



Ms Tara Young



Ms Megan Katsanevas



Ms Lisa Martin

“Commercialisation of public research is a driver for future economic prosperity everywhere. In the UK, universities like Imperial have made great strides in developing the capability for effective technology commercialisation. The AIC programs in Australia are laying the building blocks for similar progress.”

Dr John Sime, Director Research Support and Development, Imperial College London

chairman's report



“The Australian Institute for Commercialisation (AIC) is a national, not-for-profit company that delivers programs to improve the commercialisation of Australia’s research investment.”

Over the past quarter century, both public and private sector initiatives have transformed Australia’s economy. Australia today is one of the world’s most competitive economies. But, while Australia has improved its innovative capacity over time, it has not done so as fast as key international competitors, including some that have leapfrogged Australia through sustained policy action. The current Federal Government’s Backing Australia’s Ability (BAA) policy, and complementary programs such as Queensland’s “Smart State” initiatives and Victoria’s “Science, Technology and Innovation (STI) Initiative”, have improved the situation considerably, but these policies need consistent application over a long period if Australia is to become one of the world’s most innovative economies. And more specific attention needs to be paid to the commercialisation of Australia’s generally excellent science and technology, the largely suboptimal step some have called the “conversion” process.

As Professors Gans and Stern note in “Assessing Australia’s Innovative Capacity in the 21st Century”, innovation is the wellspring of economic growth. Australia cannot continue to live on the fruits of its natural endowments. Increasingly in the twenty-first century, a nation’s prosperity and competitiveness will be derived from its ability to create new products and services, adapting continually to remain ahead of its competitors.

Establishing Australia as a “first-tier innovator nation” requires a systematic upgrade to the Australian innovation and commercialisation environment. Such an environment is a result of a combination of factors such as well-trained people, an innovation-oriented corporate investment climate and greatly improved collaboration between research organisations and businesses.

Fortunately, Australia’s research capability is often world class. Where we perform less well is in the process of converting our excellent research into social and economic capital, new businesses and new jobs. The AIC is working to improve the skills required to better commercialise intellectual property, along with developing programs and policy recommendations to change the Australian culture to embrace outcome-based research, collaboration with business, and sensible, calculated risk-taking behaviour.

There are many organisations and service providers actively promoting commercialisation, and the principal challenge for the AIC is to ensure that we truly add value. We believe that our stakeholder representation, the quality of our management, board and advisors, the linkages we have developed with other organisations nationally and internationally, and the research that we have pursued, enables us to provide effective policy input and commentary on world’s best practices in commercialisation. We have engaged some of the best international minds to comment on Australia’s innovation and commercialisation performance, and they have made many interesting observations and suggestions. Part of our role is to ensure that the most promising of these are implemented.

Thorough consideration of Intellectual Property (IP) management and accountability is required to generate commercialisation outcomes. If IP is not properly managed, commercialisation will almost certainly be ineffective. The measurement and inventory of IP as an asset is a necessary first step in the search for commercial gain. Some of these IP assets may be appropriate to further value-adding through "in-house" activities, while others may benefit further through integration with complementary sets of IP, which may exist in separate organisations.

Stand-alone IP often benefits through greater access to a common pool of IP, perhaps through an information brokerage to enable bundles of IP to be developed. The resulting combination is likely to produce a commercially orientated outcome whose value is much greater than the sum of its individual parts.

For such benefits to be maximised, a process is required where managements and boards of large organisations take explicit and focused responsibility for the IP in their organisations. To this end, the AIC has been developing a set of operating principles for "IP Accountability" for Australia's publicly funded research institutions, working closely with the CSIRO to develop best practice guidelines for this vital task.

I would also like to see our major research agencies and universities explicitly adopt a charter that includes "assistance to industry" where this is not already in place. Such a charter would be likely to add substantial momentum to the current thrust to reform Australia's system of delivering higher education.

After twelve months, the AIC has managed to build extraordinary momentum in the commercialisation community. The challenge ahead is to transform that momentum into useful energy that is not dissipated. We will do that by providing strategic policy input, contributing to the national debate, and by concentrating on our three key operational themes that complement and enhance the work of existing agencies and institutions.

I would like to take this opportunity to thank the staff and board of the AIC for their extraordinary efforts over the past year. Sincere thanks go to the various "friends of the AIC" who gave considerable pro bono assistance. I would also like to acknowledge the strong support of our founding shareholder, the Government of Queensland and other Australian Governments, Australia's Chief Scientist, Dr Robin Batterham, along with State and Federal officials. Finally, many thanks to the AIC's founding CEO, Mike Hefferan and to its first permanent CEO, Dr Rowan Gilmore. We are dealing with difficult and important matters, and there is a real spirit of co-operation along with a keen desire for Australia to do much better in converting research and development (R&D) into new wealth, new industries and new jobs.



Dr Peter Jonson
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

At a time when commercialisation and productive application of Australia's research and innovation base are such important parts of the national agenda for sustainable growth, I consider it a privilege to be appointed the Chief Executive Officer of the AIC. The increasingly visible achievements of our scientists, engineers, and other innovators have given increased momentum to efforts to harness the wealth that they create. Recognition that better returns from our national investment in R&D can fuel jobs growth and other economic and social benefits has emphasised the need for even greater co-operation between governments and private and public sector institutions. The role of the AIC is to help fuel and funnel that goodwill into productive and lasting outcomes.



The AIC is a young organisation that has just celebrated the first birthday of its establishment. Implemented as one of the "Smart State" initiatives by the Queensland Government Department of State Development, the AIC has secured the additional sponsorship of all State Governments and the Northern Territory, as well as that of several leading research institutions. Such broad national support, coupled with our independence from any one industry sector, has enabled the AIC to become an effective, non-partisan leader in the commercialisation arena.

While there has been good performance across the board in improving competitiveness through productivity gains, and there are specific pockets of excellence in commercialisation performance at several

larger universities, Australia is still only ranked as a 'second-tier' innovator nation. Australia's stellar growth performance has masked the urgency of harnessing our own research investment to ride the next wave of superior growth. Of all the barriers to commercialisation, there are several that relate to policy settings, and the desire of all governments to optimise the operating environment has meant that the AIC is well positioned to play an effective role in advocacy, benchmarking, and providing neutral advice. I encourage anyone interested to search our website at www.ausicom.com for the detail.

Another way to ensure that the AIC can truly add value is to leverage the efforts of others. Our linkages with the States have meant that we can share local solutions nationally. In maximising the use of our strengths, and complementing and augmenting the work of others, we have chosen to focus on three principal operational themes where the AIC can be most effective. The first of these, *AIC Connect*, addresses the fragmentation within the commercialisation process by providing mechanisms to help bridge the science-industry gulf, and by addressing the innovation progression funding gap that stalls many good ideas at the proof-of-concept stage.

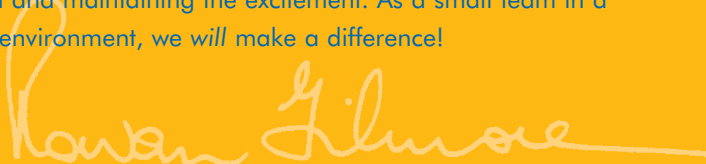
With partners, we have launched www.aussieopportunities.com, a national e-marketplace to showcase Australian innovation and invention. More ambitious programs to develop a national capability-building framework to assist smaller and regional institutions to commercialise their intellectual property, and to simultaneously build competencies are in the works. Also in development is another program to develop a global Australian expatriate network to assist young start-up companies with offshore market intelligence.

Our second operational theme, *AIC Know-How*, addresses the shortages of skills in the commercialisation arena. Our highly successful "Researcher's Bootcamp" and our "Directors for Start-Ups" course help improve the capabilities of important stakeholders in commercialisation. The AIC's intent here is to act as a catalyst so all of Australia's business schools will ultimately provide programs to prepare young innovators to become serial entrepreneurs!

Our third operational theme, *AIC Assess*, focuses on measuring the outcomes of the commercialisation process, in order to enable the process to be more effectively managed. By providing good metrics on the productivity of commercialisation, Australia can better benchmark itself against our leading competitors, and ensure our future is not disadvantaged through complacency. One of our challenges is to foster cultural change, so that our innovation and science and technology successes – and the 'right mistakes' - are celebrated in the same way as sporting victories. Benchmarking is a competitive approach, one that can also quantitatively drive policy change. Our studies with the Commonwealth and the commercialisation arm of CSIRO, the largest research body in Australia, are intended to help highlight the appropriate metrics necessary so that intellectual property is most effectively managed.

The challenges in the year ahead will be to fully implement the commercialisation projects we have set out, including those above, and to secure meaningful and ongoing funding that will secure them well into the future.

The vision and foresight of our shareholder, the Queensland Government, and our other sponsors in recognising that the challenge is of national importance, is commendable. Our Board and its committees, which are composed of dedicated and recognised academics and business people, have made an important contribution in providing thought leadership. Particular recognition must go to the staff of the AIC, whose role as both thinkers and operational practitioners is especially challenging, as the AIC itself is a small, not-for-profit company. Their enthusiasm and dedication has its reward in promoting a national cause, and is critical to sustaining the momentum and maintaining the excitement. As a small team in a supportive environment, we will make a difference!



Dr Rowan Gilmore
Chief Executive Officer

ceo's report



“...better returns from our national investment in research and development can fuel jobs growth and other economic and social benefits...”

WHAT WE DO.

...and why

COMMERCIALISATION LANDSCAPE

The commercialisation process is vital to Australia's interest as the benefits from continued macro and micro-economic reform will diminish as the reform agenda in these areas is completed. At its simplest, "commercialisation" is the transformation of ideas into economic outcomes.

These outcomes can range from a new-technology company's profits to significant effects, over time, on a country's Gross Domestic Product (GDP) and competitive position.

With the rate of improvement from economic reform efforts winding down, sustaining the recent high level of GDP growth will require genuine expansion of the economy, not just doing what we do now more efficiently. As a mature economy, this growth is best sought through our ability to translate new technologies and innovative ideas into commercial opportunities.

