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COMMERCIAL IS THE NEW RESIDENTIAL!

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innovation

AND OUR AUSSIE TECH SECTOR IS UNDER ATTACK

Summer 2019 | No. 16

Spark Magazine is "The fuel for business". The target audience is business people, with an interest in innovation, technology and new ideas. We provide the ideas, motivation, and inspiration for success.

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MERRY *Christmas* & Happy New Year

WELCOME
TO SPARK MAGAZINE

In this summer issue I return to a common theme. It's simple, SME owners should not become Chicken Little (who believe the sky is falling in).

Economics 101 teaches us that things financial go in cycles. There are good time, bad times, and time in between. What goes up must come down, and new life continually rises from the ashes.

The property correction, long predicted by many, and certainly no surprise, is not all bad news – it's great for buyers. Similarly, a lower Australian dollar is good for exporters.

In this wonderful prosperous land, that's demise has been long predicted by many, but which has shown a remarkable ability, over hundreds of years now, to ride out any storm, opportunities abound for SME's.

It's about focusing on the positive. It does not mean that prudence should be forgotten, but rather that the focus should be on the positive.

In times of doom and gloom, positive lights always attract the crowd. As we head into Christmas and the festive season, will you panic, or have you too seen this all before?

This issue is packed with thought provoking articles, many by the same authors – both reader favourites from previous issues, and some new ones keen to write for Spark Magazine.

Wishing all readers, a Merry Christmas, and a Happy New Year.

Paul M Southwick
Editor

BY BRYAN WORN

ARE HUMAN RESOURCES
a resource?

Human resources - yes, they are a resource, and understanding their human side will help overcome one of the biggest obstacles to growing a business.

In The E-Myth Revisited, Michael E. Gerber advises business owners to spend more time working on the business rather than in it.

This presupposes that while the business owner works on the business, somebody else - or several people - will be working in it.

Few long-term sustainable businesses can be successful without a proper understanding of how to manage the people in it. Gerber refers to this as "your people strategy".

In other words, humans are a resource. Understanding the human side gives business owners the leverage to take their business to the next level.

Growth needs the right people to support it

Once a business resolves important issues such as finance and premises, success is still not guaranteed. Even global entrepreneurs Steve Jobs and Elon Musk had to leave their businesses for a period because they could not manage the people part.

The term "start-up" has become a buzzword. Some do experience that magic hockey-stick curve in sales, where they achieve rapid growth after they establish their product or service. But to successfully cope with this growth, the business owner needs to have the right people in place to manage the business or decide what the next innovation will be.

Many small business owners bring their business to a certain level, then struggle to achieve further growth. This is because they don't have the right people in the right positions and have failed to lead and manage those people. To build a business

that is scalable and saleable, the ability to leverage people is crucial. For small business owners, it is critical.

Unlike their corporate counterparts (i.e. executives and managers), business owners do not have the option of deciding "it's all too hard" and getting another job. They are anchored to the business. People issues can be their greatest roadblocks to success. Many have had little previous exposure to recruiting, delegating and training staff. The smaller the business, the more complicated it can be, as often there is a lot of job sharing and multitasking amongst staff. In addition, if the employees are family members or friends, there is more "walking on eggshells" and a reluctance to confront people issues.

Many so-called "people problems" are used as an excuse for a lack of business success or failure. In 2017, Thomas Wedell-Wedellsborg wrote about a survey he conducted of 106 C-suite executives. He found that 85% agreed or strongly agreed that their organisations were bad at problem diagnosis, and 87% strongly agreed this flaw carried significant costs. Too often, small business owners create a revolving door of people because they have not addressed the real reason for staff under-performance, conflict and employee turnover.

In fact, leadership expert Brian Tracy says a manager or executive must learn how to "de-hire" or they will be "de-hired" themselves. Knowing

when to terminate someone is a skill every manager, executive or business owner must learn. A business owner will not be "de-hired" but will pay a far higher price than an employed manager for not managing people effectively.

Identifying and fixing the problem

Hope is not a strategy. In Good to Great, author Jim Collins explains the Stockdale Paradox and how accepting and dealing with harsh realities is fundamental to survival. The Stockdale Paradox is named after Admiral Jim Stockdale, who was a prisoner of war in Vietnam from 1965 to 1973. Despite being tortured more than 20 times, Stockdale survived his captivity and never lost faith he would get out - although he had no idea when that would be. The paradox is that it was the most optimistic of prisoners who didn't survive. Stockdale noted that they failed to accept the reality of their situation, expecting to be released at a certain time then dying "of a broken heart" when they weren't. Similarly, business owners fall victim to the Stockdale Paradox by simply hoping things will change and being continually disappointed when they don't.

Most people problems are, in fact, owner problems. This is why business mentors work so hard at getting business owners to accept their shortcomings when it comes to dealing with people. One of the most

effective ways of doing this is to get the business owner to undertake some form of personality or psychometric testing, such as DiSC® or the Myers-Briggs Type Indicator. Business owners who undertake a behavioural profile assessment can then understand why they may be keen to fire too quickly or alternatively, take too long.

Some notable business turnarounds - for example, at Apple, Ford Motor Company, Continental Airlines and Starbucks - occurred because of a change in CEO. In the case of Apple, Steve Jobs was kicked out of the company in 1985 because he couldn't handle people issues properly. By the time he returned, Apple had enough infrastructure in place, so he didn't have to deal with those issues anymore. He was then able to concentrate on what he was good at - innovation and product development.

However, it is an inescapable fact that, from time to time, small business owners must deal with under-performing and badly-behaving employees. Small business owners who invest time and money in learning how to hire, manage and delegate, free themselves up to focus on how they can continue to grow the business.

If a business owner is unsure of how to fix their people problems, they should ask themselves: "If I hired a manager, what would they do?" This gives them a reality check. By putting themselves in the mindset of a new manager, the business owner can view their team's skills, competencies, personalities and motivators more objectively.

The next step is to identify what shortcomings there are in any of those areas and provide the resources to fill them. Sometimes this

is not practical (e.g. the person may be totally unsuitable for the role). A decision must then be made whether the person can be redeployed or exited from the business.

When the problem is not fixable

Behavioural economics teaches us about "sunk costs". Also known as past or retrospective costs, these costs usually relate to our reluctance to write off the time, money and emotional energy we have already spent on a situation. This reluctance is one of the most common causes of procrastination with business owners and managers who have invested large amounts of time and emotional energy - not to mention wages - on someone who is clearly not performing.

Consider this example. An employee is paid a salary of $60,000 a year and

has been with the business for 10 months. For several months, there has been a gradual deterioration in their performance, which has now reached a critical stage. The business owner has tried everything to redeem the situation, but nothing changes. Because they've spent so much ($50,000) on wages, in addition to the time they've put in, they keep the employee and simply hope the situation will improve.

The remedy? Recognise the sunk cost and write off the $50,000. It may seem difficult to do, but it is easy when the business owner asks the question, "Would I spend $5,000 a month on a new employee if I didn't think they would work out?"

Investors can suffer from the same problem of sunken cost. They will often hold on to a badly performing investment, telling themselves they will sell when it reaches what they

paid for it. Meanwhile, they miss out on other, more fruitful, investment opportunities.

Both scenarios fail to recognise the opportunity costs foregone by not moving on. In the case of the business owner, the impact of their inaction on staff morale, the profitability of the business and business value must also be considered.

So, how can a business owner know when to stop wasting time on an underperforming employee and move on? They need to ask the following questions:

1. What will happen if I terminate the employee?

2. What won't happen if I terminate the employee?

3. What will happen if I don't terminate the employee?

4. What won't happen if I don't terminate the employee?

Choosing and managing staff

The saying, "hire in haste, repent at leisure", is often used in terms of recruiting staff. Similarly, "marry in haste, repent at leisure", refers to couples who rush into marriage only to find it is not always a bed of roses.

Choosing a life partner should not be based on a whim. It requires careful consideration. So too, does choosing staff - especially the first time a business owner hires a staff member. Of course, this advice is easier to follow in a business that has many employees. It is much more difficult for a micro or small business.

If a small business only has one employee and they leave, the owner must either replace them quickly

or do all the work themselves. Therefore, small businesses need to be crystal clear about who to employ and what to outsource. Prevention is better than cure, which is why a small business's first hire can set the pattern for what happens afterwards.

Early-stage businesses should plan their first hire with great care. Creating a proper position description, formulating KPIs (key performance indicators) and KRIs (key results indicators), and determining the chemistry required to work effectively with business owners are essential.

It is generally not a wise option for a business owner to hire a clone of themselves. They must take a helicopter view of the business and the functions to be performed by the successful candidate. Otherwise, they may end up with the wrong person in the wrong role.

To scale up a business and continue to grow, business owners must follow some basic steps:

• Create a function chart (similar to an organisation chart) that sets out the various functions of the business and their importance.

• Write effective position descriptions of what people do, not what business owners think they do.

• Use a specialist recruiter or have a defined hiring process for new employees.

• Induct new employees into the business. Time spent in the beginning will prevent frustration

later.

• Learn how to effectively delegate.

• Have a process to manage the managers. Remember, delegation cannot be abdication.

When it comes to hiring staff, business owners need to:

1. Decide which functions they want to assign to the new employee.

2. Prepare the position description with KPIs (and KRIs if appropriate).

3. Map the functions on a behavioural map (if psychometric testing is used).

4. Establish the values they want to see in the employee.

The business owner should also consider some form of simple test before selecting candidates for interview. For example:

• For a business owner who wants to hire a store person, the job advertisement states that applications must be submitted in the candidates' own handwriting. This is because operational errors are often the result of legibility and literacy issues.

• Another business insists on a short video of the candidates explaining why they would be a good fit for a role in customer service. This is because the business wants a certain energy in its staff.

• For a business that has walk-in applicants, the advertisement states candidates must bring their own pen.

No pens are provided for completing the application forms when the candidates arrive.

The point in conducting "tests" like these is to eliminate applicants who cannot or will not follow simple instructions. They prevent businesses from hiring in haste and repenting later.

Poor hiring decisions and a failure to deal quickly with ineffective staff are two of the principal reasons why many micro and small businesses fail to grow.

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BY IAN PLOWMAN, PHD

FOR MEETINGS THAT MATTER, WHO SHOULD ATTEND?

why are the most important stakeholders often overlooked?

The meeting has been held. Decisions have been made. And yet, early in the implementation phase, an objection suddenly arises that had not been anticipated. This occurrence is far more common than it need be and often leads to considerable angst, delay and expense.

So why does it occur? Why do some decisions result in unexpected push-back? Why do some decisions fail to consider a critical information or viewpoint? The common mistake is the participants to that critical meeting were those that were available. And these people are often insiders whose perspectives are commonly similar. In other words, the participants list contains insufficient diversity.

Who are the stakeholders that should be invited to any meetings where smooth implementation of the decision is vital?

Here is a generic list:

1. Those in authority - whatever the project is, it is likely that there is at least one party with the authority to approve or disapprove of its continuation. Those in authority are likely to include funders and legislators.

2. Professionals - those with expertise in whatever field is being considered.

3. Implementers and resource providers - more practical and applied than professionals, these stakeholders are likely to include field staff and technicians.

4. Those with local knowledge - these stakeholders do not necessarily regard themselves as experts. They are commonly local to the site of the project and understand cultural, geographic and climatic conditions.

5. Beneficiaries and/or victims - these stakeholders may be materially or emotionally impacted upon by whatever is being considered.

6. Critical friend - someone who is an outsider, yet who is respected by all and who has sufficient connection with the participants to protect them from their own folly. This person is sometimes called the 'devil's advocate'.

7. Elders and forebears - those stakeholders whose past stewardship has brought the organisation, project or group to this point.

8. Grandchildren's grandchildren - this stakeholder voice is necessary to ask whether today's decision, and its consequences, will be detrimental or beneficial to future generations.

This diversity of voices will reduce the likelihood of critical perspectives being missed.

Obviously, sometimes it will be difficult to have all of these voices present in the meeting and contributing to the decisions. This deficit can be overcome, in part, by inviting those who can attend to act as proxy for those who can't. One way of facilitating this is through the provision of 'desk tents' labelled with the name of the stakeholder groups. Before the meeting, as well as during, participants are advised which stakeholder they are proxy for.

