Malcolm Turnbull's Innovation Agenda focused attention on startups and technology-driven innovation, but this is not enough to overcome the broader problems inhibiting innovation in Australia. Businesses may be looking to the government to ease red tape as a means to increase innovation but what's really blocking innovation is the short-term view of senior executives, our research finds.

We interviewed 12 board Chairs and nine CEOs of top ASX-listed companies, one-on-one in wide-ranging interviews to try and find out what the leaders of large Australian businesses are thinking and doing in the innovation space.

Our interviewees pointed out there is no real interest among senior executives in taking a risk that may pay off in the long-term because of current risk-reward practices that reward short-term outcomes. One CEO said:

"People try and blame shareholders, but it's not. It's management saying, 'am I really going to be here in 10 years' time when this actually kicks off'?"

And another board chairperson agreed:

"Does great innovation come out of Australasia? Not normally because the risk-reward perspective is skewed towards I must turn up with my number."

As a result of this short-term thinking, the amount of money allocated to innovation projects is conservative and released through a stage gate process with the need to report on outcomes. We also found there were very few innovation strategies within these companies.

Executives were risk averse even when a company could afford to make significant investment in innovation. For example one CEO said:

“We are deliberately followers in pretty much everything we do whether it is financial structuring or application of technologies and it’s borne of a risk profile that is a consequence of our market position…we might distribute a couple of hundred million dollars, (and have) A$1 million to spend on something that’s risky.”

Who needs to lead innovation?

Executives and academics have argued that innovation often takes place in large, established businesses. Yet, there is evidence that big business mostly fails at innovation.

In Australia, the 2015 NAB report on business innovation showed that only 29% of very large firms (ASX 300) rated themselves as highly innovative. A recent study by the Centre for Workplace Leadership at the University of Melbourne revealed that just 18% of private sector organisations reported high levels of radical innovation.

The people we talked to as part of this study identified various challenges for innovation in Australia. They pointed out that the Australian market is too small and the Australian culture too laid-back, resulting in less motivation to innovate and disrupt.

Others blamed the large and complex system of government regulations, corporate tax levels, inflexible industrial relations, and the toll poppy syndrome.

However there was little evidence of global aspiration or ambition. Nor was there much discussion about companies’ positioning in a global marketplace.

Some CEOs and Chairs agreed that they are too risk averse to engage in radical innovation, but blamed the short-term orientation of the market and shareholders for their failure to innovate big.

As recognised by others , large organisations tend to frame innovation in terms of improving existing business models rather than disrupting them. As one chair described it:

“I don’t think innovation requires [betting] the business. Innovation now is much more about improving, constant change, constant improvement.”

Based on the interviews we conducted, the current outlook for innovation being fostered by Australia’s established companies is bleak, as summarised by this interviewee:

“Talking about business in Australia, I have a lot of concerns, because I don’t think that there’s enough people in the bigger companies in Australia saying, ‘OK, let’s develop a strategy, let’s develop a business plan, let’s engage with the market and tell them what we are doing, in a very open way, and let them take the rise and fall with us, as to if we get there we get there, if we miss it by a little bit, [let’s] explain to them why we missed it. That doesn’t happen.’ ”

A lot has to change for Australian big business to become more innovative. As a start, companies need to introduce long-term incentives for executives, change attitudes to support taking risks and thinking big, and focus on developing innovation strategies .

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