The *World Economic Forum Global Competitiveness Report 2002* demonstrated that greater effort was required by Australia in areas such as innovation and commercialisation if the country was to maintain its strong current competitive ranking. Australia's competitiveness ranking has recently slipped slightly (by two places). Given imperfections in measurement, this in itself is no major cause for concern.

Of greater concern is the fact that Australia's innovative capacity, which underpins future global competitiveness, is only in the 17th position among the Organisation for Economic Co-operation and Development (OECD) countries according to "Assessing Australia's Innovative Ability" (Gans. J & Stern. S, 2003). This ranking puts Australia at the bottom of the so-called "second tier innovator countries". This represents a significant improvement over the past 25 years, but is not good enough for a country that aspires to permanent membership of the first rank of economic performers. There are some crucial steps Australia needs to take to join the cohort of "first-tier innovator" countries.

The activities of the AIC are directed to fostering the skills and climate conducive to innovation and commercialisation of Australia's generally world-class research, and to implementing these crucial steps.



innovation occurs at the
seams between disciplines

OPERATIONAL FOCUS

The AIC has identified three key barriers to better commercialisation. These barriers relate to the adequacy of co-ordination, skills and analysis within the commercialisation sector. Through an independent, collaborative approach, combined with its national linkages, the AIC is well positioned to tackle these challenges.

Firstly, fragmentation across the commercialisation environment acts as a barrier to success. This is exacerbated by insufficient engagement between the research and business communities. The “AIC Connect” program provides a platform to establish national and global networks to better co-ordinate and leverage existing commercialisation activities. This will achieve improved deal flow through economies of scale and bundling of research opportunities.

Secondly, Australia does not have a depth of commercialisation management experience in start-up companies born from R&D. “AIC Know-How” programs partner with universities and industry to bring together professional development courses and create an improved pool of knowledge on commercialisation practices. The purpose is to improve commercialisation management skills.

Thirdly, there is inadequate measurement and analysis of commercialisation activities. What cannot be measured cannot be managed. Armed with improved information and assessment tools, industry can better allocate resources and government better formulate public policy. “AIC Assess” undertakes research to enhance decision making.

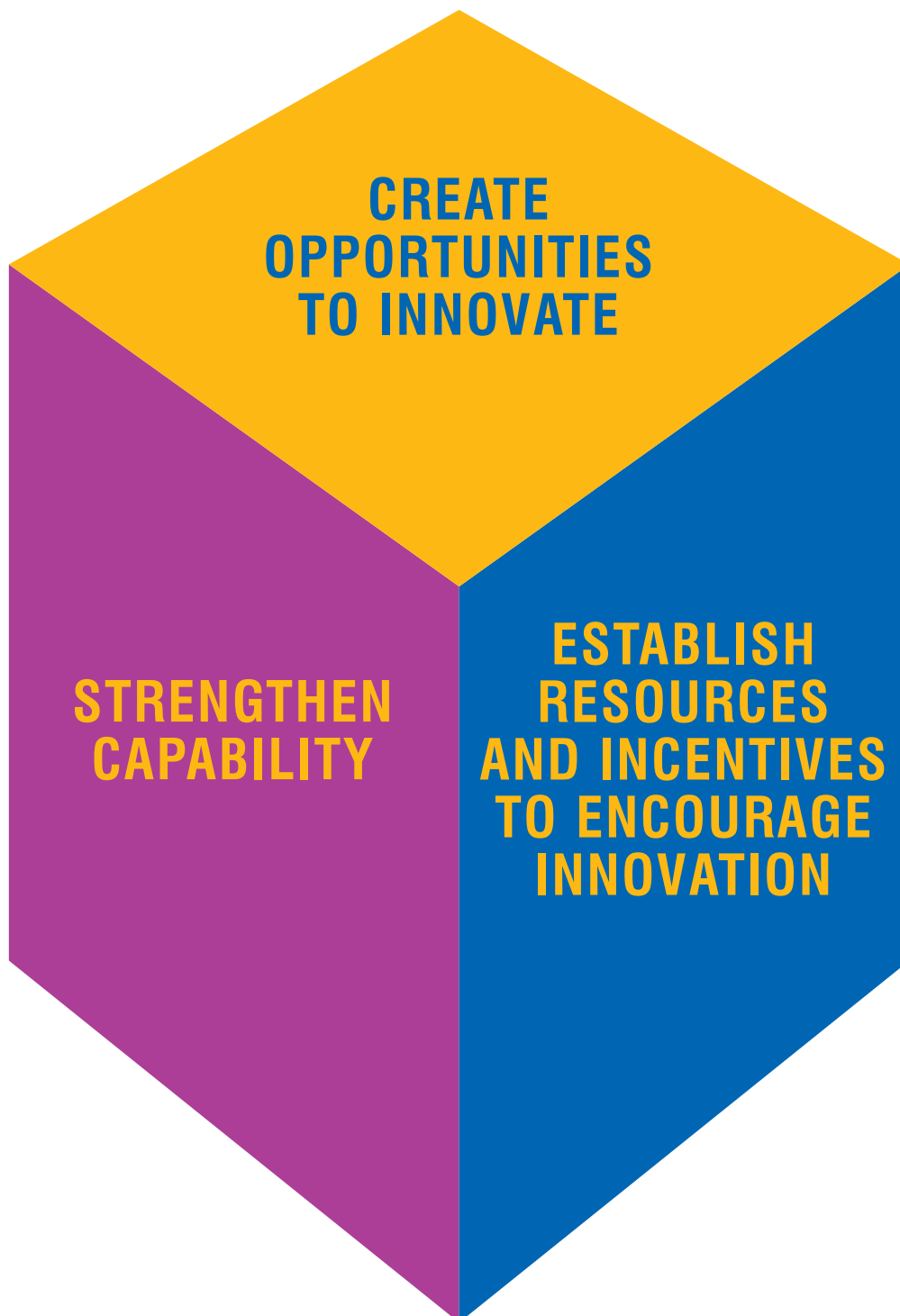
AIC’s non-partisan position in these critical areas also allows the Institute to contribute relevant and practical information to important commercialisation policy issues.

AIC OPERATIONAL HIGHLIGHTS 2002–03

- Identified key barriers to commercialisation within Australia and developed three program streams of activities to tackle these impediments;
- Established a fully operational, national not-for-profit company with its head office in Queensland and second office in Victoria, with funding secured from all the States and the Northern Territory;
- Established the AIC Network, an informal affiliation among the State and Territory Government agencies promoting commercialisation, to undertake programs which will be more effective when implemented co-operatively;
- Introduced a range of professional development programs targeted at researchers, managers and directors, developed in partnership with universities and industry associations, to raise skills in the commercialisation arena;
- Appointed by the Commonwealth Government to undertake studies to measure the commercial outcomes of R&D expenditure to assist in assessing the effectiveness of commercialisation programs and benchmarking Australia’s performance;
- Contributed to, or co-funded, milestone studies in areas impacting upon commercialisation such as “Assessing Australia’s Innovative Capacity” (Stern: 2003), “Critical Success Factors in Research and Development” (Esrikinomics: 2003); “Co-operative Research Centre Review” (Howard and Partners: 2003), “Economic Impact of the Direct Commercialisation of Publicly Funded R&D in Australia” (The Allen Consulting Group: September 2003).

KEY DIMENSIONS OF GOOD INNOVATION POLICY

AIC programs and activities build upon this policy framework





The three AIC program streams address key barriers to commercialisation – co-ordination, skills and analysis.

WHAT WE'VE



CONNECT

**KNOW
HOW**

ASSESS

OPERATIONAL ACTIVITIES

The AIC key activities in the three program areas throughout 2002–03 are outlined below:

DONE. . .

AIC CONNECT

The AIC is working to establish national and global networks to better consolidate existing commercialisation expertise to achieve improved deal flow. As the sector is fragmented, the AIC partners in its activities to promote greater effectiveness and efficiency in commercialisation outcomes. Programs include:

- **AIC National Government Network**

The inaugural meeting of the "AIC Network" was held in Brisbane in February 2003. The group includes representatives from all the participating Commonwealth, State and Territory Government agencies. The meeting has established a number of key priorities on which to focus its activities. These priorities tend to be those which are better addressed collectively than by the states in isolation. Issues covered include providing commercialisation services to smaller and regional universities, Co-operative Research Centres (CRCs), and small research institutions; access to professional development courses; assessing and integrating networking activities between researchers and industry.

The second meeting will be held in July in Sydney to be hosted by the New South Wales Department of State and Regional Development.

"AIC's international networks have helped Rotec Design identify new partners and capital in one of our key markets, the US."

The Hon. Rob Borbidge, Chairman, Rotec Design Pty Ltd

- **Engagement and Alliance Programs**

The AIC model of operation focuses heavily on co-operative activity to improve economies of scale and efficiency in the sector. Over the past several months the AIC has received significant “buy-in” from the stakeholder community via its capacity to act as an honest broker and add value to activities being undertaken in commercialisation. Often agencies or organisations identify a need for research or education but are reluctant to undertake this project in isolation.

The AIC has engaged broadly with a number of agencies and organisations to provide briefing on AIC services and to undertake co-badged programs in the areas of research papers, educational programs, and commercialisation forums and events.

- **Service Provider’s Directory for Commercialisation Assistance**

AIC’s market research identified a gap in the commercialisation pathway between researchers and inventors, and those with the specialist skills to assist in the start-up process. The AIC web site contains a comprehensive online database with information on specialists in the commercialisation process, along with data on government services to assist researchers and inventors with useful referrals.

The national directory provides information on government assistance such as grants, programs and initiatives, research organisations such as universities, CSIRO and CRCs, and specialist consultants in fields such as intellectual property, accounting, technology audits and general business.

Information on government assistance and research organisations is summarised and is freely available to all users. For those seeking specialist consultants or advisors, the AIC provides a free consultation service to act as a liaison between the enquirer and the specialist.