As a result, each meeting participant is invited to bring two perspectives; their own and that of their proxy. This often requires that participants do some homework, so they are adequately informed prior to the meeting.

Or it may mean discovering a gap in the available knowledge regarding a particular stakeholder's perspective. In such situations, it may be necessary to suspend the meeting while the missing knowledge is sought.

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BY IAN PLOWMAN, PHD

UNDERSTANDING HUMAN BEHAVIOUR TO GET *meetings right*

What people say about meetings:

- 'People keep drifting off the topic.'
- 'Fred keeps bringing up the same issue we dealt with three meetings ago.'
- 'Most of us just sit there and don't say anything. I'm sure there's a lot of texting going on that has nothing to do with the meeting.'
- 'I've been called to this meeting even though I've no idea what it's about or why I need to be there.'

At the mention of meetings, people often roll their eyes. Why? Because many people find meetings are a waste of time and that the behaviour of other people is often cause for annoyance.

So, why do many people not like meetings? Imagine a recent meeting, one where negative emotions were triggered. Try to recall a person there whose behaviour was difficult? Try to visualise their face. Hardly anyone ever visualises themselves as being that person. The irony is that other people at the meeting may well see them as being that person. Yet, they probably wouldn't describe themselves as a 'difficult person' - rather they are a person of strong convictions, or a person who believes in the right to speak their mind.

It's generally not that people in meetings are difficult, although sometimes their behaviours may be difficult. Everyone comes to meetings unconsciously expecting certain behaviours. Yet when those implicit expectations of behaviour are violated, they feel annoyed.

Imagine a person driving their car to work this morning when they are pulled over by a police officer. The officer says: 'Excuse me sir/madam; do you realise you just violated the Tuesday rule. That will cost you $350.' The driver has no idea what the Tuesday rule is and the police officer refuses to explain. How does the driver feel?

Now imagine a similar scenario, except this time the offence is driving at 50kmph through a 40kmph school speed zone. The fine is $350. Now, how does the driver feel? And how does the

second scenario differ from the first?

The difference in the driver's feelings between these two scenarios is a function of the driver knowing the rule just violated or not knowing it. So, to achieve better meetings, it's desirable to have a pre-agreed base of ground-rules - behavioural expectations - by which participants will conduct themselves.

Question: What is the difference between a draught and a breeze, in terms of air-movement? People generally agree that a breeze is more pleasant and welcome than a draught. Or, put another way, a breeze is what is felt when that person opens the window. A draught is what is felt when some other blighter opens the window. So, to achieve a set of meeting ground rules that are acceptable to all participants, it's beneficial if those participants had a hand in creating them.

Whenever a person drives a car on public roads, there's an implicit social contract between all road users. All expect certain behaviours from each other. In business meetings, it's desirable to have a similar set of shared ground rules, a similar social contract.

Setting up a meeting involves creating this social contract between the convenor and invitees. The social contract involves (a) the purpose - generally spelt out in the agenda, (b) the timing - not only meeting starting and finishing times, but also the expected duration of each agenda item, and (c) the ground-rules on how participants will work together.

Ownership of the ground-rules is greatest when participants create them. Here is but one way of doing this. Invite participants, at the beginning of a meeting, to list those

behaviours that have proven difficult in other meetings. Next, pool all these ideas and rank each according to how much that characteristic is detrimental to positive fruitful meetings. Then pool all the rankings, resulting in a collective overview of the behaviours to be discouraged.

Pick the top ten behaviours to be discouraged. Then beside each undesirable characteristic, create its opposite, a desired behaviour that would enhance our meetings.

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BY HELEN TARANT

COMMERCIAL IS THE NEW RESIDENTIAL!

The train wreck that is Residential Investment...
Commercial property has always been around but while
the residential market created overnight millionaires with
double digit capital growth in capital cities around Australia
– the idea and in fact the need for cash flow
was left by the wayside.

We brought our principal home, we invested in residential property because the gurus told us that you would be stupid not to, because your tenants helped you to pay off your mortgage. Before 2012 residential investors were seeking at least a neutral return on their investments to be able to afford to service the debt on their investment.

Forgotten basics

Fast forward to 2015 and we have seen a market that has forgotten about the basics of residential investment – cash flow seems to be an illusion and investors were in a frenzy to buy so they can make an easy $100k within six months or less. The rationale at this point became that even if you lost money at the front end you would still make money on the back end (capital gains). A prime example of this was a client of mine who was in his late 20s worked for the bank as a financial planner, earned just over $100k per year. He brought an inner west Sydney property for $2.3m. When I asked him "why?" he said "while this property costs me $500 per week in negative cash flow – even a 5% growth per in the value will be I am still making over $100k in capital growth. Ultimately I will still be ahead.

How many of you are thinking this way right now?

If this is your thought process, in the upcoming few years you are going to be experiencing some pain as the residential property markets starts to fall (as it has been falling in 2018).

The inherent issue with chasing pure growth is that at some point you run out of cash to support that growth. The residential investment formula is entirely based on growth. So, without growth there seems to be no point in investing in residential property. Why would we want "for the fun of it" deals with tenant issues about broken toilets, creaky doors and cat pee on the carpet. If not, for the hope that capital growth will set us financially free.

Equity (capital growth) is fictional, until the day you cash it in. Equity on it's own will not pay the school fees or put food on the table and Australia's obsession with capital growth has let us down a path where even when the writing is on the wall and lending is getting tougher, dropping property prices, oversupply of new apartments plus falling rents, we are still reluctant to sell because, what if the value goes up again and we've missed out?

But if not Residential...what else?

Commercial alternatives

Apart from the fear of missing out, some residential investors also hold only residential investments purely because – if not residential then what else? For the average mum and dad who works a 9-5 job, and is time poor, because you are battling traffic, child care, homework and this mysterious thing called "work life balance" there seems to be no alternative but to hold on to residential property, because there is nothing else to invest in. This is where commercial real estate ("Commercial") comes in.

The biggest inhibitor for investing in commercial is education, or lack of it in the market place. It seems to be shrouded in mystery and only those who are "Commercial Investors" talk to each other about it. Without education most residential investors are at a disadvantage because they do not know the type of commercial property they should be buying, how to vet their tenants and what location works for a commercial property. There are pitfalls and costly mistakes you can make in the commercial space which can cost you twice or three times as much as a residential mistake.

How to get into commercial property the right way

Start with the end in mind – where do you want to be in three, five, and 10-years time. Be realistic with the amount of income you want to replace and work out which type of commercial property you are comfortable investing in.

Commercial Property types are three main types:

1. Retail – professional tenants like doctors, dentists, and service like cafes, and gyms.

2. Office – professional tenants like accountants, lawyers and training organisations.

3. Warehouse – trades like mechanics and logistics – often business to business.

Get comfortable with which type you prefer and stick with that for your first property

Chase cash flow first

Three months into owning your first commercial property you are going to realise that your tenant has not done a runner, that there is no cyclone that has taken off the roof and the last storm has not swept your property away through flooding. From then on you will be open to buying all types of commercial property with all varying locations around Australia. However, when you first start out chase the cashflow.

Just forget about growth for a moment and look at your cash flow position. Buy a property that will give you an above 5% net yield. In fact, you should aim for as close to 7% and beyond, and perhaps consider buying in fringe areas and large regional towns so find a 9% yielding property.

Here's how the sums work out...

$500k purchase price at 9% yield =$45k in rent per year.

All outgoings have been paid already (by your tenant most of the time) and the only item to deduct out of the $45k is the mortgage repayment. If you are on an interest only loan of 5% then this could mean $25k in mortgage repayments.

If you take $25k away from $45k you now have $20k per year in positive cash flow

It is as simple as that.

Once you have found your property then move on to due diligence

Due diligence - the holy grail of commercial

This is the part most first-time investors get it wrong. Below are some areas to conduct further research on your commercial property

1. Tenant history – how long has your tenant being in the property, what fit out have they done to the property, and are they paying rent on time? How much competition does your tenant's business have in the local area?

2. Property Research – history of the property (maintenance, capital improvements, air conditioning, any issues with the roof).

3. Lease Analysis – get your lease reviewed by your solicitor, understand what happens if your tenants defaults on rent, check for any rental incentives and check to see if there are yearly rental increases in place.

4. Area Research – research the area you are buying in – is there an increase in residential development – more people moving into the area, infrastructure builds and are their lots of developments and vacancies in the market.

Buyer be warned!

For the first time Commercial Property Investor – please please please do not get side tracked by big shinny brand names. While not all tenants are the same and a good tenant is worth its weight in gold – most first-time investors want to invest in a brand name franchise tenant like a Subway, Repco, a childcare centre, or petrol station. Those are great tenants but one thing that 2018 has proven to us is that big brands and big tenants can go bust just as small tenants can.

The downside landlord is brand name tenants often have the property specifically built for their business, so the property is less versatile. A brand name tenant also may be paying above market rent which means that ▶

you will not be able to get the same rent for a different tenant should this current one leave. Then on top of all of that you may find that a brand name tenant because of their economy of scale can negotiate quite aggressively on a lease with you and you end up with the prestige of having a building with a brand name tenant but not the rental returns you want.

While most first-time commercial investors think that a bank tenant or a KFC is the way to go there are many other types who will make perfect tenants for the long term. These can be dentists, vets, hairdressers, specialty cafes, education and much more.

It is best when you are looking and searching for your first commercial property to compare apples with apples. Don't compare a Subway with a regular take away shop in suburbia. You must compare a Subway with another brand name food outlet like a sushi train or a burger bar like Grilled. This will give you a more accurate picture of your cash flow, growth and location and you can decide which is better.

Compare your mum and dad take away shop with a fish and chip shop or a café is a good comparison to work out which is the best property for you. Comparing like properties is the only way to establish a true base for your first investment.

They tell me there is no capital growth in commercial

There is a common myth that because Commercial is a cash flow strategy there is no growth.

In commercial property you experience capital growth organically in a market where the residential properties are raising. This is because as an area generifies more and more affluent residents move in. There is more density in population and there is more demand for services and trades in the local area. As such this pushes the rental of the commercial property up because the suburb/area becomes a hub or a satellite city. As rents grow so does the value of your commercial property.

The other factor affecting growth in commercial property is the changing expectation of return (yield in commercial property terms). What this means is that as an area becomes a "hot spot," investors who come along start to get less and less returns on their investment. This is because investors are moving in and focusing on capital growth and not cash flow.

For Example:

Investor buys a property in January for $500k and get $40k in rent. That's an 8% yield

Second Investor buys a similar property in June for $550k but they are still getting $40k, so the yield has dropped now to 7.3%.

Third Investor in December buys a similar property in the area for $600k but the rental is still at $40k, now the yield has dropped 6.7%

What this signifies is that the investors are growth driven and not cash flow driven and as an area changes and becomes a hot spot, more investors will become growth driven therefore pushing the prices up and the returns down.

If you have brought in this area before this boom, then you should consider cashing out at this time and reinvesting your money in another upcoming hotspot.

How to spot a "hot spot" in commercial

Follow the characteristic below to find the next hot spot:

- Fringe suburbs
- Growth in population
- Areas where the residential prices are moving upwards
- Infrastructure investments or tertiary education towns
- Development of essential services like schools, hospitals and government facilities
- Changes yields (lowering returns)
- Dropping vacancies
- Transportation hubs (major train stations)

Strategy

Anything you can do in residential you can do in commercial, the multiplier effect is just larger. There are properties you can refurb and tenant, there are residential properties you can turn into commercial (change of use), there are commercial developments and flipping strategies. The sky is the limit when it comes to commercial property and it is all about the art of putting a deal together.

Commercial property can be no riskier than residential property if you understand what the risks are and have strategies around minimising or mitigating those risks.

Helen Tarrant specialises in advising clients on commercial property, especially their first purchase. Readers can contact her via Linkedin or www.helentarrant.com and www.highyieldcommercial.com.au

IAN PLOWMAN, PHD

TRAPPED IN AN EVOLUTIONARY TIME-WARP

HOW HUMAN GENETICS SABOTAGE MODERN ORGANISATIONS

"Thus, the task is, not so much to see what no one has yet seen; but to think what nobody has yet thought, about that which everybody sees."

