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Innovation activity plateaus in Australia according to Index findings

SYDNEY, AUSTRALIA December 3, 2009 – IBM (NYSE: IBM) IBM Australia and the Melbourne Institute of Applied Economic and Social Research, University of Melbourne, today published the third edition of the IBM-Melbourne Institute 'Innovation Index of Australian Industry'.

The Study revealed that here was no change in the rate of innovative activity in Australia between 2006 and 2007. This compares with an average rate of increase in the period since 1990 of 2.0 per cent per annum. However, the authors note that while generally the level of innovative activity has stalled for a third consecutive year, trends vary widely across industries, with very large increases in innovation activity taking place in Health and Community Services as well as in Personal and Other Services.

This compares with findings in the second edition of the Index (published 2008) where the Health and Community Services category ranked amongst the largest falls in the rate of innovative activity.

"The impact of the post-GFC economic environment added to global environmental and energy challenges means that Australia needs to prioritise innovation if we are to secure our future," said Glenn Wightwick, Director Australia Development Laboratory, IBM Australia and New Zealand. "We need to create a pervasive culture of innovation across public and private sectors, organisations of all sizes, and society as a whole. By investing in innovation we can create a smarter, more sustainable planet whilst capitalising on both local and global market opportunities."

The 'Innovation Index of Australian Industry' was conceived by IBM Australia and prepared by researchers at the Melbourne Institute to fill a gap in innovation research. Although innovation is widely accepted as a key driver of productivity, until the Index, there had not been a published study in Australia that measured the many different aspects in which local industry innovates in their provision of products and services.

The Index is still the only study to reflect the complex nature of innovation via an inter-industry, multi-indicator analysis approach. This is achieved by addressing the many contributors to industry innovation with the analysis of six key data groups, comprising: research and development intensity; patent intensity; trade mark intensity; design intensity; organisational/ managerial transformation; and productivity.

The study is unique in that it captures innovation trends across thirteen categories of Australian industry – as defined by the Australian Bureau of Statistics – over a period of 16 years since 1990. It tracks the evolving innovation performance of the Australian economy to provide business leaders, analysts and policy makers with a rigorous and insightful new measure to assess industry and national economic performance.

"Through this research, we aim to provide business leaders, analysts and policy makers with a unique insight into how Australian organisations approach innovation in this globally integrated environment," Mr Wightwick said.

"Only through a detailed and rigorous understanding of our strengths and weaknesses, can we build the platform of innovation we need for a more sustainable, resilient and competitive Australian economy".

Dr Paul Jensen, Senior Research Fellow, Melbourne Institute of Applied Economic and Social Research, comments; "A culture that fosters market-relevant innovation is critical to Australia's continuing economic prosperity. The IBM-Melbourne Institute Innovation Index provides a unique, multifaceted indicator of innovation in Australia that captures, in a simple way, product and process improvements, organisational and managerial changes and marketing innovation. Using advanced statistical techniques, the IBM-Melbourne Institute Innovation Index offers a comprehensive measure of innovation that traces innovation performance over time. It thus provides a unique insight into an important driver of economic growth".

Key Observations:

The IBM-Melbourne Institute 'Innovation Index of Australian Industry' defines innovation as the introduction of new and improved ways of enhancing business productivity. The Innovation Index records this activity in relation to goods and services; technical operations; and organisational, managerial and marketing functions, encompassing activity that is both 'new to the world' and 'new to the organisation'.

Some of the key findings to be drawn from the 2009 Innovation Index are:

- There was no change in the rate of innovative activity in Australia between 2006 and 2007. This compares with an average rate of increase in the period since 1990 of 2.0 per cent per annum.

- Most of the growth in the Innovation Index was due to an increase in design intensity, which is a notoriously volatile component. However, there was also strong growth in the trademarking and R&D intensities.

- Organisational and managerial innovation continues to trend downwards–in 2007, the annual rate of innovative activity fell by 1.0 per cent.

- Since the All Industry Innovation Index in 2007 is constant, but as each market sector industry index has increased, we can conclude that non-market sector innovation must have fallen. *(Note: The term non-market sector refers to government and defence, education, not-for-profit health services, as well as agriculture, forestry and fishing).*

- Health and Community Services, and Personal and Other Services recorded the strongest rises during 2007.

- 2007 was the peak of the economic business cycle. However, while R&D has not historically been cyclical, patents and trademarks are known to be pro-cyclic. *(Note: The term pro-cyclical refers to two data series moving together: e.g. when one goes up, the other goes up.)*

- Economic research indicates that attempts to commercialise inventions are also pro-cyclical. Accordingly, we expect that the Global Financial Crisis will have delayed effects on innovative activities.

- It is too early to judge whether the sudden downturn in patenting will be sustained since much of the effect of the Global Financial Crisis reflects the impact on confidence, and confidence can be especially fickle.

IBM-Melbourne Institute Innovation Index

For more information about the IBM-Melbourne Institute Innovation Index of Australian Industry, and to download a full analysis of the results click here.

Melbourne Institute of Applied Economic and Social Research

The Melbourne Institute of Applied Economic and Social Research is a department of the Faculty of Economics and Commerce at the University of Melbourne. The Institute was formed in 1962 under the leadership of Professor Ronald Henderson and was the first economics research institute in an Australian university. Its objective is to be nationally and internationally renowned in academia, government, business and community groups as a major institute of applied economic and social research. For more information, see http://www.melbourneinstitute.com/.

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