- **AIC Offices**

The AIC has been established and is fully operational with its head office in Brisbane, Queensland, underwritten by the Queensland Government. With the support of the Victorian Government, the AIC has established an office in Victoria, with a staffer seconded from the Department of Innovation, Industry and Regional Development to the Melbourne office.

“Knowledge-based economies rely on continuous innovation and rapid assimilation of global technology trends to maintain their competitive edge. AIC, through the Global CONNECT network, is bridging the information gap for Australia.”

Mr Greg Horowitz, Director of Global CONNECT.

This priority area focuses on improving the level of commercialisation knowledge to allow more effective identification and exploration of new and existing intellectual property. Programs include:

- **Education programs**

- **Commercialisation Bootcamp**

- The aim of this program is to promote cultural change in PhD students and early stage researchers to increase the awareness and emphasis on the commercial application for research outcomes. Accounting for potential commercial outcomes in the early design of research programs is expected to ultimately increase volume and quality of deal flow from research expenditure. This program is being piloted in partnership with UniQuest Pty Ltd in Queensland in August 2003, followed by a second delivery to an audience of engineering students facilitated by The Warren Centre (University of Sydney) and the University of NSW Engineering Faculty. A national roll out will follow these pilots.

- **Advanced Program on Commercialisation for Decisions Makers**

- (the first module to cover "Strategic Business Planning for Technology Commercialisation") in conjunction with Melbourne University Private.

- This initiative is to enhance the practical experience of managers working with technology and the commercialisation of intellectual property. It is targeted at mid- to upper- level managers responsible for technology commercialisation, research program management and business development of research.

- **Directors for Start-ups**

- (in conjunction with the Australian Institute for Company Directors)

- The pilot programs for this initiative were developed in partnership with the Australian Institute for Company Directors (AICD) to address the unique and specific issues faced by boards in early stage companies. The pilots were run in Sydney and Adelaide during the first and second quarters of 2003.

- **Commercialisation Library**

- An extensive indexed library of over 200 commercialisation research references with abstracts has been compiled. The web-enabled library is the only one of its kind in Australia with a sole focus on commercialisation. The library provides up-to-date resources on the latest in technology transfer initiatives and national and international policy developments.

- **AIC Intern program**

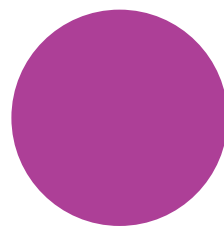
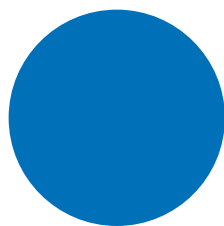
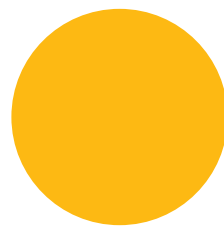
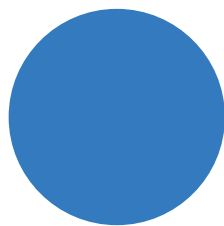
The AIC in conjunction with Queensland's Department of State Development has appointed young Queenslander Ana Centilmen as an international business cadet, based in the United States. Ana is the first AIC intern.

Ana's 20 week assignment will identify successful commercialisation practices in the United States for application to the Australian environment. The United States is ranked as the world's number one innovator, with an enviable record in commercialising research into sustainable businesses.

The project will explore strategic partnering opportunities in the USA and investigate options for business models appropriate for adoption in Australia to stimulate greater innovation and improve access to capital and markets, entrepreneurial skills and public sector engagement with the private sector.

- **Best Practice Guides**

The AIC is developing best practice guides suitable for the Australian environment. The first is a web-enabled guide in the area of demand analysis and environmental scanning. Later guides will focus on checklists for various stages of commercialisation, and the commercialisation of intellectual capital in the government sector.



This priority area focuses on identifying and developing relevant measures of R&D with a view to more effective resource allocation and policy input. Program activities include:

- **Commercialisation Performance Outcomes**

The Department of Education, Science and Training (DEST) has commissioned the AIC to survey, analyse and measure commercialisation outcomes of R&D activities in all Australian public research institutions such as universities, CSIRO and medical research institutes. This study was first undertaken in 2000 by the Australian Research Council (ARC) in conjunction with the National Health and Medical Research Council and the CSIRO.

Performance measurement is currently based on outcomes such as patents, licenses, employment and number of start-up companies generated, and is used to benchmark Australian performance against international activity.

- **Co-operative Research Centre (CRC) Review**

The Department of Education, Science and Training (DEST) in 2003 appointed consultants Howard and Partners to undertake a national review of the CRCs. The rationale behind the establishment of the CRCs was to engage researchers with industry to result in more commercially orientated research outcomes. Engagement remains mixed with some CRCs not targeting industry as either partners or customers. Culture change may be required with identification of new performance measures as a driver for improved results.

The AIC is assisting Howard and Partners with an analysis of the effectiveness of the CRCs' programs in achieving their performance measures, with a view to encouraging better engagement with industry and consequent commercial outcomes.

- **Funding Gap Survey**

The Department of Industry, Tourism and Resources (DITR) commissioned the AIC to survey investors and start-up companies seeking early stage investment to determine whether a gap in funding between \$100,000 and \$2 million exists.

The requirement for this research was developed in response to anecdotal evidence from analysts and industry practitioners that an 'innovation progression funding gap' exists, restricting the ability of some businesses to fund activities such as proof-of-concept development, prototype design and product refinement and testing.

- **Assessing Australia's Innovative Capacity Study**

Co-sponsored with the Victorian Government, the study *Assessing Australia's Innovative Capacity in the 21st Century* was undertaken by eminent United States based scholar Professor Scott Stern and Professor Joshua Gans of the Melbourne Business School. Professors Stern and Michael E Porter developed the national innovative capacity framework used by the World Economic Forum in its Global Competitiveness Report. The study ranked Australia's innovation capacity and provided information on the factors contributing to innovation-led economic growth, and the weaknesses in the Australian system. A program of briefings by Professor Stern accompanied the study.

- **Critical Factors in Successful Research and Development: an International Comparison**

The AIC and the Australian Innovation Association (AIA) co-sponsored a literature review by Erskinomics of critical factors in successful R&D. The review examined a range of international models and policies with a view to identifying factors which could be applied to the Australian environment.

- **Commercialisation Impact Study**

In partnership with the Victorian Government, the AIC has funded an examination of the economic impact of the direct commercialisation of publicly funded R&D in Australia. The report will be available in September 2003 and will provide information on the importance of R&D commercialisation as well as Australia's performance overtime and internationally. Most importantly it will study the direct benefits attributable to commercialisation allowing a refinement of data collection and analysis of Australia's commercialisation.

The AIC has identified six key policy areas that can improve the environment for enhanced commercialisation outcomes.

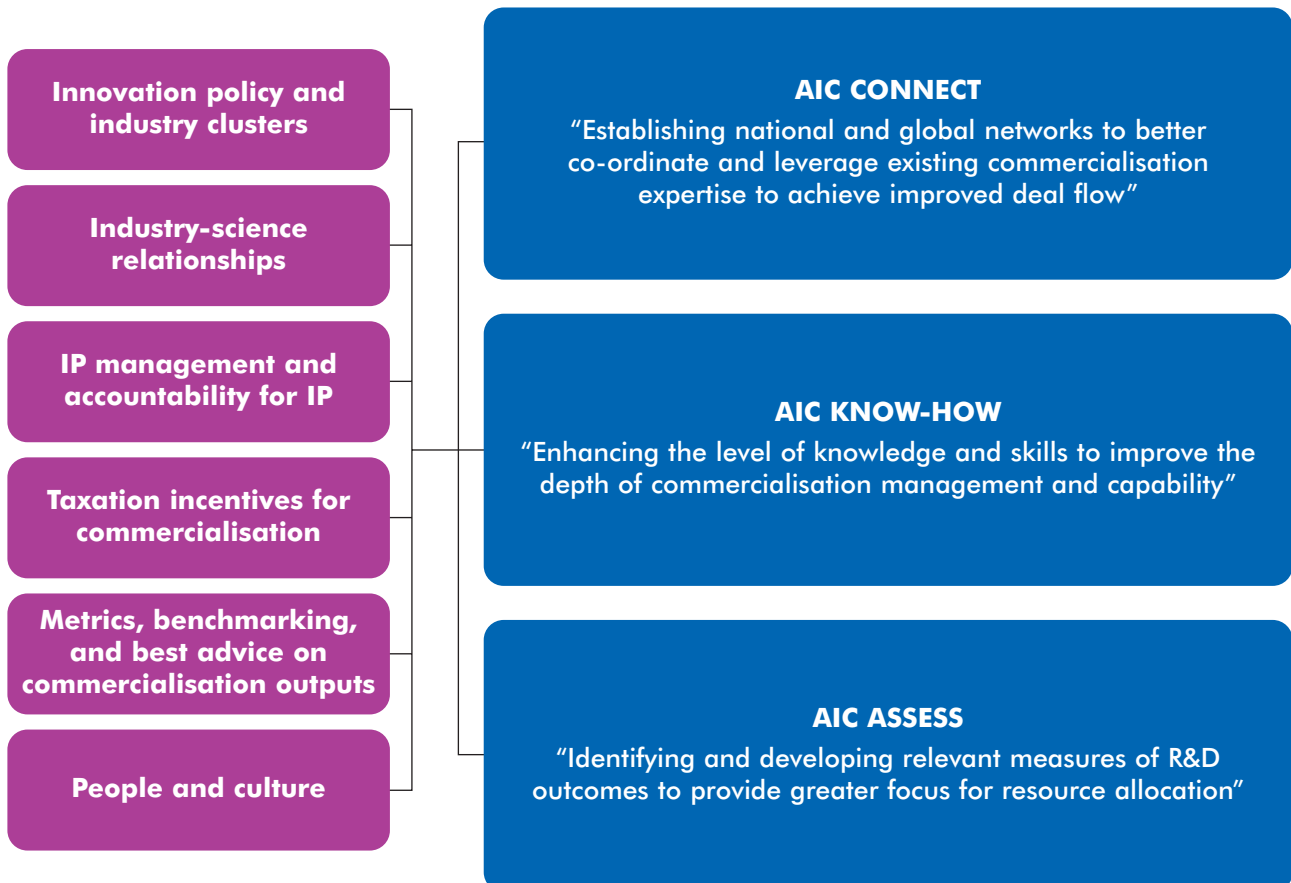
The supporting policy recommendations provide the direction for our current operational activities outlined above and the focus for new major initiatives being undertaken in 2003–04.