Arthur Schopenhauer: 1851

Modern organisations are a human creation. This design is anchored by genetics and has prevailed for thousands of years. People are hard-wired to perpetuate it, even though the design is now substantially dysfunctional. Evolutionary psychology explains why.

The wisdom of the elders

Humans have two forms of generalised intelligence, a product of genetics: 'fluid intelligence' and 'crystallised intelligence'. 'Fluid intelligence' is the capacity to learn; 'crystallised intelligence' is the capacity to know and recall. The relative proportions of each are not static. The young have high levels of fluid intelligence and limited crystallised intelligence. As people age, the proportions reverse. So, the elderly have lots of crystallised intelligence and limited fluid intelligence.

The human species has evolved this way for good reason. It is the role of the young to learn from the elders; it is the role of the elders to impart knowledge to the young. Hence older people have an ingrained belief in their right to impart knowledge; and younger people have a natural and societal deference to seniors.

This hard-wired characteristic has kept society safe for 90,000 years. After all, for any young person who wishes to live as long as their elders, it will pay to learn what survival knowledge the elders have to teach. In such an environment, new ideas or ideas that run contrary to conventional wisdom are unwelcome and frequently punished.

Yet, paradoxically, the 'wisdom of the elders' (or, at least, the relevance of that wisdom) is predicated upon the environment in which the elders learned that wisdom being the same environment when that wisdom is imparted. In other words, humanity's hard-wired respect for the elderly and for seniority is based upon the external environment being stable over time. Yet, less-and-less, is this the case.

Human motives, organisational role choices and language

Humans have three unconscious motives. Originating in the formative years, these motives are enduring genetically-programmed strategies for getting out of childhood alive. Any person has all three, though one is preferred over the other two. These three are:

• **Need for affiliation** - this is a social need, the desire to be included, the desire not to be rejected and left behind.

• **Need for achievement** - the desire to make a difference based on individual effort, to seek feedback on progress and to persevere towards a long-term goal.

• **Need for power** - the desire for status, prestige and influence over others.

In adulthood, these motives influence the societal roles that people prefer and subsequent occupational choices.

People with a need for affiliation prefer helping and supporting roles. The workplace is a social club. These people commonly occupy the administrative and support ranks.

People with a need for achievement prefer making a difference through individual effort, thereby commonly placing these people in the technical/professional middle of the organisation.

People with a need for power like to influence and direct others. Such people tend to gravitate naturally towards leadership, managerial or executive roles.

The result of these aggregated preferences is an organisation split into three 'tribes'.

Need for Affiliation   Need for Achievement   Need for Power
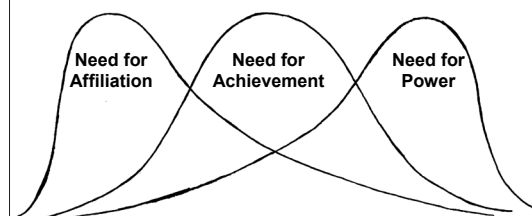
Administrative/support

Technical/professional

Managerial/executive

Considering language within organisations, imagine a person in the hierarchy who has both subordinates and seniors. If this person is seeking approval of any sort, it is likely to come from above. Access to approval is commonly gained by 'asking'. Imagine this same person requiring subordinates to carry out a task. This is more likely to be conveyed by 'telling'. So it is throughout the hierarchy. People tend to ask upwards and to tell downwards. This is entirely consistent with (a) the wisdom of the elders, and (b) fluid and crystallised intelligence. These are the hardwired patterns of communication.

People with a need for power, people who are more likely to occupy the managerial and executive ranks, show a tendency not to ask questions. And it is this very tendency that renders organisations vulnerable to failure. To check the veracity of this tendency, keep a tally count of questions and statements at the next management or executive meeting.

Refer back to the 'three-bump' diagram and consider which of the three roles is most frequently in the field, talking to customers, perceiving opportunities, and sensing threats. It is the technical/professional middle. Yet, the patterns of communication inhibit information flowing upwards. After all, management is expecting questions, not statements, from below. And every level in the hierarchy serves as a filter to information flowing in either direction. Rapid authenticity of information upwards tends to be suppressed.

Further, research has repeatedly demonstrated that need for power is inversely correlated with creativity, and that when a team is led by people with a high need for power, members of that team are more inclined to suppress their own creative sparks.

Primates

Primates, in a group, exhibit two distinct forms of behaviour - cooperative and non-hierarchical, or competitive and hierarchical.

A troupe of monkeys, seeking food, will wander widely across the forest floor, yet remaining within hearing distance of each other (being greater than visual distance). Should one animal find food, it calls to its colleagues to share, after which the troupe disperses and continues to forage. Finding of food is random and hierarchy/leadership is unnecessary. However, should one animal come across a concentration of food, such as a tree in fruit, the collective behaviour changes. The 'alpha male' takes charge and the rest of the troupe fall into a relative pecking order. 'Beta males', who are subservient to the 'alpha', are allowed to be close to the leader. Any males perceived not to be subservient, known as 'omegas', are beaten up.

Note the trigger for these two forms of behaviour is resource centrality or randomness. Also note that the fruit-laden tree does not require hierarchy. Yet this is what occurs. Why?

Females prefer their offspring to be strong and socially successful. Where possible, a female will mate with a male further up the pecking order in order to gain stronger genes. So, males create hierarchy, whenever possible, in order to showcase to females their desirability as mating partners. And the drive to do this is unconscious.

Human beings are no different to other primates in this regard. Humans create organisations that have (a) centralised resources that are limited and contestable, and (b) hierarchically distinct social structures. People with a need for power tend to gravitate to the upper ranks, issue directives, convinced of the value of their ideas while blocking good ideas from below.

Because rewards flow from above, attention within organisations is substantially directed upward rather than outward or downward. Further, since resources are limited, and contestable, horizontal collaboration tends to be unrewarded. Not surprisingly, potential co-operation is replaced by competition and distrust.

As described earlier, the wisdom of the elders is predicated upon the environment in which the elders acquired knowledge as children and young adults being the same stable environment that the juniors now occupy.

Today, turbulent environments are the norm, rendering less relevant the knowledge the elders possess. For example, the half-life of the professional knowledge of an engineering graduate is less than three years.

Human influence

Humans have always influenced each other. Consider the following attributes, asking which, within each pair, is more frequently influential in public and organisational settings.
• Female/male
• Senior/junior
• Meek/dominant
• Extravert/introvert

- Attractive/unattractive
- Shorter/taller
- Deep-voiced/high-voiced

People acknowledge that one descriptor in each pair is likely to be more influential. Whenever a group of people gather in conversation, these influences unconsciously sway the direction and outcomes. Yet it is obvious that none of these characteristics has any necessary relationship today to wisdom or good ideas, despite humans being captive to these influences.

The third watershed in human evolution

In the wild, most animals survive by instinct alone. And so, it used to be with the first humans.

What enabled humans' ongoing survival as the dominant species on the planet was what is sometimes called the first watershed, when the wisdom of the elders was added to instinct as the survival kit. Hierarchy had begun.

The second watershed gradually occurred within the last century or less, when the turbulent external environment began to undermine the wisdom of the elders. Contemporary solutions needed to be found. Yet the old hierarchical structures remained.

It could be argued that humanity is now at the point of the third watershed. Instinct is insufficient; wisdom of the elders is insufficient, and even contemporary solutions are proving inadequate for some of the 'wicked problems' confronting organisations and the planet.

Like monkeys foraging widely across the forest floor, solutions are likely to grow from ideas that are random; ideas that can be rapidly harnessed,

assessed and acted upon. And the paradox is that the third watershed is precisely what hierarchy is designed to block.

Hotel towels

Guests in hotels worldwide will notice within each bathroom a notice about bath towels. Guests who are staying several days are requested to place used towels in the bath if the towels are to be replaced; otherwise guests are requested to hang the used towel on the towel rail. Prior to this idea being promulgated, towels were being washed and replaced daily. This new suggestion saved the hospitality industry a small fortune in laundry costs.

So where did this idea come from? It was offered by a housemaid at a workshop being held by a major hotel chain; the idea did not come from management.

Now this story has gained considerable traction in the management literature [See 'Spark: Summer, 2018]. What is remarkable about this story is not that the idea came from a housemaid. What is remarkable is that the story gained any traction at all. In the world of the third watershed, where ideas are random, this is exactly the scenario to be expected. Yet the telling of the story is testament to this source of ideas being regarded as unusual. It is a second watershed story.

The solution

If hierarchy has a tendency to block ideas, then the towel story suggests the solution. The hotel chain created a temporary opportunity for random ideas from any source to be appreciated and implemented by the executives. In order to capture the

best ideas, hierarchy was suspended.

Every organisation has the same potential. Employers hire staff for their knowledge and skill; rarely for their new ideas. Yet every employee is networked in their broader life. The potential source of insights is huge. All an organisation needs to do is to create an environment where ideas, from any source, are encouraged, recognised and acted upon. In such an environment, employees will willingly contribute.

Considering the unconscious sources of influence (taller, deep-voiced, etc), conversations are more likely to be productive if all of the irrelevant influences can be held at bay. This can be done by reconstructing how people conduct workplace conversations. Suddenly the potential of every employee is available. Innovations begin to flow, morale goes up, along with retention and engagement. Workplaces become more connected.

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Ian helps clients to develop skills and awareness to remove blockages and raise levels of creativity and innovation. He can be contacted via: www.cooperativeconversations.com.au, or LinkedIn: https://www.linkedin.com/in/ian-plowman-meetings/

BY MICHELLE GIBBINGS

ARE YOU LEADING FROM THE FRONT?

Every year, thousands of new leadership books hit the bookstores. Despite the plethora of reading material and research, the evidence of leadership challenges and failures isn't hard to spot.

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From Facebook's privacy breaches, the Theranos scandal, Uber's failure to deal with sexual harassment, Equifax's data breaches, Volkswagen's emissions scandal, and the stories coming from the Banking Royal Commission, failures are everywhere.

Whilst the context and specifics are different, they all demonstrate an absence of leaders showing up, asking the right questions and making principled decisions in the company's long-term interests.

Leading from the front

Henry V, one of Shakespeare's most well-known plays, centres around the time before and after the famous Battle of Agincourt in 1415.

The English troops were vastly out-numbered by the French soldiers, and so victory looked uncertain. The night before the battle the King wandered around the English camp at night, in disguise, to comfort the soldiers but also to understand how they are feeling. The next morning, Henry leads his troops into battle and ultimate victory. His leadership wasn't at the back of the line, but at the front participating in the battle.

It's in stark contrast to many leaders today, where leading isn't done at the front line or down in the trenches. Instead, it's done remotely – from a comfortable office and via emails, SMS or social media.

In the modern world, if countries go to war it's not the ruling politician or leader who goes into battle. Likewise, many corporate leaders can remain one step removed from decisions and expect employees to do things they wouldn't like to do.

Get involved

The best leaders are willing to get amongst it and to understand what it is like to be on the front line serving customers or working on the shop-floor. They are eager to experience the challenges that staff confront so they are better informed and therefore able to make wiser decisions.

Leading from the front can't be done from the comfort of the corner office (or even the open-plan desk), it involves:

• Being willing to roll your sleeves up and get actively engaged with employees at all levels of the organisation so you understand the challenges and opportunities they face;

• Actively leading the change you are seeking to make by being the first to immerse yourself in the new ways of working;

• Not expecting one rule for you and other leaders, and one rule for other employees;

• Not asking your team members to do things you wouldn't want to do;

• Being approachable and with that, being willing to listen to ideas from people across the organisation;

• Seeking ways to better understand the environment in which your team members are working so you can find ways to best support and develop their contribution; and

• Being conscious of the privileged position you are in, because with your position comes the power to make decisions that can impact people around you – for good and not so good outcomes.

Make each day count

Being a leader is challenging and there is often not enough time in the day. Prioritisation, focus and being willing to take risks becomes crucial so that each day counts as progress towards long-term goals.