POLICY FOCUS

The AIC's key policy recommendations focus on:

- Innovation policy and industry clusters
- Industry-science relationships
- Intellectual Property (IP) management and accountability for IP
- Taxation incentives for commercialisation
- Metrics, benchmarking, and best advice on commercialisation outputs
- Supporting people and providing an entrepreneurial culture



THE AIC'S SUMMARY POSITIONS ARE:

INNOVATION POLICY AND INDUSTRY CLUSTERS

The AIC perspective is based on the National Innovative Capacity Framework¹, and examines both public and private sector contributions to the economy. Examination of Australia's economic performance indicates that unless a shift is made to encourage new emerging growth industries, Australia as a nation will be unable to sustain its current level of economic and productivity growth. Australia's competitive position will weaken without an increased focus on innovation in existing industries and the development of new industries based on emerging technologies².

The National Innovative Capacity Framework provides a model of how a nation's relative performance in producing global innovation is linked to strengths in the following three areas:

- a common innovation infrastructure;
- the vitality and innovation orientation of regional clusters and
- the quality of linkages between the innovation infrastructure and a nation's clusters.

Assessing Australia's Innovative Capacity in the 21st Century provides an analysis of the Australian innovation system using the Porter-Stern National Innovative Capacity Framework and has identified the following major weaknesses:

- Mismatch between public and private sector research priorities
- Mismatch between public investment in skills development and private sector capital investment
- Lack of clusters
- Decline in human capital base due to reduced investment in education

Three findings stand out when the underlying causes of these weaknesses are examined. First, no single factor uniquely determines the ability of a country to produce global innovation; innovation depends on strength along multiple dimensions including the quality of human resources, effective public policy, and innovation-oriented corporate investment. Second, since companies are the ultimate engine for innovation, vital clusters in which firms compete on the basis of innovation but co-operate on shared priorities is crucial to the process of producing global innovation. Third, by facilitating knowledge transfer and cumulative step-by-step progress, universities and other "institutions for collaboration" play an especially important role in determining the innovative capacity of a particular location. In short innovation is driven by a number of factors which can be enhanced by effective policy interventions. The AIC also believes that the quality of innovative leadership within the firm is an important fourth factor, since Australia's economy has relatively few clusters, boards and senior management of companies must play a key sustaining role in driving innovation.

The AIC is working to support the strengthening of national innovation policy and to establish measurement methodologies to assess improvement in the weaknesses outlined above.

"The CSIRO has forged a partnership with the AIC to identify the need for better measurement of commercialisation outcomes. We are hoping that this will raise the state of play around technology transfer in Australia."

Mr Mehrdad Baghai, Executive Director, CSIRO.

¹Gans and Stern, *Assessing Australia's Innovative Capacity in the 21st Century*, 2003.

²Gans and Stern, 2003.

INDUSTRY-SCIENCE RELATIONSHIPS

A key element of all successful innovation based economies and sustainable economic growth is high quality linkages between industry and science². It is generally agreed that much of the issue with weak industry-science relationships is cultural, and relates to a need to build networks of people who can communicate with both communities. There is a need to broaden the science community's concept of what is 'acceptable' and 'first rate' to include market-driven and commercial research. However, it must also be noted that with a few exceptions (wine, mining and agricultural research development corporations) industry has not articulated what it needs to solve its problems – which makes it difficult for the science community to develop research programs to address the issues faced by industry.

The AIC has developed mechanisms to facilitate these linkages through the proposed AIC Commercialisation Brokerage, expatriate network, e-market www.aussieopportunities.com, and through working with organisations such as the InnovationXchange to encourage industry involvement.

The outcome from this effort will be an increased alignment in public and private sector research priorities. The objective is to increase the development and application of new technologies, processes and services by Australian industry – in addition to the fast adoption strategies used to date. Only this capability will allow Australian industry to exploit the high growth opportunities presented by niche markets.

INTELLECTUAL PROPERTY (IP) MANAGEMENT AND ACCOUNTABILITY FOR IP

A major impediment to technology-based innovation is proper management of IP. Clear ownership and exploitation rights are needed if IP is to be successfully commercialised. As the first stage in its policy campaign, the AIC is championing the need for public sector boards to play a more active role in the accountability for IP held by their institutions. This encouragement to improve IP management practices will enable improved commercialisation of IP portfolios.

Two specific issues are of interest to AIC's researchers. The first relates to the valuation of IP, particularly for small start-up companies. The second relates to IP in the form of "Know-How", and how to protect it and ultimately commercialise it. For instance, government research departments are often rich in intellectual capital, but are unable to package and bundle it so it can be transferred to generate revenue.

TAXATION INCENTIVES FOR COMMERCIALISATION

Taxation can be a significant barrier to commercialisation; a view shared by a number of stakeholders in the commercialisation sector. The AIC has identified four main areas which constitute impediments to commercialisation, these are tax relief for investment in early stage start-up companies; taxation ramifications for employee incentive schemes; treatment and valuation of intellectual capital as an asset; and taxation implications of company structure.

The value of Australian IP is huge and the potential to increase its value is significant based on lower salary and follow-on costs in Australia. A key way to maintain and to potentially increase that value is to address the inconsistencies in the present taxation requirements. The AIC is undertaking research in partnership with expert groups to address these issues.

METRICS, BENCHMARKING, AND BEST ADVICE ON COMMERCIALISATION OUTPUTS

International evidence and examination of Australia's position concludes that a long term, strategic approach to innovation is required to secure economic growth and a sustained quality of life. The investments required are substantial, and results must be measured to ensure that these resources have been allocated in the most effective and efficient manner.

Current measures of innovation and commercialisation are commonly based around indicators of input such as expenditure rather than outcomes of investment, such as jobs and wealth creation. The fact that many of these measures are also collected on an *ad-hoc* basis makes it difficult for a coherent national approach to innovation policy. The AIC suggests taking a

holistic view of research programs' contributions to the economy and measuring outcomes as part of a process, rather than on a program by program approach.

Most jurisdictions are grappling with methodologies to measure the return on investment from innovation, but lack the capability to produce more than a series of indicators. The provision of independent measurement of outcomes relating to value, cost effectiveness and economic impact would allow jurisdictions to better allocate their resources to obtain the results they are seeking.

The AIC has begun work in this area with, the examination of the impact of commercialisation (in conjunction with The Allen Consulting Group).

SUPPORTING PEOPLE AND PROVIDING AN ENTREPRENEURIAL CULTURE

An innovation based economy uses the knowledge of its people to grow. This is the resource with the highest premium. Despite its pioneering beginnings and early inventiveness, Australia is often recognised as having a risk-averse culture. Measures to address this and to provide the skills base needed for effective commercialisation have been built into the AIC programs.

Of particular concern is an identified shortage in Australia of experienced industry and business managers to undertake commercialisation activities, including managing new companies, in Australia. This lack of critical mass of skills and experience increases the likelihood of failure of new businesses and reinforces a risk averse culture.

The skill sets required to undertake these tasks are broad and seldom found in one individual, while others are highly specialised and only required on

a professional basis intermittently. The fragmented nature of experienced personnel and networks has constrained development of an identifiable critical mass of "serial entrepreneurs" in Australia.

The AIC's approach offers a co-ordinated solution to these issues. In addition, the AIC is developing a program to link expatriate and repatriate Australians to enable access to an extended network of skills and experience for mentoring and awareness raising activities. These approaches combined with the delivery of quality, practical education initiatives are intended to facilitate culture change and build new commercial capability to generate the critical mass of managers required in Australia.

"Queensland Health recognises the value of its public sector research. The AIC is helping to unlock this potential."

Dr. Gerry Fitzgerald, Chief Medical Officer, Queensland Health

PROGRAM INITIATIVES FOR 2003–04

After one year of operation, the AIC has demonstrated the value of its programs and has generated growing support, based on performance rather than expressed intention.

Initiatives the AIC has developed for 2003–04 have received considerable support from State and Territory stakeholders and public research institutions. These are described below.

WHERE WE'RE

THE AIC NATIONAL COMMERCIALISATION BROKERAGE

A recent study³ commissioned by the AIC forecast a difference of \$20 billion in exports annually by 2020 between Australia achieving excellence in commercialisation of its public research and a mediocre commercialisation performance. While there are good signs of improvement over the past five years we are still performing in the mediocre range by world standards and much remains to be done to achieve excellence.

The AIC National Commercialisation Brokerage is being developed to help ensure we achieve excellence in commercialisation within the next five years.

It will aspire to create an increasing number of success stories in new ventures following the path blazed by stand-out high growth companies like ResMed, Cochlear, Radiata, and others. It will also build on the emerging success of commercialisation companies and units associated with our larger research catchments, including UniQuest, Uniseed, and Unisearch.

The question is: how can we lift our performance into the "excellent" category in the minimum period for the minimum commitment of additional resources?

The AIC National Commercialisation Brokerage is designed to answer this question.

"The AIC has been a strong advocate of the Australian Industry InnovationXchange Network and the importance of building practical linkages across industry, research and government.

The InnovationXchange Network looks forward to working with the AIC in the coming year to further advance Australia's commercialisation capabilities."