Doing that requires courage. It takes courage to step out in front. It can feel much safer and less risky to stay cocooned away from the action. Progress, however, is much harder to make when you play it safe.

In the words of John Quincy Adams, the sixth President of the United States: "If your actions inspire others to dream more, learn more, do more and become more, you are a leader."

Michelle Gibbings is a change leadership and career expert and founder of Change Meridian. Michelle works with leaders and teams to help them get fit for the future of work. She is the Author of 'Step Up: How to Build Your Influence at Work and 'Career Leap: How to Reinvent and Liberate your Career'.

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BY DR AMANTHA IMBER

5 PSYCHOLOGY HACKS TO HELP YOU STICK TO YOUR NEW YEAR'S RESOLUTIONS

Six weeks. For <u>80 percent of Americans</u>, that is how long it takes for their new year's resolutions to fail. If you want to be the exception rather than rule, here are five hacks to give your resolutions the best chance of success.

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Change one word in your self-talk

Could increasing the chances of sticking to your resolutions be as simple as changing one word? According to science, it can. Marketing Professor Vanessa Patrick recruited 120 university students and taught them two different strategies for managing unhealthy food temptations. One group was taught to say "I can't eat X" when presented with an unhealthy snack. The other group was taught to say "I don't eat X".

Participants were then asked to complete a different (and irrelevant task), but then when they got up to leave the room, the crux of the experiment happened: they were offered a chocolate bar and a healthy granola bar. The experimenters quietly noted which participants picked which bar.

It turns out there was a big difference between the strategy people were taught and the bar they picked. Thirty-nine percent of those who were taught to say "I can't eat X" chose the healthy granola bar. In contrast, 64% of those in the "I don't eat X" group picked the granola bar. In other words, changing one simple word increased the likelihood of selecting the healthy snack by over 50%. So if your new year's resolutions involve stopping a particular behaviour, say that you don't do this behaviour, rather than you can't.

Express gratitude to increase your self-control

Sticking to resolutions involves self-control – after all, we are trying to change habits that we have possibly had for many years. David DeSteno, a Psychology Professor from Northeastern University, set out to explore whether an act as simple as being grateful could improve our self-control muscle.

DeSteno asked people to spend a few minutes thinking about an event that made them feel grateful, happy or neutral. They were then offered the choice of receiving $18 immediately or $100 in a year. People who thought about an event they felt grateful for were twice as likely to wait one year for the extra money compared to the groups that thought about happy or neutral events. In other words, by feeling grateful, people were able to exert greater self-control.

To help your new year's resolutions stick, spend a few minutes every day thinking about something you are grateful for. Doing so will build up your willpower and give your resolutions the best chance of success.

Write down your resolutions on a sheet of paper

Social scientists Delia Cioffi and Randy Garner explored the difference in commitment to goals when they are made actively versus passively. The researchers set up an experiment whereby students were asked to volunteer for an AIDS education project. Of those people who simply told the researchers verbally that they would volunteer (the passive group), only 17% turned up on the volunteering day. In contrast, those who wrote down their commitment to volunteer (the active group), had an 49% attendance rate.

The reason why writing down commitments more than doubles the chance of sticking to them is that we infer more about ourselves through the way we act. Taking the action of writing down a goal says much more about yourself compared to just thinking about a goal. And as such, we are more likely to follow through.

Just set one resolution to start with

We often talk about new year's resolutions in the plural. It is assumed we will set more than just one. However, this is where we could be getting it all wrong. New year's resolutions are generally about habit change. And habits are hard to change. They take a large amount of self-control and self-discipline. Psychology Professor Roy F. Baumeister recommends starting with just one resolution – and starting with the easiest one first. By starting with your easiest one, you will hopefully get some success and build up momentum, and by doing so, exercise your willpower muscle which will help it get stronger. This then increases the chance of success for changing more challenging habits.

Set mini-goals to create a sense of progress

Many people's resolutions consist of big goals. Quit smoking. Lose 15 pounds. Go to the gym every day. A trick to helping you achieve your resolutions is to break your big goal into sub-goals. For example, if your goal is lose 15 pounds, break it down into losing five pounds in January, five in February and five in March.

Harvard Psychology Professor Teresa Amabile found that creating small wins is the key to driving engagement in what we do. And by breaking your big goal into a series of little goals, you will feel a bigger sense of progress through hitting your smaller goals more frequently.

By spending time thinking critically about the resolutions you set this year and using one or more of these psychology hacks, you'll give yourself the best chance of being in the select group of 20% of people whose new year's resolutions are still going strong many months into the new year.

Dr Amantha Imber is the Founder of Inventium, Australia's leading innovation consultancy and the host of How I Work, a podcast about the habits and rituals of the world's most successful innovators.

BY MICHELLE GIBBINGS

ARE YOU OUTSOURCING YOUR *change leadership?*

Everywhere you look, change is on the horizon. Change that is driven from both internal and external drivers, including regulation, consumer expectations, market forces, technology, new board members or a new CEO. These drivers are changing not just the 'what' people do at work, but the 'how' they do it, with consequent increase in pressure and demand for results.

The rate of change is exponential, but as governance professionals know all too well, many workplaces are struggling to deal with it. Uplifting the ability of organisations to thrive in a complex, changing world starts with equipping senior leaders with the capability, capacity and courage to lead the change. It means challenging the role that directors and executives see themselves playing in times of change.

Let's get real

Leaders talk a lot about the importance of change, but when you ask CEOs what keeps them awake at night, as PWC does in their annual CEO survey (PwC, 21st Annual Global CEO Survey, 2018), the capacity and ability to lead change doesn't rate a mention.

As the report notes, "The threats that trouble CEOs are increasingly existential". For example, over-regulation, terrorism, geopolitical uncertainty, cyber threats, and speed of technological change.

The report also highlights that comparatively few CEOs highlight 'potential ethical scandals' as a threat – despite the growing number of organisations that have suffered reputational damage from such issues in recent times.

At the same time, the 2016 study on the State of Australian Leadership by the Centre for Workplace Leadership found there are significant gaps in Australia's leadership. This landmark

study, one of the largest of its kind, found that many workplaces are:

• Underperforming with more than 40% of workplaces not meeting their performance targets for ROI and profitability;

• Not getting the basics right on fundamental issues such as performance monitoring, target setting and appropriate use of incentives;

• Underinvesting in leadership development with many spending none or little, and for those that do little is spent on frontline leaders; or

• Not drawing enough on strategic advice, with few senior leaders seeking advice from external sources when making strategic decisions.

The issues confronting boards and executives are increasingly complex. The report card on performance highlights that there is more work that needs to be done in a range of domains. Central to these issues is the ability to lead in times of change; and this isn't a task to be outsourced to someone else in the organisational hierarchy.

It's time to shift the lens

When leaders face these crunch points of pressure, they are often far more willing to look at others – their colleagues, direct reports or

team members – and identify how they need to change. Rather than to identify what may need to change in them.

To effectively lead change and make it stick, leaders need to first understand themselves, and then be open to shifting their mindset, operating style and behaviour to suit the context of the change.

Robert Kegan and Lisa Lahey, who have studied why many crucial change efforts fail, found that one of the core problems is the gap between what is required and a leader's own level of development.

In their book, How The Way We Talk Can Change The Way We Work, they state: "...*it may be nearly impossible for us to bring about any important change in a system or organisation without changing ourselves (at least somewhat) ...*"

Be willing to change

It's easy for directors and executives to get stuck in their ways and to see the traits that got them to their role as the skills and capability that will carry them forward. However, in a world that is constantly changing, success requires leaders to embrace the notion that successful organisational transformation, requires not just change for those around them, but personal change for themselves.

Understanding what changes are required goes beyond pinpointing new technical, operating or governance skills.

It's about delving into the meaning that drives a leader's behaviour, and the mental models they apply to the decisions they make. The prism through which a leader views the world shapes how they think, react and act.

If they let assumptions and pre-conceived ideas dictate the decisions they make, they are entering dangerous territory.

This is because our brain prefers to take the well-trodden route and takes comfort in what is familiar. However, in times of change and uncertainty, it can be the decision or idea that makes the leader feel uncomfortable that can be the best course of action.

As Voltaire said, "*Doubt is an uncomfortable condition, but certainty is a ridiculous one*".

Accept they don't have all the answers

The downfall of many great organisations can be traced to the hubris and arrogance of its leaders. Having a fixed mindset and seeing themselves as the smartest person in the room, the leaders close themselves off from feedback and feel they have nothing more to learn. This is exacerbated when a person feels powerful.

Organisational hierarchies are the very definition of power structures. The further up the totem pole a person rises the more power they have.

Research shows that humans are often over-confident in their belief about their abilities; it's one of the many brain-based biases that exist. The problem is that it's worse the further up the organisational totem pole a person rises.

A 2010 study by the University of Southern California and London Business School *(Power and over confident decision making)* found there's a correlation between over-confidence and how much power a person has.

The more power a person feels the more confident they are of the accuracy of their thoughts and beliefs. This means people in powerful positions are more confident that their opinions are right.

For leaders who are being charged with solving complex problems and making difficult decisions, being overly confident may result in them failing to heed advice or look for alternative opinions. In turn, leading to ineffective decision making.

Successful leaders know they don't have the mandate on good ideas, and therefore actively seek people around them who challenge how they think. It's this diversity of thought that aids 'out of the box' thinking.

It is often the person with the dissenting opinion or probing question who generates the much-

needed perspective and new approach.

Strive to maintain momentum

It's easy to get excited about a new change initiative. A leader can get swept up in the initial enthusiasm for the change, and then be overly optimistic about delivery timelines and benefit schedules.

This needs to be considered as decisions are made at Board level about what projects to support and when to invest. Governance professionals can help to ensure that the decision-making process is robust, as well as to provide counsel when the change work begins, and inevitable roadblocks and challenges arise.

Making change happen is always much harder than how it is detailed in a board paper. What looked simple on paper, and easy in the beginning, becomes much harder in the middle.

It is at this point that deliverables start to be de-scoped, activities re-prioritised, the project team is often restructured, and executives and board members can lose their nerve.

Harvard Professor, Rosabeth Moss Kanter, talks about the trap of failing in the middle. In relation to getting change to happen she says: *"Everyone loves inspiring beginnings and happy endings; it is just the middles that involve hard work".*

This is the time that change

leadership really needs to come to the fore. Leaders have two options: they can lose their nerve, or they can confront the challenges head on.

It's important that the right questions are asked at the board level, and discussions are held to help maintain momentum, or where necessary, quickly stop funding. This can include for example questions around:

• How to eliminate the friction in the system that makes the change harder than it needs to be. This may involve removing bureaucratic processes and unnecessary activities; and

• How to make it safe to fail so that the team is encouraged to try new things and new ways of working.

Leaders can't make change happen alone, and they need experts around them who can hold the mirror up and challenge them about the role they are playing, versus the role they should be playing.

Michelle Gibbings is a change leadership and career expert and founder of Change Meridian. Michelle works with leaders and teams to help them accelerate progress. She is the Author of 'Step Up: How to Build Your Influence at Work and 'Career Leap: How to Reinvent and Liberate your Career'. For more information:

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BY LISA STEPHENSON

DON'T UNDERESTIMATE THE VALUE OF EMOTIONAL INTELLIGENCE IN *strong leadership*

There has never been a greater need for strong leadership in this country as there is now. You only have to look at the political moves playing out in federal parliament or listen to the findings of the Banking Royal Commission to realise that we are right to be asking serious questions about what integrity and leadership needs to look like.

Leading with strength and authenticity, attracting the right talent to work in your business, having healthy workplace culture and achieving strong financial growth, can all be attributed to the emotional intelligence of those sitting in the leadership roles.

Champion of emotional intelligence Daniel Goleman recommended to the world that the ability to manage one's own emotions and those of others was more important than a person's intellect. According to research from Harvard Business School, emotional intelligence – commonly referred to as emotional quotient (EQ) – is twice as important as intellectual ability (IQ).