Mr Grant Kearney, Chief Executive, Australian Industry Group Tyree Foundation

This Program will:

- Draw on existing skills and experience in the top-performing commercialisation companies and units associated with our best R&D catchments across the nation;
- Follow a regional model, with the AIC acting as facilitator among the states creating regional hubs for delivery of commercialisation improvement services and assistance close to the institutions to be served;
- Over a 3–4 year period, provide a program of learning by doing to all research institutions, especially to the smaller bodies, including CRCs, Special Research Centres, Medical Research Institutes and regional Universities that are currently not performing well in commercialisation. The program will have two main components:
 1. Capability enhancement services, including systems, procedures and training to produce more and higher quality "primary" deal flow;
 2. Project development services to demonstrate how to take projects from the "bench" to an early proof of concept in a way that makes the project attractive to investors.
- The benefits that will be achieved are increased commercialisation capacity of many regional and smaller research institutions, improved deal flow to the VC seed funds, and the engagement of small enterprises in the adoption of innovation outcomes.

³The Allen Consulting Group, "The Economic Impact of the Commercialisation of Publicly Funded R&D in Australia", August 2003.



GOING

AUSSIE OPPORTUNITIES

www.aussieopportunities.com is a web-enabled program and database which will be actively promoted to showcase research and technology projects developed in Australia, with an initial focus on public R&D. It is being delivered through a joint venture comprising the AIC and the Pacific Capital Corporation Ltd, with input from Knowledge Commercialisation Australia.

The intention of AussieOpportunities is to increase the interaction between Australian researchers and those parties that may be

able to provide the necessary assistance to progress Australian inventions, and to maximise

the effectiveness of these potential partnerships. This initiative is a major step forward in promoting Australia's R&D potential, both in Australia and globally.

COMMERCIALISE 2003 WORKSHOP SERIES

Commercialise 2003 is being delivered as a national series of events funded by the Victorian Government and co-branded with the Australian Institute for Commercialisation (AIC). In 2003 the event has two streams:

- improving public sector technology transfer capability; and
- business engagement with innovation.

The technology transfer component is being developed by the AIC's Strategic Adviser on Technology Transfer, Dr John Sime of Imperial College, United Kingdom. Dr Sime will deliver a series of master classes and provide input into world's best practice for technology transfer and the AIC's Commercialisation Brokerage Service.

The business engagement component is being delivered through a stakeholder management plan. The plan focuses on boosting the awareness, understanding and support for Australian innovation and innovative capacity among key business organisations and individuals.

"AIC is uniquely positioned as a national body to make major contributions to improvement of commercialisation of the outcomes from Australian research, development and ingenuity across Australia. The proposed Commercialisation Brokerage Service holds the promise of lifting our commercialisation performance nationally, a key link in the chain of impacts associated with innovation that will create wealth and economic prosperity in Australia."

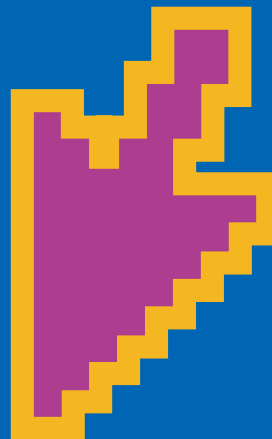
Dr David Evans, CEO – Scientia Fund



Australian Institute
for Commercialisation

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DIRECTORS' REPORT

The directors present their report together with the financial statements of the Australian Institute for Commercialisation Ltd (AIC) for the year ended 30 June 2003.

DIRECTORS

The directors of the company in office any time during or since the end of the year are:

Dr Peter Jonson (Chair)	Sir Leo Hielscher
Mr Ross Adler	Mr John Read
Professor Adrienne Clarke (AO)	Professor Malcolm Richmond
Professor Paul Greenfield	Mr Ross Rolfe
Professor John Hay	

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

Directors' qualifications, experience and special responsibilities associated with the AIC is summarised below

Dr Peter Jonson

appointed as Director 08/05/2002

Dr Peter Jonson is a professional director and economist. He is currently Chair of the Australian Institute for Commercialisation, Chair of the CRC for Microtechnology, a Director of Village Roadshow Ltd, Sequoia Capital Management Ltd and Pro Medicus Ltd. In 2002 Peter served as Chair of the Biotechnology Centre of Excellence Expert Panel and in 2001 he was Chair of the Major National Research Facilities Committee. Peter was Chair of the Melbourne Institute's Advisory Board from 1992–2002 and is now Chairman Emeritus.

Peter held a number of senior positions as an economist with the Reserve Bank of Australia from 1972 to 1988. In his commercial executive career, Peter served as Managing Director and then Chairman of ANZ Funds Management, Finance Director and then Group Managing Director of Norwich Union Financial Services Ltd. He is a Fellow of the Academy of the Social Sciences in Australia and a Fellow of the Australian Institute of Company Directors.

Dr Jonson chairs the AIC Human Resources Committee and also chairs the AIC Policy and Best Practice Committee.

Mr Norman Ross Adler (AO)

appointed as Director 08/05/2002

Mr Norman Ross Adler (AO) (Ross) is currently the Chair of Austrade and Amtrade International Pty Ltd and a director of the Commonwealth Bank of Australia Ltd. He is a former director of Telstra Corporation Ltd. He was managing director of Santos Ltd and Deputy Managing Director of Australian Paper Manufacturers (now Amcor Ltd), Chairman of Containers Ltd and Brown and Dureau Ltd. He has held many other directorships and senior positions with publicly listed companies, governmental advisory panels and business and community institutions, and organisations.

Mr Alder is a member of the AIC Policy and Best Practice Committee.

Professor Adrienne Clarke

_____ appointed as Director 11/06/2002

Professor Adrienne Clarke is Laureate Professor at the University of Melbourne. She has held positions as Ambassador for Biotechnology for Victoria, Co-chair of the Victorian Council for Knowledge, Innovation, Science, and Engineering, and co-chair of the Victorian Government's Science, Engineering, and Technology Taskforce from 1997–1999. She was Lieutenant Governor of Victoria from 1997–2000.

Professor Clarke is the immediate Past-President of the International Society for Plant Molecular Biology (1997–1998). Her work as a scientist is in the fields of genetic engineering of plants, and the chemistry of gums and exudates. She serves on the Prime Minister's Supermarket to Asia Council and is a member of the Trade Policy Advisory Council. She was Chairman of CSIRO 1991–1996 and is a member of the Board of Directors of Woolworths Ltd, WMC Ltd, Fisher Paykel Health Care Ltd and the Committee for Melbourne.

Professor Clarke is a member of the AIC Policy and Best Practice Committee.

Professor John Hay

_____ appointed as Director 11/06/2002

Professor John Hay is currently the Vice-Chancellor of the University of Queensland, Chair of the Australian Universities Teaching Committee, and the Group of Eight Australia's Leading Universities. He is also a member of the Advisory Council for the encouragement of Philanthropy in Australia. He was formerly Chair of the Academic Board at the University of Western Australia, Dean of Arts, Monash University, Deputy Vice-Chancellor, Monash University and Vice-Chancellor and President of Deakin University.

Professor Paul Greenfield

_____ appointed as Alternate Director 11/06/2002

Professor Paul Greenfield (Alternate for Professor John Hay) has been the Senior Deputy Vice-Chancellor (Research), University of Queensland since 1997. He has been a director of UniQuest since 1993, and Chair of the Technology Working Group Hazardous Wastes Committee since 1995.

Professor Greenfield chairs the AIC Education Committee.

Sir Leo Hielscher

_____ appointed as Director 08/05/2002

Sir Leo Hielscher was the Under Treasurer of Queensland for 14 years before his appointment as inaugural Queensland Treasury Corporation Chairman in 1988. As well as Chairman of QTC, he is also Chairman of Austsafe Ltd, and Gladstone Special Steel Corporation. Until recently, Sir Leo was associated with a number of public and private sector Boards. Sir Leo was awarded an Eisenhower Fellowship in 1973, a Knight Bachelor in 1987 and an Honorary Doctorate of Griffith University.

Sir Leo chairs the AIC Audit and Risk Management Committee and is a member of the Human Resources Committee.

Mr John Read

_____ appointed as Director 08/05/2002

Mr John Read is currently the Principal Commercial Advisor and was previously the Director Commercial and Finance of the Commonwealth Scientific Industrial Research Organisation (CSIRO). He has over 15 years experience in commercialising innovation with extensive experience in identifying investee company management, risk analysis, initial public offerings, mergers and acquisitions, and shareholder relations across a broad range of industries. He is Chairman of The Environmental Group (develops and markets technology, know-how and processes for the water, wastewater, gas and vapour industries) and a director of Continental Venture Capital Limited and numerous public and private companies.

Mr Read chairs the AIC Intellectual Property Committee and is a member of the Human Resources Committee.

Professor Malcolm Richmond

_____ appointed as Director 11/06/2002

Professor Malcolm Richmond is a Professorial Fellow of University of Western Australia within the Faculty of Engineering, Science and the Graduate School of Business. He also advises the university on commercialising its research. He has spent much of his career in the mining industry, including a period from 1994–2000 as Director, Development, Hamersley Iron. Prior to that he held various senior roles in Rio Tinto, including Managing Director (Research and Development), Vice President (Strategy and Acquisitions), and Vice President (Business Planning). He was also General Manager (Commercial) for Hamersley Iron, Deputy Chairman AMIRA, Director SGS Australia and Magnesium International Ltd. He is a non-executive Director of Sons of Gwalia.

Professor Richmond is a member of the AIC Policy and Best Practice Committee.

Mr Ross Rolfe

_____ appointed as Director 08/05/2002

Mr Ross Rolfe is currently the Chief Executive Officer of Stanwell Corporation and Chair of the Queensland Manufacturing Institute. He is the former Director-General of the Queensland Department of State Development and former Queensland Government Coordinator-General. He is currently a Member of the Construction Queensland Board, the Industrial Suppliers Office (Queensland) Limited Board, the Queensland Advisory Committee for the Committee for Economic Development of Australia and the Council of the Queensland University of Technology and a Director of i.lab Incubator Pty Ltd.

Mr Rolfe is a member of both the AIC Audit and Risk Management Committee and the Human Resources Committee.

PRINCIPAL ACTIVITIES

The AIC mission is to work with Australian research institutions and industry to maximise returns from research and development investment.

The principal activities of the company during the financial year supporting the company mission were to:

- realise considerable improvement in the rate and quality of development of new business start-ups from technology;
- increase the realisation of the value from intellectual property generally;
- participate in the achievement of a much greater contribution to Australian economic growth from the rapid transformation of research outcomes into business success; and
- improve the value proposition to government and other investors in research in Australia by helping to create an environment, culture and processes that maximise returns for these investments

There were no significant changes in the nature of these activities during the year under review.

OPERATING RESULT

The surplus from ordinary activities after income for the year was \$1,100,287.

The Queensland Government has underwritten the establishment of the AIC by \$10 million over five years.

The funding profile reduces over the five year period commencing in 2002. The initial funding profile for the first year of operation (2002–03) exceeds full year costs due to the in-kind support provided by the Queensland Government Department of State Development and lower than budgeted costs. This surplus will fund activities in 2003–04 allowing lower ongoing funding contributions.

REVIEW OF OPERATIONS

The AIC has structured its activities to address three key barriers identified by the company as impediments to improved commercialisation. These are inadequate coordination, skills, and analysis within the commercialisation sector. Through an independent, collaborative approach, combined with its national linkages, the AIC is well positioned to tackle these challenges.

Firstly, fragmentation across the commercialisation environment acts as a barrier to success. This is exacerbated by insufficient engagement between the research and business communities. The “AIC Connect” programs provide a platform to establish national and global networks to better coordinate and leverage existing commercialisation activities. It will achieve improved deal flow through economies of scale and bundling of research opportunities.

Secondly, Australia does not have a depth of commercialisation management experience in start-up companies born from R&D. “AIC Know-How” programs partner with universities and industry to deliver professional development courses and develop an improved pool of knowledge on commercialisation practices. The purpose is to improve commercialisation management skills.

Thirdly, there is inadequate measurement and analysis of commercialisation activities. What cannot be measured cannot be managed. Armed with improved information and assessment tools, industry can better allocate resources and government can better formulate public policy. "AIC Assess" will undertake research to enhance decision making.

DIVIDENDS

Section 4.1 of the AIC's constitution states that the Directors are prohibited from paying dividends to shareholders.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, there have been no significant changes in the state of affairs of the company that occurred during the financial year under review, or since the balance date, that impact upon its activities or financial outlook, other than as reported herein.

EVENTS SUBSEQUENT TO BALANCE DATE

There have been no events since the end of the financial year that have or may significantly effect future operations, results or state of affairs.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

A summary of the likely developments to be undertaken during the forthcoming 2003/04 financial year are to further the establishment of activities associated with the AIC three key program areas in order to improve co-ordination, skills, and analysis within the commercialisation sector. Specific projects include:

- Establishment of a Commercialisation Brokerage Service for smaller and regional public research organisations;
- Delivery of professional development courses to researchers in both public research institutions and government agencies and provide professional development to managers and directors associated with commercialising research;
- Establishing linkage programs and events among industry and researchers; and between Australian expatriates with researchers seeking international market intelligence;
- Undertaking assessment of commercialisation outputs with a view to providing policy input and amassing greater commercialisation expertise as a nation, and
- Fostering co-operative activities in a fragmented sector.

SHARE OPTIONS

There are no share options in existence at this time.

DIRECTORS' SHAREHOLDINGS

At the time of publication, no Directors held any beneficial interest in the shares of the Company. All issued shares are held by the Shareholding Minister on behalf of the Queensland Government.

INDEMNITIES

The company has not, during or since the financial period, in respect of any person who is or has been an officer or auditor of the company:

- Indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer including costs and expenses in successfully defending legal proceedings; or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for costs and expenses to defend legal proceedings.

DIRECTORS' BOARD MEETING ATTENDANCE RECORD

During the year AIC Ltd held three meetings of Directors. The attendance of the Directors at meetings of the Board were as follows:

Directors	31/07/02	31/10/02	26/03/03
Dr Peter Jonson	•	•	•
Mr Ross Adler	•	•	•
Professor Adrienne Clarke	•	•	•
Professor Paul Greenfield	•	•	•
Professor John Hay	•	•	•
Sir Leo Hielscher	•	•	•
Mr John Read	•	•	•
Professor Malcolm Richmond	•	•	•
Mr Ross Rolfe	•	–	•

BOARD DIRECTORS' COMMITTEE MEETING RECORD

The AIC Ltd Board have appointed five Committees. In each case the membership of these Committees comprises as a minimum one director appointed by the Board. Several of the Committees are assisted in their duties by suitably qualified external advisors. Representatives of management also attend the meetings by invitation and provide a secretariat role. The attendance of the Directors at meetings of the committees were as follows:

	Audit & Risk Management Committee		Education Committee	IP Committee		Policy & Best Committee	HR Committee
	22/10	14/3	6/3	16/10	11/3	24/4	Did not meet in 2002/03
Dr Peter Jonson	•					•	
Mr Ross Adler						•	
Professor Adrienne Clarke						•	
Professor Paul Greenfield			•				
Professor John Hay							
Sir Leo Hielscher	•	•					
Mr John Read				•	•		
Professor Malcolm Richmond						•	
Mr Ross Rolfe	•	•					

The specific responsibilities of each of these Committees are as follows:

Audit & Risk Management Committee

The purpose of the Committee is to provide advice and recommendations to the Board and assistance to the Chief Executive Officer in matters pertaining to:

1. the adherence to corporate legislation, the constitution of the AIC and other statutory and administrative requirements and guidelines relevant to the legal, efficient and effective operation and good governance of the AIC;
2. (related to 1 above) to ensure that all audit requirements (both external and internal) are undertaken in a timely, professional and thorough manner, and to assist in the implementation of any recommendations resulting from those audits;
3. under the constitution and strategic and operational planning documents, to recommend to the Board and to assist the Chief Executive Officer in the identification and management of corporate and financial risk to the organisation;
4. other duties, support and advice that the Board may request of the committee on a case-by-case basis.

Mr Michael Back (Managing Partner, Freehills) and Mr Mike Hefferan (AIC Advisor) are external advisors and are members of the AIC Audit & Risk Management Committee.

Education Committee

The Education Committee was established to provide advice and recommendations to the Board and assistance to the Education Project Managers in matters pertaining to:

1. strategic direction and targeting of education and professional development initiatives and support through the AIC – having regard to its overall philosophy and responsibilities, budget and priorities;
2. to assist in and review the development and roll-out of agreed projects in the areas of education and professional development;
3. to use committee members' networks and linkages to help support and advance the interests of the AIC in this area.

Mr Colin Melvin (Office of Commercial Services, QUT), Ms Pamela Murray-Jones (General Manager National Education, Australian Institute of Company Directors), Professor Adolf Hanich (Director, Graduate School of Entrepreneurs, Swinburne University), Mr Michael Quinn (Executive Chairman, Innovation Capital), Professor Edwina Cornish (Deputy Vice-Chancellor (Research) University of Adelaide) and Professor Sandra Harding (Dean, Business School, QUT) are external advisors and all are members of the AIC Education Committee.

Intellectual Property Committee

The purpose of this Committee is to provide advice and recommendations to the Board as well as assistance to the Chief Executive Officer and the Senior Project Manager in matters pertaining to:

1. the identification of intellectual property (IP) issues inhibiting commercialisation of Australian research and development and recommendation on policies to

overcome the inhibiting factors (including providing advice on how these matters may be implemented) as well as provide education, training and associated activities on these matters, whilst having regard to other programs being undertaken by AIC;

2. the identification, valuation, protection, management and ownership of IP developed by the AIC through its activities and dealings – whether that IP be generated within the AIC or on its behalf or in partnerships with other organisations, contractors and consultants etc – and provide any necessary training and education to be provided in relation to these matters;
3. the identification of background IP provided to the AIC from participating organisations and partners and to ensure that IP is managed, protected and dealt with in accordance with the agreements with those other organisations;
 - assistance with the resolution of any outstanding issues or problems between AIC partners pertaining to the use of IP;
 - providing input and assistance, on a specific project basis, to papers, documents, courses etc that the AIC develops on IP;
4. other duties, support and advice that the Board may request of the committee in areas pertaining to IP and its use.

Professor Brad Sherman (Director, Centre for IP Research, Griffith University), Dr Adrian McCullagh (Solicitor, Freehills) and Professor Andrew Christie (Centre for IT Research, University of Melbourne) are external advisors and members of the AIC Intellectual Property Committee.

Policy and Best Practice Committee

The purpose of this Committee is to provide advice and recommendations to the Board and to provide input and assistance to the Chief Executive Officer and the other executives of the AIC so that:

1. the progress of work on established priorities is maintained and, where problems or resource allocation etc arise, to provide input and suggestions as to how the priorities can be re-affirmed and moved forward;
2. to help structure innovative but practical methodologies for the development, verification, promotion and distribution of projects and their outcomes and to provide ideas for the adaptation of those methodologies to specific cases and projects;
3. as projects proceed, to give assistance, positive direction, lateral ideas and input into the management of that project to ensure timely, quality delivery;
4. to use networks and contacts to assist in identifying strategic partners and those who can provide high quality input to projects, case studies etc;
5. to read, positively critique and have input into documents and research/project outcomes to ensure highest standards;
6. where contentious policy issues emerge in areas of interest and influence of the AIC, to provide advice regarding the issue, risks, environment etc of the issue and to suggest to the Board an appropriate AIC response;

7. to be alert to the general environment in which AIC operates and to provide suggestions and recommendations on how the AIC should position itself and take action to address the matter.