Historically, the corporate world has heavily valued IQ, measuring it thoroughly before appointing people to positions of influence. Being 'smart' was a direct reflection of your ability to do business. In more recent times we have generally acknowledged that this thinking does not equate to building successful relationships. We've seen organisations invest in teaching their teams to have courageous conversations and provide quality feedback, to take time to initiate activities that build the self-awareness of those who are responsible for the development of people. But have we really understood what is possible if we truly value EQ in our leaders?

Words such as 'authenticity' and 'collaboration' are constantly used when we refer to expectations of our leaders today; they both require an ability to deeply understand the experience a person creates for others. On the surface this creates conversation around what we mean by personal brand, but more strategically this is a true ability to work robustly and respectfully with others. We want to report to people who are emotionally healthy and resilient. We admire leaders who are confident in their ability to navigate conflict and say sorry if they get it wrong. We want those setting the strategy to tell the truth and bring optimism to the room. Australians want leaders who are strong in their values, beliefs and life experience. The author's experience as a success coach says that these attributes equate to trust, and we can't have strong leadership without it. In fact, this may be more important than inspiration.

Patty McCord helped create the high performing workplace culture that now exists at Netflix. In her best-selling book 'Powerful' she essentially tells us that traditional approaches to leading people through performance appraisals and bonuses don't work. Certainly, we are not all working in Silicon Valley but what people need and want from leaders is global. This is not about what some might call soft skills. Sure, listening and rapport building matter. Resolving conflict and negotiating are seen on most of our CVs. Being likeable does count. But what we are really talking about here is not soft. It's critical. It's essential.

The challenge for small businesses and global organisations alike is to move at pace and to do it with innovation, while tapping into the potential of the people who are doing the work! Leaders need to leverage both their instincts and intuition. If your current role or the team you are leading want to be successful, then investing in building EQ bench strength is possibly the most important investment you will make.

Lisa Stephenson is a global success coach, author of Read Me First, and founding director of Lisa Stephenson Consulting.

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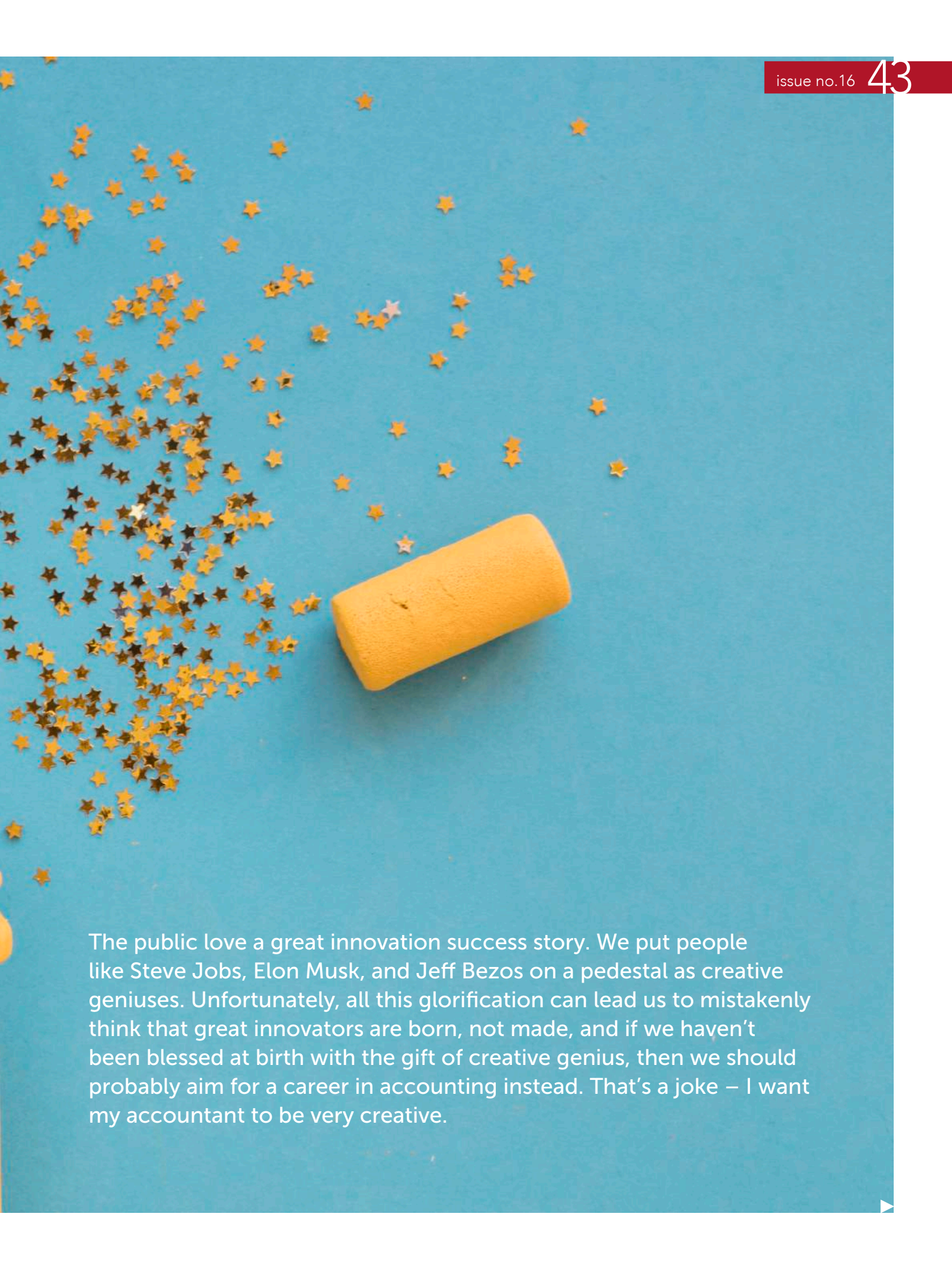
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5 SURPRISING SCIENCE-BACKED WAYS TO ACCESS YOUR *creative genius*

BY DR AMANTHA IMBER

The public love a great innovation success story. We put people like Steve Jobs, Elon Musk, and Jeff Bezos on a pedestal as creative geniuses. Unfortunately, all this glorification can lead us to mistakenly think that great innovators are born, not made, and if we haven't been blessed at birth with the gift of creative genius, then we should probably aim for a career in accounting instead. That's a joke – I want my accountant to be very creative.

However, the notion that creativity is a super power that we simply have no control over could not be further from the truth. For example, research into monozygotic twins demonstrates that creativity is only 30% genetically pre-determined. That means that the rest is up to us.

Here are some research-backed ways that you can instantly boost your own creative genius.

Pump up the volume

Are you planning a brainstorm session or design thinking workshop? Make sure you think carefully about your playlist. Simone M Ritter from the Behavioural Science Institute, Radboud University Nijmegen, compared the creative performance of a group of people who listened to happy, upbeat music with a group that worked in silence. Those who listened to the happy music produced significantly more creative solutions.

Make sure you pop some positive, upbeat tracks on your playlist for your next workshop. Or when working solo, put on some fun 80s pop music to get your creative juices flowing.

Go for a walk outside

Suffering from writer's block? Getting unstuck can be as simple as going for a wander outside.

Research published in the Journal of Experimental Psychology demonstrated that compared to sitting down or walking inside on a treadmill, going for a walk outside increased people's ability to produce creative solutions to problems.

If you happen to be planning a meeting or workshop where creative thinking is an essential ingredient, rather than just have a standard indoor coffee break, instruct people to go for a walk around the block to improve creativity upon their return.

And when working solo, build in some regular outdoor walking breaks to maintain creativity.

Have a cuppa

Need an excuse to take a tea break? Thanks to Yan Huang from Peking University you now have one. Huang and his colleagues found that drinking a cup of tea, as opposed to a cup of water, increased creative thinking performance.

Not only did tea drinkers perform better in a task requiring spatial creativity skills (as measured by building a creation out of blocks), but they also outperformed the water drinkers in a task requiring the creative use of language.

So when a team mate catches you taking your 11th tea break for the day, you can simply respond by saying you are warming up your creative juices.

Close your eyes

Could an act as simple as closing your eyes boost creativity? Ritter and her colleagues published research in Frontiers in Psychology that examined this very question. Participants were asked to either close or open their eyes while competing a creative problem-solving task.

Ritter found that those who closed their eyes produced significantly more creative solutions than their eyes-wide-open counterparts. The researchers suggested that the inward direction of people's attention was the key in increasing creativity.

Just go and "be creative"

One of the longest standing findings in the creativity literature is the notion that simply telling someone to "be creative" leads to more creative ideas. So if you find yourself staring at a blank sheet of paper, just ask yourself to "be creative" and by doing so, some great ideas should start to flow.

So if you have some creative work to do today, go for a walk in your local park, come back and make yourself a cup of tea, and then sit at your desk with your eyes closed while listening to Cyndi Lauper, and watch your best ideas flow.

Dr Amantha Imber is the Founder of [Inventium](), Australia's leading innovation consultancy and the host of [How I Work](), a podcast about the habits and rituals of the world's most successful innovators.

BY PETER SHIELDS

WHAT YOU NEED TO KNOW ABOUT LEADERSHIP AND

the generational divide

Humans have always found reasons to judge each other. Each generation thinks they are better than the one before them and smarter than the one behind. This sort of generational judgement shows up in the media and around the water cooler in every workplace

"Young people don't know what hard work is," goes the common catchcry about Gen Y and Millennials. "They care more about social media than work, they spend all their money on coffee and smashed avocado and wonder why they can't afford a property."

And what about the judgements thrown at Gen X and the Baby Boomers? "They can't use technology or think independently," younger people lament. "They had it so much easier than us and now they own all the property."

In a recent critical review of leadership theory focused on generational differences, authors Rudolph, Rauvola and Zacher concluded:

"Considering the various perspectives reviewed and critiqued herein (i.e., theoretical, empirical, or applied) and the paucity of evidence to support the existence of distinct generational groups, we now call for a formal moratorium to be placed on the application of the idea of generational differences as an explanatory framework in leadership theory, research, and practice."

In other words, basing any leadership discussion on which generation does it better will not result in meaningful change.

According to McCrindle's research, we are in for good times when Gen Y become the leaders of our organisations.

"They lead in less structural, authoritarian, command and control styles. They are more collaborative, consultative and communicative than espoused by 20th century management models. Generation Y are re-balancing the leadership equation with a productivity focus and a people centricity – the head and the heart are being effectively engaged to manage diverse teams in these fast-moving times."

No matter what generation you belong to, you need to navigate the generational divide to develop your career. Be it real or imagined, what your colleagues think matters because it impacts the quality of your working relationships and, therefore, your effectiveness as a leader.

Here are five tips to help you overcome generational prejudices and thrive in your career.

1. Have a goal that serves something bigger than you

People of all ages can sense selfishness a kilometre away. If you are out to serve yourself ahead of others and the customer, your peers and colleagues will notice and turn against you.

However, if you operate with a purpose and vision ('P & V') that aims to increase client value, employee satisfaction and collaboration, you will create momentum, increase profits and achieve sustainable results.

It is okay to be ambitious and have personal goals, if you achieve them in the service of others.

2. Know yourself and your sensitivities

If you pursue your P & V well, you will generate change. Most people will resist change, regardless of their generation, even if it's for the common good. Understand this and strategise for it.

Read Kegan and Lahey's Immunity to Change. Learn about your stage of consciousness and use your self-knowledge to anticipate the 'fear-driven strategies' of others. If you are susceptible to the fear-driven resistance strategies of others, you will exhaust yourself and your passion for the P & V will wane.

When you learn to recognise the physiological, emotional and mental indicators of your own fear-driven mind, you can develop an approach that strategically leads the team towards achieving the P & V.

Focus on:

• Communicating your P & V and allowing others to consider it.

• Listening to their perspectives until they have accepted and adopted the P & V as their own.

• Patiently letting them express their fears and worries. Fears diminish once they are shared.

• Once the fears and worries have diminished, ask people for their ideas on how to achieve the P & V.

• Consciously lead the group towards the P & V, building trust and dialogue skills along the way.

3. Build your human leadership skills

In the classic leadership book, The Five Dysfunctions of a Team, Patrick Lencioni led a generation of leaders to respect the importance of building trust. Once trust is established, people can talk about business issues without fearing conflict.