Dr Robin Batterham (Chief Scientist for the Commonwealth of Australia) is an external advisor and member of the AIC Policy & Best Practice Committee

Human Resources Committee

The purpose of the Committee is to provide advice and recommendations to the Board and assistance to the Chief Executive Officer in matters pertaining to:

1. Human Resources systems, policies and procedures and operations within the AIC to ensure that they represent sound, contemporary practice both for the AIC and for the fostering and development of quality, dedicated staff;
2. consider, on an annual basis, for recommendation to the Board of remuneration levels and related matters;
3. to assist the Chief Executive Officer where appropriate, on particular issues, grievances etc pertaining to staff management within the organisation

EMPLOYEE INFORMATION

The AIC opened with the appointment of an acting Chief Executive Officer, Mike Hefferan, on secondment from the Queensland Government Department of State Development. In May 2003 Dr Rowan Gilmore was appointed as permanent Chief Executive Officer.

The company employed eight permanent staff as at June 30, 2003.

ETHICAL STANDARDS

All directors, senior executives and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Institution. They are charged with performing their duties in a lawful, objective and professional manner.

To reinforce this requirement, the AIC issued a Code of Conduct in August 2002. The Code is a public statement of its corporate business philosophy and clearly enunciates the entity's business ethics and the required standards of conduct by all employees.

INTERACTION WITH SHAREHOLDERS

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Institution's state of affairs. Information is communicated to shareholders as follows:

- The Board ensures that the full annual financial report is available to all shareholders
- The Board has invited a shareholder representative to act as an advisor to the Board
- The Quarterly Report to Shareholders
- The appointment of a Government representative on the Audit and Risk Management Committee
- The development and distribution of the Strategic Plan
- Notices of all meetings of shareholders

LEGAL COMPLIANCE

The Institution is committed and organised to meet its various legal requirements. The Audit and Risk Management Committee has been established to consider and review risk management and compliance practice across the AIC.

PROCEEDINGS ON BEHALF OF AIC

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

This report is made in accordance with a resolution of the directors.

Dr Peter Jonson
Chairman

Sir Leo Hielscher
Director

Dated this _____ day of _____ 2003

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2003

	Note	2003 \$
Revenue from ordinary activities	2	2,679,641
EXPENDITURE		
Depreciation & amortisation	3	33,848
Computer and website expenses	3	135,172
Consultants and contractors expenses	3	249,389
Legal costs	3	61,122
Occupancy costs	3	145,718
Staff costs	3	321,484
Directors fees & other board expenses	3	170,604
Media Promotions	3	145,923
Travelling costs	3	115,193
Staff Recruitment	3	76,562
Other expenses from ordinary activities	3	<u>124,339</u>
Surplus from ordinary activities before income tax		1,100,287
Income tax attributable to surplus from ordinary activities 1(a)		–
Surplus from ordinary activities after income tax		<u>1,100,287</u>
Total changes in equity other than those resulting from transactions with owners as owners attributable to Members to Australian Institute for Commercialisation Ltd		<u><u>1,100,287</u></u>

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2003

	Note	2003 \$
CURRENT ASSETS		
Cash assets	16(b)	893,392
Receivables	5	125,445
TOTAL CURRENT ASSETS		1,018,837
NON-CURRENT ASSETS		
Plant and equipment	6	249,721
Intangible assets	7	10,000
TOTAL NON-CURRENT ASSETS		259,721
TOTAL ASSETS		1,278,558
CURRENT LIABILITIES		
Payables	8	160,283
Provisions	9	17,987
TOTAL CURRENT LIABILITIES		178,270
TOTAL LIABILITIES		178,270
NET ASSETS		1,100,288
EQUITY		
Contributed Equity	10	1
Retained Profit	11	1,100,287
TOTAL EQUITY		1,100,288

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2003

	Note	2003 \$
Cash flow from Operating Activities		
Receipts from QLD Government		2,250,000
Reimbursement of capital expenditure		250,000
Interest Received		25,600
Fees for Services		28,596
Payment to Suppliers		(1,448,672)
GST Collected in Revenues		252,600
GST Refunds received from ATO		102,957
GST paid to Suppliers		(135,214)
GST paid to ATO		(151,500)
Net Cash Provided by Operating Activities		1,174,367
Cash Flows from Investing Activities:		
Payment for Property, Plant & Equipments		(283,569)
Payment for Patents & Trademarks		(10,000)
Net Cash Provided by/(Used in) Investing Activities		293,569
Cash Flows from Financing Activities		
Net Proceeds from Borrowings		—
Net Cash Provided by/(Used in) Financing Activities		—
Net Increase/(Decrease) in Cash Held		880,798
Cash at Beginning of Financial Year		—
CASH AT END OF FINANCIAL YEAR	16(a)	880,798

The above Statement of Cash Flow should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2003

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standard. Urgent Issues Group, Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Boards.

The financial report is prepared on an accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

Australian Institute for Commercialisation Limited is a public limited company incorporated under the *Corporations Act 2001*, domiciled and incorporated in Australia.

The following specific accounting policies have been adopted in the preparation of this financial report:

(a) Income Tax

No provision for income tax has been raised as the company is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

(b) Property, Plant and Equipment

Property, plant and equipment are carried at cost, less, where applicable, any accumulated depreciation. The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure that it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employed and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amount.

All fixed assets are depreciated on a straight line basis over their useful lives commencing from the time the assets are held ready for use.

The depreciation rates used for each class of assets are:

<u>Class of Fixed Assets</u>	<u>Depreciation Rate</u>
Office Equipment	11.25 – 40.00%
Furniture & Fittings	5.00 – 20.00%

(c) Revenue

Grant revenue is recognized when received.

Interest revenue is recognized on a proportional basis taking into account the interest rates applicable to the financial assets.

(d) GST

All receivable and payables in the Statement of Financial Position are stated inclusive of GST. The net amount of GST receivable from or payable to the Australian Taxation Office at balance date is separately disclosed as either a current asset or a current liability in the Statement of Financial Position.

All other items in the Statement of Financial Position are stated exclusive of GST.

(e) Comparatives

As this is the first year of operation for the company, no comparatives exist.

NOTE 2: REVENUE FROM ORDINARY ACTIVITIES

	\$
General Grant – Queensland	2,250,000
Reimbursement of capital expenditure	250,000
Fees for Services	154,041
Interest	25,600
	<u>2,679,641</u>

NOTE 3: EXPENSES FROM ORDINARY ACTIVITIES

Depreciation	
Plant & Equipments	28,156
Furniture & Fittings	5,692
Total	<u>33,848</u>
Other expenses from ordinary activities	
Computer and website expenses	135,172
Consultants and contractors expenses	249,389
Legal costs	61,122
Occupancy costs	145,718
Staff costs	321,484
Directors fees & other board expenses	170,604
Media Promotions	145,923
Travelling costs	115,193
Staff Recruitment	76,562
Other expenses from ordinary activities	124,339
	<u>1,579,354</u>

Audit fees estimated at \$15,000 were not accrued for this financial year.

NOTE 4: DIRECTORS' REMUNERATION

(a) Directors' Remuneration

	\$
Income paid or payable to all directors of the company by the company and any related parties	\$224,255

Number of directors whose income from the company or any related parties was within the following bands:

	No.
\$0,000 – \$9,999	4
\$30,000 – \$39,999	4
\$100,000 – \$109,000	1

The names of directors who have held office during the financial year are:

Dr Peter Jonson (Chair)
Mr Ross Adler
Professor Adrienne Clarke (AO)
Professor Paul Greenfield
Professor John Hay
Sir Leo Hielscher
Mr John Read
Professor Malcolm Richmond
Mr Ross Rolfe

(b) Retirement and Superannuation Payments

Superannuation was paid for the provision of retirement benefits by the company.

Retirement and Superannuation Payments:

Amounts of a prescribed benefit given during year by the company or a related party to a director or prescribed superannuation fund in connection with the retirement from a prescribed office is \$9,082.

2003
\$

NOTE 5: RECEIVABLES

Trade Debtor	125,445
Total Receivables	<u>125,445</u>

NOTE 6: PLANT & EQUIPMENT

Plant & Equipment at cost	132,851
Less: Accumulated Depreciation	<u>28,156</u>
	104,695
Furniture & Fittings at cost	150,718
Less: Accumulated Depreciation – Furniture & Fittings	<u>5,692</u>
	145,026
Total Plant & Equipment	<u>249,721</u>

NOTE 7: INTANGIBLE ASSETS

Patents & Trademarks	10,000
Total Intangible Assets	<u>10,000</u>

NOTE 8: PAYABLES

Superannuation payable	6,566
GST payable	81,877
PAYG withholding payable	<u>71,840</u>
Total Payables	<u>160,283</u>

NOTE 9: PROVISIONS

Current	
Employee Entitlements	<u>\$17,987</u>
Total Current Provisions	<u>\$17,987</u>

NOTE 10: CONTRIBUTED EQUITY

1 Fully paid ordinary share	<u>1</u>
-----------------------------	----------

At the beginning of the period, the company has incorporated and issued 1 share at a face value of \$1.

NOTE 11: RETAINED PROFIT

Opening Balance	–
Profit from ordinary activities after income tax	1,100,287
Dividends provided/paid	<u>–</u>
Closing Balance	<u>1,100,287</u>

*Costs for the first year were less than budget due to timing differences between income and expenditure. The surplus will fund activities in 2003–04 allowing lower ongoing funding contributions.

NOTE 12: CONTINGENT LIABILITIES

The company has no know contingent liabilities at 30 June 2003.

NOTE 13: SEGMENT REPORTING

The company operates across all Australian states and territories as well as with the Federal Government. The AIC operates predominantly in the public research institutions sector with interaction with the private sector.

NOTE 14: FINANCIAL INSTRUMENTS

a) Interest Rate Risk

The economic entity's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The effective weighted average interest rate on the financial asset of cash on deposit at 30 June 2003 was 4.50%.

b) Credit Risk

The maximum exposure to credit risk is the carrying amount of financial assets, net of any provisions for doubtful debts. The company is not exposed to any significant credit exposure.

c) Net Fair Values

The net fair values of financial assets equates to their carrying amounts.

NOTE 15: COMMITMENTS FOR EXPENDITURE

2003
\$

- a) Capital expenditure contracted for:
– Payable not later than one year

–

NOTE 16: RECONCILIATION OF CASH

	2003
	\$
a) Reconciliation of cash	
Includes Cash on Hand and in Banks and Investments in Money Market Instrument, net of outstanding bank overdrafts	
Cash at Bank	256,990
Term Deposit	623,808
	<u>880,798</u>
b) Cash Assets	
Security Deposits – Rent	12,439
Petty Cash Imprest	155
Cash at Bank	256,990
Term Deposit	623,808
	<u>893,392</u>
c) Reconciliation of Net Cash provided by Operating Activities to Surplus from ordinary activities after Income Tax	
Surplus from ordinary activities after income tax	1,100,287
Add(Less) Non cash flows	
Depreciation	33,848
Changes in Assets and Liabilities	
Decrease/(Increase) in Receivables	(125,445)
Decrease/(Increase) in Other Assets – Security Deposits	(12,439)
Decrease/(Increase) in Other Assets – Petty Cash	(155)
Increase/(Decrease) in Payables	160,283
Increase/(Decrease) in Provisions	17,987
Increase/(Decrease) in Contributed Equity	1
Net Cash Provided by Operation Activities	<u>1,174,367</u>

NOTE 17: EVENTS SUBSEQUENT TO BALANCE DATE

During the delivery of the 2003/04 Queensland State Government Budget, \$1.7M was allocated for the continued operations of the company for the period ended 30 June 2004.

NOTE 18: ECONOMIC DEPENDENCY

In 2002–03, the company had significant reliance on Queensland’s Department of State Development to enable it to continue operations and meet its objectives. Going forward from 2003–04, financial commitments from Australian States and Territories and the Commonwealth are provided for operational project specific funding as well as in kind support.

DIRECTORS' DECLARATION

1. In the opinion of the directors of the Australian Institute of Commercialisation Ltd (AIC):

- a. The financial statements and notes, set out on pages 35 to 43, are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position of the AIC as at 30 June 2003 and of its performance, as represented by the results of their operation and their cash flows, for the year ended on that date; and
 - (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. There are reasonable grounds to believe that AIC will be able to pay its debts as and when they become due and payable.

This report is made in accordance with a resolution of the directors.

Director _____
DR PETER JONSON

Director _____
SIR LEO HIELSCHER

Dated this _____ day of _____ 2003

INDEPENDENT AUDIT REPORT

To the Members of the Australian Institute for Commercialisation Ltd

SCOPE

The financial report - The financial report of the Australian Institute for Commercialisation Ltd consists of the statement of financial performance, statement of financial position, statement of cash flows, notes to and forming part of the financial report and directors' declaration, for the year ended 30 June 2003.

Directors' responsibility - The Directors are responsible for the preparation and true and fair presentation of the financial report, the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach - As required by law, an independent audit was conducted in accordance with QAO *Auditing Standards* to enable me to provide an independent opinion whether in all material respects the financial report presents fairly, in accordance with the prescribed requirements.

Audit procedures included –

- examining information on a test/sample basis to provide evidence supporting the amounts and disclosures in the financial report,
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors,
- obtaining written confirmation regarding the material representations made in conjunction with the audit, and
- reviewing the overall presentation of information in the financial report.

INDEPENDENCE

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors.

The Auditor-General is the auditor of all public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

AUDIT OPINION

In my opinion, the financial report of the Australian Institute for Commercialisation Ltd is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2003 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

L J SCANLAN, FCA
Auditor-General of Queensland

Queensland Audit Office
Brisbane

10 most frequently asked questions

2 **“Are there adequate informational linkages between the R&D institutions and businesses in Australia?”**

Fragmentation across the commercialisation environment acts as a barrier to commercialisation success. This is exacerbated by insufficient engagement between the research and business communities. Characteristics of the fragmentation are the cultural gap between the expectation of researchers and business people; duplication of effort; lack of critical mass; poorly directed R&D (that has no market, meets no requirement, or where results already exist); limited mechanisms and opportunities to support exchange of industry and research staff; and insufficient business planning and market analysis by researchers. The AIC programs will help bridge the gap by promoting policy changes, providing mechanisms for commercialisation and forums for exchange, and educational programs.

1 **“How does the AIC actually help commercialisation?”**

By providing strategic policy input to the national debate and by concentrating on our three key operational themes – “AIC Connect”, “AIC Know-How”, “AIC Assess” and thereby complementing and enhancing the work of existing agencies and institutions.

4 **“How can the AIC help overcome shortages of qualified people in this sector?”**

The AIC’s *Know-How* thrust features a number of education programs. We offer a ‘Directors for Start-ups’ program which focuses on commercialisation governance and management issues; a ‘Commercialisation Boot Camp’ targeted at increasing the commercialisation knowledge of PhD students and early postdoctoral researchers; and the ‘Commercialisation for Decision Makers’ action learning program targeted at mid- to upper-level managers responsible for start-up companies. The AIC’s Visiting Fellows program is another series, to improve communication surrounding commercialisation of research in Australia and to increase its profile in both the public and private sectors.

3 **“Clusters” seem to encourage synergies between enterprises that can result in good commercial outcomes. Does Australia have examples of clusters? What policies can encourage their formation?”**

6

“Is there a correlation between R&D and the creation of wealth? How can we measure this?”

Studies show a positive correlation between R&D expenditure undertaken by the private sector and the creation of wealth. In comparison, the correlation between public sector R&D expenditure and the creation of wealth⁴ without the conversion mechanism of corporate investment is low. Companies are the means of converting R&D into wealth as they provide the employment, taxes, and increase in GDP that are measured as growth consequences of R&D⁵.

⁴Furnman et al 2002; IMD 2002; WEF 2001 & 2002; OECD 2002; CIHE 2002.

⁵Michael Porter, *Global Competitiveness Report*, 2003.

10

“Are tax reforms required to improve commercialisation? Why?”

Many stakeholders in this area consider that tax issues are among the most significant barriers to increased investment in business R&D and to commercialisation, especially with respect to the taxation of shares and options in new ventures which provide the incentive engine for commercialisation of research. Other issues commonly raised relate to the lack of tax deductions for early stage investors, and the taxation of IP as an asset when it is valued or transferred in early stage companies, even though it cannot be amortised. However, it is also notable that some of the most successful entrepreneurs say “tax is not an issue.”

The wine industry is the best publicised example of a successful “cluster” in Australia, where industry-wide issues are solved through co-operative R&D, and overseas marketing and domestic competition have forced producers to use innovation to gain advantage on competitors. The mining industry also has good service consultancy expertise as a result of its traditional strengths. These are two examples of clusters based around primary industries, a source of traditional competitive strength. Regional policies can encourage the formation of clusters through providing financial incentives and supporting an innovation climate. Clusters require demanding local customers, availability of infrastructure and resources, a critical mass of suppliers, and existing competitive strengths. Such policies exist but require the co-ordination of Federal, State, and Local Governments.

7

“Why does Australian business spend such a low amount [relative to Growth Domestic Product (GDP)] on R&D? What should be done about this?”

Australian business expenditure on R&D equates to less than \$250 per head of population versus \$1125 in the US. Most Australian business is SME based. Although many of these survive on the innovative output from their R&D, much of Australian business perceives R&D as a discretionary expense. According to the ABS 1997 Innovation Survey, a lack of finance and the high cost of innovation are the key barriers to innovative activity for SMEs. Secondary barriers cited by industry included a lack of skilled personnel, difficulty controlling the costs associated with the innovation, long pay-back period, legislation, regulations, standards and taxation, and excessive perceived risk. The short-term outlook of many Australian firms also inhibits innovation. To address these issues, the AIC is engaging with government and business to encourage much greater understanding of the importance of competitive advantage borne out of innovation within firms.

8

“What needs to be done to improve the capture and exploitation of Intellectual Property (IP)?”

The AIC believes that Boards of Directors of publicly funded research institutions need to take explicit responsibility for tracking, understanding and using IP developed by the institution on whose board they sit. They need to see that the IP is used by their institution or sold or even given away so that other organisations can have the chance to use any IP that the originating organisation cannot use.

Q

5

“How can researchers be encouraged to commercialise their work? What benefits does it bring them?”

Some recommendations are that:

- The researcher needs to establish good relationships with industry to ensure as early as possible that proposed research has a route to a worthwhile (ideally global) market;
- The culture within research organisations needs to support commercial outcomes;
- The researcher needs to have time available to be involved in technology transfer;
- There needs to be an appropriate reward structure to incentivise those involved;
- The IP needs to be ‘clean’ and protected so the technology can be vested and transferred;
- The researcher should receive professional recognition and status not only for publishing, but also for patenting, technology transfer, and generating income.

The resulting benefits include not only wealth from the commercialisation itself, but potentially increased research funding over time, due to the visibility of the commercialised IP *and* from the innovation needs of the Small to Medium Enterprises (SME) that the commercialisation may spawn.

A and

9

“Why don’t the boards of Australian companies do more to encourage innovation? What can be done to improve commercialisation outcomes?”

Global research⁶ shows that there are massive potential returns on business investment in R&D. One of the biggest challenges is to get this point accepted by Boards of Directors, shareholders and Australian business analysts. Modern executives have a number of pressure points that can prevent a focus on growth and innovation: cost reduction, shrinking markets, change management, and remote (foreign) ownership being just a few. There are many variables that contribute to top-line growth, and too frequently innovation is sacrificed for more readily accessible methods of increasing performance. Australian boards lack diversity and their members too often lack the entrepreneurial flair and knowledge needed to direct a small company, nor may they have experience in issues such as valuing IP or running a start-up. The AIC’s various policy recommendations to change behaviour and culture are relevant here.

⁶IMD, OECD, Porter, Richard Foster Creative Destruction.



Australian Institute
for Commercialisation

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