Lencioni suggests if you have trust

and meaningful dialogue, your team will respond with commitment and accountability for business results.

Focus on building a trusting and collaborative culture that holds dialogue above accuracy, collaboration above perfection, and you will have a team that is prepared to learn and grow as a collective.

4. Be a continuous learner

Learning is not just for those at the start of their careers. Exponential changes in technology and shifts in generational expectations have created limitless learning opportunities – making learning a career-long pursuit.

So how do you choose what to study and what to learn? Return to your P & V and reflect on what knowledge would serve it best.

Great ways to educate yourself:

• Improve your technical skills and capability.

• Learn how to practise adaptive leadership.

• Learn from others, regardless of their age, and leverage that wisdom at every opportunity – none of us is as smart as all of us!

• Support the learning of others and enjoy the resulting increase in trust and capability.

5. Understand the difference between technical and adaptive leadership

Heifetz and Linksy from the Harvard Kennedy School for Government observed that leadership is a practice, not a position. Their extensive research found "the single biggest failure of leadership is to treat adaptive challenges like technical problems."

Traditionally, employees are promoted to a leadership role because they're technically good at doing their job. The challenge arises when the new manager or leader can't let go of being the fixer. Most leaders, as Heifetz and Linsky noted, apply technical fixes to adaptive challenges, which by their nature don't have straightforward solutions.

They also recommend you "get onto the balcony to see the dance floor" and review the patterns and movements of the organisation. Many executives credit coaching with giving them the space and time to get onto the balcony for a strategic overview of their leadership and their organisation.

Leadership, especially where there are generational divides is an adaptive challenge and you will be more successful if you practise leadership with an adaptive approach.

Any leader, regardless of their generation, can achieve meaningful change. All it takes is a purpose and vision you believe in, an understanding of your own strengths and weaknesses, relationship skills and a willingness to learn every single day.

Peter Shields is a transformational executive coach specialising in leadership transformation. Read his ground breaking new leadership transformation fiction 'Leadership Alchemy' and embark on your personal leadership transformation. Find out more at

www.corporatealchemy.com.au

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DR AMANTHA IMBER

HOW CONVENTIONAL WISDOM IS KILLING YOUR TEAM'S CREATIVITY AND

how to get it back

Are you working in a hyper-connected team that is constantly pinging each other on Slack or Google chat? When you get together for a "brainstorm", do you jump straight in, without pause? Are you constantly seeking feedback from customers about your ideas? If you answered yes to any of these, or all of them, you are killing your team's creativity. Here are some strategies on how to win it back.

Work as a team, but only intermittently

Associate Professor Ethan Bernstein from Harvard Business School (HBS) and colleagues conducted a study to examine the optimal amount of team interaction to solve complex problems. They looked at teams where individual members worked in isolation, teams that constantly interacted (e.g. via Slack), and teams that interacted intermittently. All teams set out to solve the same problem so that the researchers could compare the quality of the solutions.

Bernstein and his colleagues found that groups whose members worked in isolation had the greatest amount of variance in the quality of their solutions. They produced some of the best ideas, but also some of the worst. In contrast, groups that communicated constantly had a high average quality across all their solutions but failed to produce any of the highest rated ones.

What really surprised the researchers is that the groups that interacted intermittently had the best of both worlds. These groups had a high average quality of their solutions

– comparable to the groups that worked together constantly, but because they were interacting for only part of the time, they also had enough variation to produce some of the highest quality solutions compared to the other groups.

Practice open monitoring meditation

Much has been written about the benefits of meditation, however, there is a specific type of meditation that is particularly effective for creative thinking. Researchers from Leiden University compared Open Monitoring meditation (whereby you focus on all and any sensations experienced during meditation), with Focused Attention meditation (where you focus on a specific thought or object) and their impact on creativity.

The researchers found that Open Monitoring meditation significantly enhanced creative thinking ability, whereas Focused Attention meditation did not. Encouraging teams to practice Open Monitoring meditation prior to brainstorms and other situations where creativity is required is therefore an effective way to kick off these workshops and meetings.

Only seek feedback if the environment is right

In teams pursuing innovation, seeking feedback from customers often comes as part of the job. However, some work environments can actually hinder the impact of this feedback on creativity. Research published in the Journal of Organizational Behaviour demonstrated that a wide variety of feedback from different customers has the most positive impact on creative performance when employees feel they have sufficient time to work on their ideas. In contrast, when time pressure is high, feedback is less effective at increasing creativity.

If you are encouraging your team to be getting input from customers and other sources, make sure that they have ample time to consider how best to apply the feedback.

Disconnect with devices and reconnect with nature

So much of how teams interact with each other happens in the office and while they are attached to their devices, sending messages

via Slack, IM, email, or whichever software application happens to be the flavour of the month. However, these conditions are killing creativity.

[Research from the University of Utah and University of Kansas](#) took the idea of disconnection with technology and immersion in nature to the extreme and took a group of people on a four-day hike in which they couldn't access their digital devices. Compared to performance on a creativity test on the morning of the first day of the hike, results taken from the morning of the very last day showed an improvement of 50%.

While most teams don't have the luxury to go hiking for four days, taking more regular breaks from technology and going for walking meetings or conducting meetings in your local park will boost creative performance.

Dr Amantha Imber is the Founder of [Inventium](#), Australia's leading innovation consultancy and the host of [How I Work](#), a podcast about the habits and rituals of the world's most successful innovators.

BY PETER SHIELDS

LEADERSHIP TRANSFORMATION

what does it really take?

Effective leadership is vital to the success of any organisation. A well-led business knows where it's going and what it's trying to achieve, and most importantly, it knows why. An organisation with poor leadership is like a rudderless boat; lacking clear direction and at risk of being toppled by the smallest of waves.
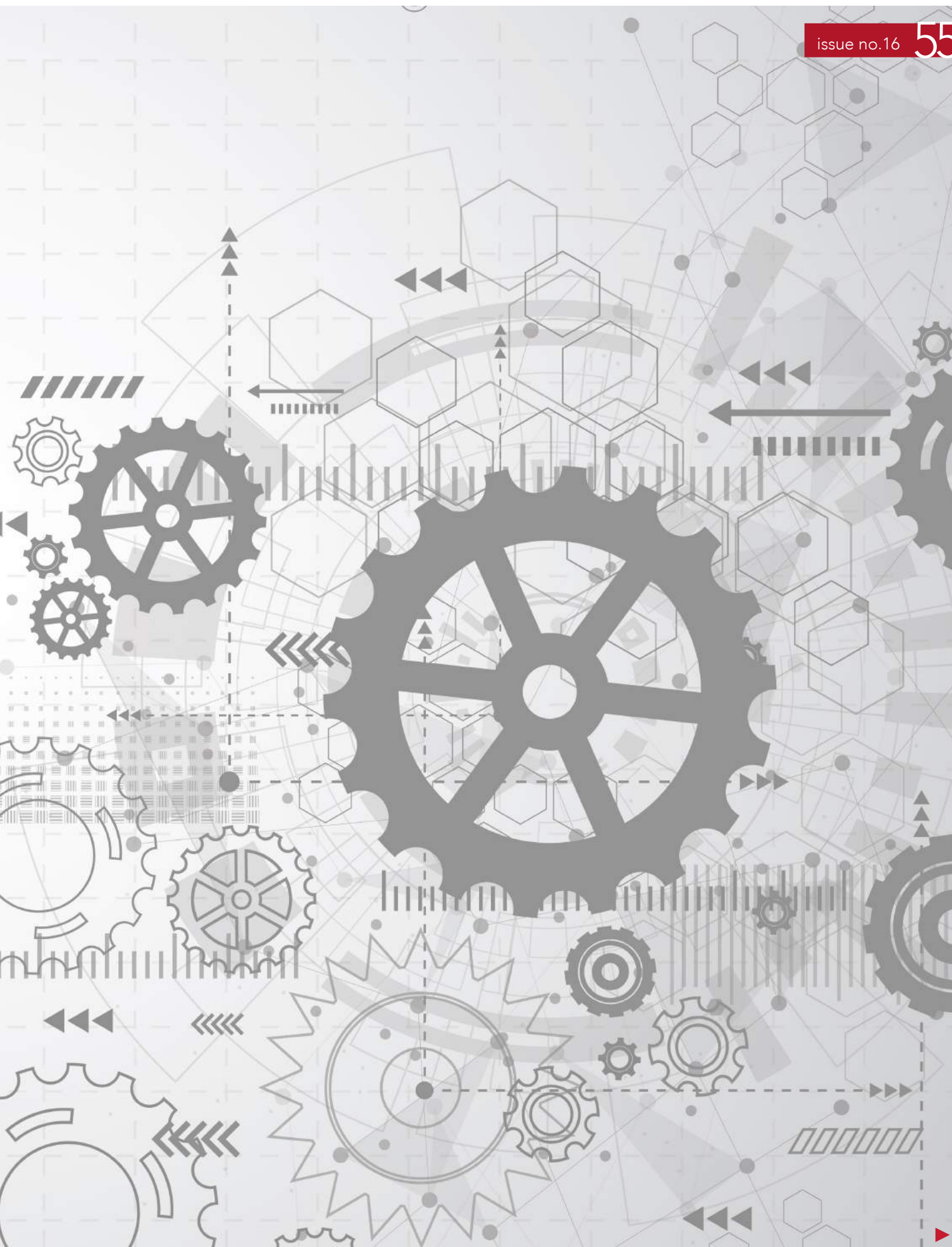
Are you a leadership change agent? Do you aspire to help leaders transform their attitudes, capabilities, skills, effectiveness and behaviour? If you do, congratulations. This is brave and noble work, and you have probably encountered plenty of resistance. The great playwright George Bernard Shaw once said "Those who cannot change their minds cannot change anything". Here are five tips to help change reluctant minds and achieve meaningful leadership transformation.

1. Establish the 'why'

Leaders must be invested in any change initiative. They must want to embark on the adventure to change themselves or the leadership culture of the team, with an understanding of why change is needed.

Use a coaching approach to help your target leader broaden their thinking and understand the impact their behaviour has on people as well as the organisation's bottom line. But avoid focusing solely on them. We are all infinitely resourced to resist change if it is only about us as individuals. Focus on the leader's intention, vision and purpose.

Open a dialogue with the following questions:
• What's your vision for the business?
• What changes are required of your leadership to achieve the vision?
• How important is this to you, to the team and to the customer?
• How will this impact you, the team, clients and shareholders?

2. Those who hold the vision must transform themselves first

Change initiatives that are not leader-led will not transform anything and will almost certainly deplete trust and accountability within the organisation. But it's not as simple as telling the leader to change. You must help them see how working on themselves first will help transform the entire business. They need to be the change they wish to see. Use your business acumen and your knowledge of human behaviour to help them devise their own leadership change initiative.

3. Trust the research: use a whole system and all levels approach

Research shows that a whole system (Wilber's four-quadrant integral model) and all-levels (Kegan and Lahey's levels of adult development) approach to leadership transformation is effective. Unifying theorist Ken Wilber brought together the perspectives of psychology, behaviour sciences, sociology and systems theory. In his book A Theory of Everything, Wilber observes, "If you're not working in all quadrants, you're not working at all".

Use Wilber's integral model to observe, consider and experiment with all quadrants combined with levels of adult development. Adult development researchers Kegan and Lahey, among many others, have demonstrated the adult mind has measurable levels of development. Each new stage has strengths available to be integrated. Adults can, if they choose, transcend the weaknesses of their current stage and take advantage of the strengths available at the next stage.

4. Leverage the ego/ shadow opportunity

The individual ego was conditioned during childhood to thrive or survive in relation to its environment. There's nothing logical about growing up; it's a daily adventure of navigating the physical and emotional conditions of that location, time, family, school or community.

The confidence, trust, creativity,

vulnerability, power, empathy and joy we were born with were necessarily repressed or suppressed as we learned to function and survive in society beyond our family.

According to twentieth century founder of psychotherapy Carl Jung, this process of necessary wounding results in a disintegrated identity or ego. Jung argued that as a result of conditioning, psychological strengths and weaknesses were hidden in the 'shadow' of the psyche.

We all have a shadow. The simplest example in (traditional) western society is boys being taught not to cry and girls being taught not to show anger. The result can be men who can't access sadness and grief when they most need to feel it, and women who can't access anger or the power that comes with it. Each of these impacts on one's ability to lead. Leadership transformation is possible when the leader commits to exploring their shadow and relearning how to access all their personality. A leader with a fully integrated ego will likely outperform a leader with unexplored shadow aspects.

## 5. Be a role model for transformational leadership

In HR you play a vital role in your organisation. See yourself as worthy of the role you are paid to perform. You are not less than or greater than any other adult in the business. When you operate from a secure, self-assured place, with humility and an equal focus on people and business results, you will model transformational leadership. Develop your ego/shadow and you will be resourced with self-compassion and be able to guide others with similar compassion and empathy. Leadership transformation requires patience and a strategic approach. It is a worthwhile endeavour that will awaken curiosity and possibility in those who commit to the challenge. Inspire them with your own leadership, endear them with your focus on business results and support them with empathy for what they are experiencing.
The self-transforming leader can change the world.

Peter Shields is a transformational executive coach specialising in leadership transformation. Read his ground breaking new leadership transformation fiction 'Leadership Alchemy' and embark on your personal leadership transformation. Find out more at

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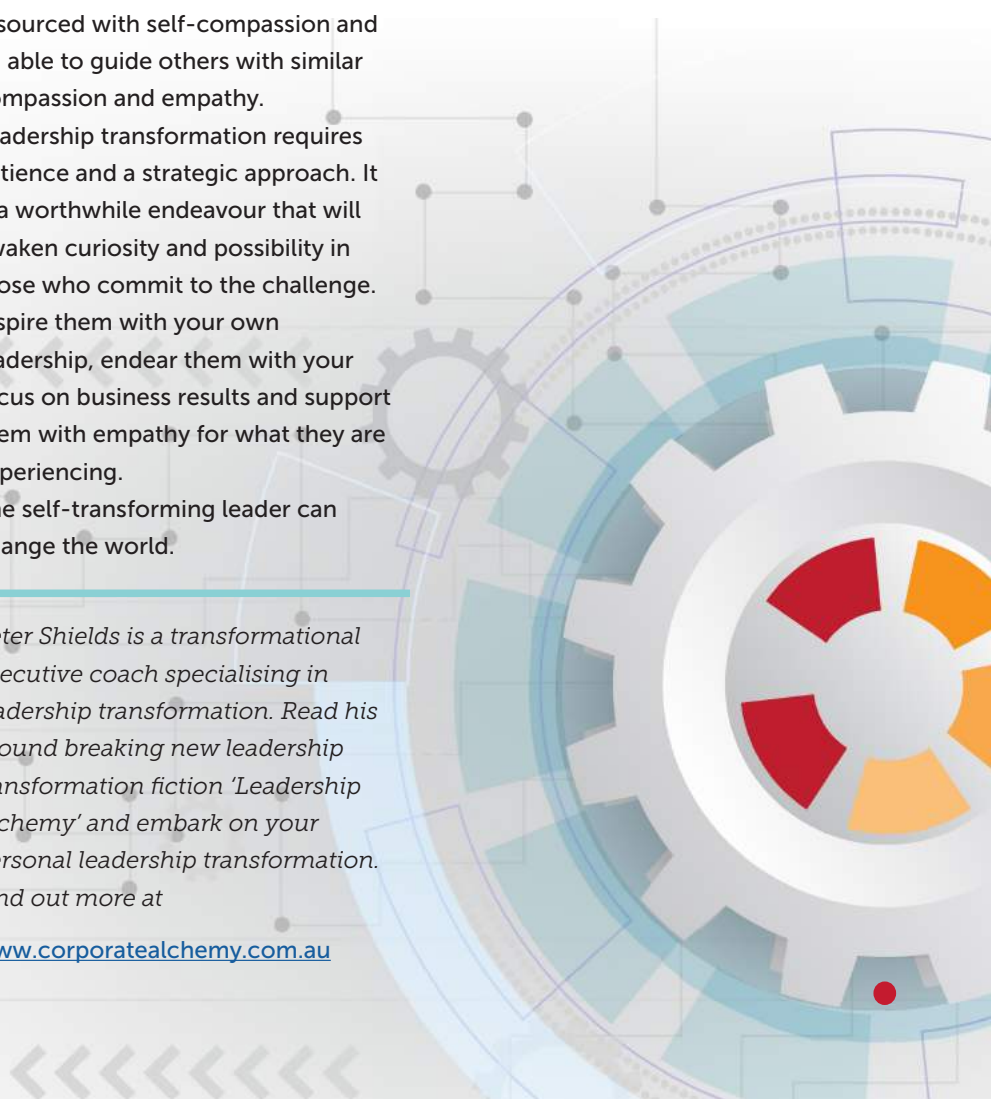
DR AMANTHA IMBER

INNOVATION MISTAKES
you need to avoid

Is your organisation trying to innovate but finding it hard to get started? Or perhaps leaders are talking about it, but progress has been slow. Maybe you've witnessed some innovation theatre and seen an innovation lab pop up, yet innovation is yet to impact your bottom line? If you can relate to any of these common scenarios, your organisation might be making one of these five common mistakes when it comes to innovation.

Embrace and celebrate all failure

Failure has gone from being a dirty word to a sexy word. People now wear failures like badges of honour and leaders shout "fail quick, fail fast" to anyone that will listen.

But here's the thing: not all failure is good. In fact, some failure can be bad. Bad failure is when you spend a lot of time, money and resources on launching an innovation, and it flops. You might learn one or two things along the way, but you've wasted - or spent - such a lot of time and a lot of money doing so. This is usually something organisations want to forget.

A bad failure that always stuck in my mind came from a client in the insurance sector. Just prior to starting to work with us, they launched a brand-new product. The leadership team were excited about the idea, the business case looked amazing, and millions of dollars were pumped into the launch. And only a handful of consumers ended up buying it.

Good failure, on the other hand, is all about failing quickly and cheaply, and stopping to reflect on what you learned. Stopping to reflect on what you have learn is critical, as is sharing your insights with the rest of your organisation.

Use time as an excuse

Let's be honest: Most people don't work at 100% productivity for 100% of their work days. The reality is that we might work well for a couple of hours, but the rest of our days are often spent in meetings, checking emails and engaging in other "shallow" work that isn't actually creating much value for our companies.

For innovation to thrive, we need to whip our personal productivity into shape, which will then free us up with more time to innovate.

For example, most people multi-task their way through their day. We might be working on a report but doing a "just check" of email every 10 or so minutes. We might be dialled into a phone conference but checking emails during the duller parts of the meeting.

This behaviour is costing us. Research by Professor David Meyer from the University of Michigan has shown the simple act of constantly switching tasks costs us up to 40% of time. Imagine if we mono-tasked our way through the day instead - that would free up at least two additional hours every day to focus on innovation projects.

Blame your inability to innovate or task risks on regulations

You would be hard pressed to find an industry that is not bogged down in regulations or highly regulated. Yet every company feels that their industry is unique and somehow in a position where innovation is impossible.

In every one of these industries, there are examples of disruptors who manage to find a way through.

America insurance company Lemonade, valued at half a billion dollars, is disrupting an industry that is awash with regulations. Lemonade breaks a lot of rules, such as using artificial intelligence to assess claims, thus enabling quick decisions - and allowing the company to quickly uncover which transaction may be fraudulent. Recently, Lemonade decided to open-source the writing of its insurance policy to allow anyone to understand it.

Rather than lament the fact that your industry is heavily regulated, focus on what might be possible as opposed to what isn't.

If you could relate to any of these mistakes or excuses, it might be time to have a long hard talk with your company to decide whether innovation is something your organisation is truly committed to.

Dr Amantha Imber is the Founder of Inventium, Australia's leading innovation consultancy and the host of How I Work, a podcast about the habits and rituals of the world's most successful innovators.

WHY BEING BUSY DOESN'T EQUAL BEING *productive*

BY MICHELLE GIBBINGS

2017

2018

2019

2021

2020

Despite results from the 2016 census highlighting that the length of the working week for most Australians hasn't increased since 2011, many workers feel pressed for time and in a constant state of 'busy-ness'. For some, they simply can't find enough time in the day to get everything done that is demanding attention. With 'busy' being the new catch-cry, it can be hard to slow down, reflect, and on occasions, stop. People worry that if they do they may miss something, or worse, get left behind.

Set your focus

When you are constantly 'on' and rushing you can easily miss what is happening around you. Your brain gets so focused on the task at hand it ignores other ideas or inputs that should be factored in.

You become blinkered to alternative perspectives. Rushing is easy. Anyone can look busy. Finding time to think and reflect is much harder. It's far harder to not look busy, in a world that rewards busy-ness. It becomes important to consciously consider what you are doing and whether you need to go slow or fast.

Deliberately set the speed

There're times when you need to operate with speed, and times when you need to cruise. Cruising is not about kicking back and doing nothing, but rather considering how you deliberately construct your day so you have time for reflection, to think and ponder, to wonder and daydream. It is in this space that ideas will arise, problems will be solved, and new perspectives will be gathered. Issues that were challenging, will no longer appear so hard; while problems that looked perplexing will get resolved.

Sleep is your friend

The health risks associated with a lack of sleep and being a night owl have long been documented – including higher rates of obesity and cardiovascular disease. Now, Professors Kristen Knutson and Malcolm Von Schantz's have found that night owls have a higher risk of early death. As well, when your brain isn't rested it doesn't function at optimal capacity. The pre-frontal cortex, which is the part of the brain that's involved in thinking, analysing and reasoning gets tired easily. Consequently, the brain has found a way of conserving energy - it takes short-cuts. A mental short-cut is known as a heuristic. Your brain uses heuristics to make big things and complex issues easier to manage, and ultimately remember.

As the brain takes in new information it tries to make sense of it, so that it knows what it needs to do. To ease the cognitive load this processing takes, it compresses information and sorts it into patterns. It looks for things that it's seen or experienced before and says – 'I now know what to do'.

Of course, the brain's short cutting process isn't always reliable, and gives rise to bias in decision making. For example, the brain may expect to see something in a certain way, and so it will seek out information to validate that view. It filters out information that doesn't fit with its view of the way things should be. All of this is much more likely when you are rushed, stressed and tired.

Build new habits

Being able to slow down is a habit, just like setting up a regular exercise routine, meditation practice or reading every night before you go to sleep. Academic researchers, Bas Verplanken (University of Bath) and Wendy Wood (Duke University), found that more than 40% of the actions people performed each day weren't decisions, but habits. This means there is an incredible amount of behaviour that is automatic and carried out almost unconsciously. If you want to replace the 'busy' habit with a more 'reflective' habit, ask yourself:

• Do you have any allocated time for reflection and creative thought? If so, is this enough or do you need more time?
• How much of your day is spent productively and focused?
• What could you stop doing or do less of to create some cruising time in your day?
• What are the benefits of having some allocated cruising time for you and those around you?

Michelle Gibbings is a change leadership and career expert and founder of Change Meridian. Michelle works with leaders and teams to help them get fit for the future of work. She is the Author of 'Step Up: How to Build Your Influence at Work and 'Career Leap: How to Reinvent and Liberate your Career'. For more information: www.michellegibbings.com or contact michelle@michellegibbings.com.

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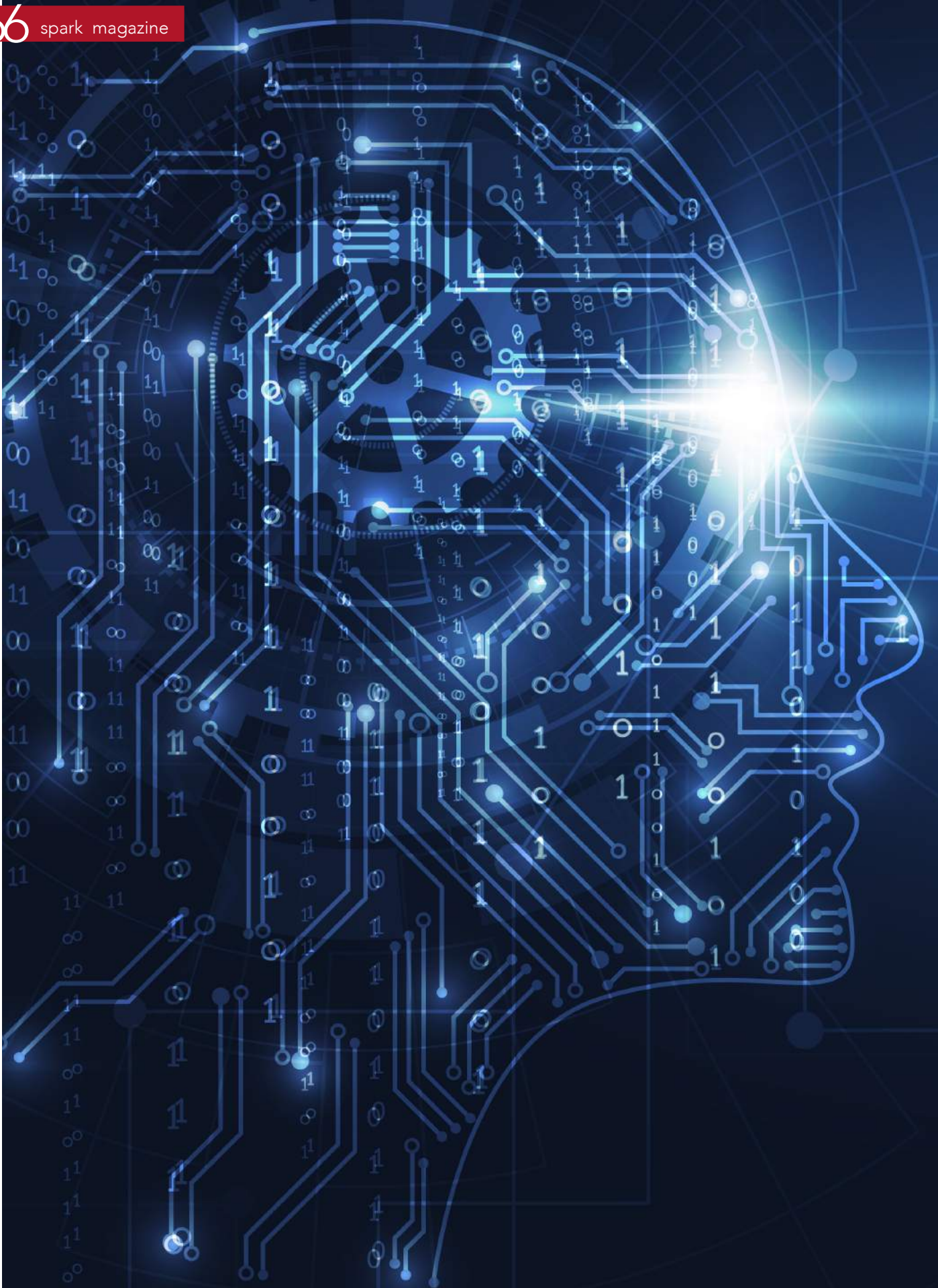
BY IVAN KAYE

INNOVATION AND OUR AUSSIE TECH SECTOR IS *under attack*

The fin review article today came as no surprise to me!

https://www.afr.com/technology/tech-firms-including-airtasker-hit-by-rd-incentive-crackdown-that-threatens-software-sector-20181129-h18j51

It seems as if Innovation and companies willing to take risks and innovate and export their Innovations are under attack by our Government!

When the Libs came to power - the goal of Australia being an innovation nation and "smart exporter" of technology, software and services was squarely on the agenda.
Innovation was encouraged by the Innovation Ministers for Companies to Innovate, to take risks and "give it a go" and the Government would support this!

The Government was talking up a national Innovation agenda and ideas boom! As a result, the industry started to boom, venture capital started to flow, there was a buzz and we were gaining momentum up the innovation curve and start punching above our weight.

I am not sure what happened, but after the 2016 Election, Innovation took a back seat - as there was obviously more important issues to deal with! Was it because many in the Coalition perceived that voters were worried about the impact on jobs from new technology, and dialled back support for the sector?

If so, I believe that is very short sighted and should rather focus on upskilling and re-educating workers to embrace the inevitable growth of machine learning and artificial intelligence, and use these technologies as a tool to help us grow as a nation !
The R&D tax incentive programme is arguably one of the most important and successful programmes for emerging technology start-up and innovative companies in Australia, and there is quantifiable evidence that Australian Industry has had the benefit of more than a 10X return to the Country.
The programme has been under attack and at risk of becoming totally ineffective as a tool to help innovative companies grow.

The R&D tax Incentive Programme

The R &D tax Inventive programme financially rewards companies for investing in developing new ideas.
The new definition and the way it is being applied by AusIndustry is totally inappropriate and not in sync with what R&D and innovation is happening in the marketplace, and what actually is R&D and innovation.
Theoretically every software and innovative company doing real R&D could potentially come under attack for being ineligible, making every innovative software company claiming the R&D tax concession at risk of having to reimburse the incentive claimed.

Case in point

Airtasker and Digiviser are Australian software and tech success story -
have been hit by shock demands to pay back millions of dollars in Research and Development incentives, because of draconian qualification measures and definitions of what constitutes R&D.

Many Companies have been using their accountants to lodge their R&D tax incentive claims without being aware of the potential risks that their claims are not eligible. There was an alert from the ATO back in February 2017 which manages the scheme that said they were concerned that companies were claim for work, which didn't count as "pure R&D."

However, crucially, AusIndustry has been cracking down on previously awarded incentives, applying a rigid ATO definition, where "companies must prove that they were working on experiments for the purpose of "generating new knowledge". These must be seeking to determine results that could not have been already worked out, and be conducted in certain prescribed ways."

"Ask any software developer whether a technology will work and they will say that with platforms that are available now - any software can be developed with relative certainty and a plan!"

Ausindustry base the definition around a framework known as the

Frascati Manual to audit the self-assessed applications.

The Frascati Manual classifies research into three categories:

- **Basic research** is experimental or theoretical work undertaken primarily to acquire new knowledge about observable phenomena and facts, not directed toward any particular use.
- **Applied research** is original investigation to acquire new knowledge directed primarily towards a specific practical aim or objective.
- **Experimental development** is systematic effort, based on existing knowledge from research or practical experience, directed toward creating novel or improved materials, products, devices, processes, systems, or services.

The Airtasker fiasco

Airtasker co-founder and chief executive Tim Fung told the AFR that his company's two most recent R&D rebates have been completely rejected under audit, and he faced paying back millions of dollars, plus a potential 75 per cent penalty for making erroneous claims.

At the time of applying for the rebates he had engaged a tier-one professional services firm at a cost of tens of thousands of dollars to ensure the claims were watertight,

and he said Airtasker would have been unable to grow as it since has, without securing the funds.

During the audit, Airtasker had to devote a huge amount of time and resources to walking AusIndustry through the details of its work, including thousands of pages of documentation and many days for its chief engineer and financial controller explaining the importance of the relevant research.

Airtasker's failed R&D claims involved working out how to combine two previously separate software languages, which it had demonstrated via web searches had not been done elsewhere before.

It also developed machine learning and artificial intelligence algorithms to apply to online content moderation and detect undesirable behaviour on its platforms.

However, he said, the Frascati model required documentation that was more akin to scientific laboratory experiments, rather than agile software development methods, which are common across the tech sector.

Its claims were disallowed saying it didn't meet the requirements.

Airtasker has the luxury of paying back the rebates and not needing to rely on future incentives as its

rapid growth has resulted in a $33 million funding round from Venture Capital.

This success story would not have been able to have been achieved without the massive spend on a research and Development and the support of the R and D tax Incentive scheme during its time of need - having grown from 15 (when it claimed its first R&D incentive to 200 employees now with 110 on Australia!

James Spenceley is the Chairman of Airtasker and owner of the Illawarra Hawks National Basketball League team. He is both a seasoned entrepreneur, having founded telecommunications company Vocus, and an increasingly prolific investor in Australian start-ups through MHOR Asset Management business.

James has this to say

"I have noted a change in the approach from the government towards supporting technology start-ups." He is worried because he believes the R&D incentive scheme has been central to the developing strength of the local tech scene.

"Out of the blue, the government just came back and said we're not accepting any of your previous claims going back two years ...

▶

I've done 10 years of R&D claims, but I've never seen sort of black and white behaviour like this".

The Digivizer Fiasco

Digivizer's Emma Lo Russo said her company also faces repaying more than $1 million in rebates after AusIndustry deemed its research "does not constitute new knowledge".

Ms Lo Russo, who spent $80,000 on professional advice to help ensure Digivizer's claims complied with the R&D rules, said the finding was both baffling and "very, very frustrating".

The creation of Digivizer's analytics software for businesses and content creators, was a direct result of her team's research and development efforts.

The R&D rebate allowed them to create something new, innovative and different said Miss Lo Russo who was proud to be a poster Australian technology brand that others in the industry can aspire to.

IS SOFTWARE DEVELOPMENT "R&D AND PART OF THE INNOVATION ECOSYSTEM" AS DEFINED BY THE GOVERNMENT?

If not, we are in danger of Killing a Young and Vibrant Tech Industry

"It will definitely change that position for us as to whether we make a decision to stay in Australia, or move elsewhere" says Airtasker CEO Fung .

"We hire software engineers in Australia and are creating jobs in that regard, but certainly if the incentives exist elsewhere to do that more economically, we have to think about that."

WHAT THE INDUSTRY EXPERT HAS TO SAY

Daniel Petre, cofounder of Airtree Ventures and board member of Innovation and Science Australia, an independent statutory board set up in the Department of Industry, Innovation and Science to advise government on innovation, research and science matters said that the government needs to address this issue QuickSmart

"The fact that this key programme for supporting start-ups was not suited for software companies is ludicrous"

"Whether we like it or not, the future is a world where everything is underpinned by software and one where all the growth in employment will come from tech-focused firms, many of them scaled start-ups".

"Job growth is not coming from the banks adding more people, big end mining adding more jobs, retail adding lots more jobs. It is all about tech, healthcare and maybe education."

"The government pulled $2.4 billion out of R&D last year and now you are seeing software companies getting audited and told to pay all the money back … "

"They don't have the cash and will go out of business!"

"Everyone in the start-up industry, which is creating thousands of jobs, has no idea how to engage in a

sane conversation with government and so has no idea what to do."

A NEW DEFINITION OF R&D – RELEVANT TO TECH START-UPS IS URGENTLY REQUIRED.

"R&D incentives were the difference between small software companies having the chance to grow or die."

"Rorting of the system was more likely at large institutions with armies of accountants than at emerging start-ups."

He said access to the funding meant start-ups could grow bigger before seeking external VC funding, which in turn meant founders were less diluted, made more money when they exited and would then pour more money back into the local ecosystem in future.

"Software is developed in agile teams, which try things and discard things, it doesn't map well to the structure that the Frascati model tries to create," Mr Petre said.

"They really need a new definition for what counts as R&D in software, but we are all going to be dead by the time the government decides on one."

What the Minister has to say

When confronted with concerns about the sector, Minister for Industry Science and Technology Karen Andrews said the government was "listening to the needs of start-ups, and recognised the importance of these businesses to the economy."

"Being a self-assessment program, companies are responsible for their own claims and need to ensure the advice they receive is of a high quality"

"We are basing the definition on the same basis as that if Britain and Canada"

What the Opposition has to say

Shadow Minister for the Digital Economy Ed Husic said he had raised concerns with previous Minister Kelly O'Dwyer about concerns that software companies would simply stop applying for R&D incentives, out of fear of failing future audits.

"While it's crucial that all firms use the incentive according to the rules, we've been concerned for a while that a sledgehammer is being used to crack a walnut," he said.

"We've got to get the balance right and we'll be seeking a briefing from the Minister about this particular matter."

Marcus, Mick and the team at BSI Innovation are the leading experts in this field and have been involved with this programme for the past 25 years! If you want to have a chat with them, hit me up and I will refer you to them!