

## Innovation a mainstay in modern business

*Innovation is crucial to the continuing success of any organisation, no longer relegated to the back-burner, innovation has now become a necessity in modern day business.*

*Whether you are looking to streamline processes and procedures or embarking on transforming your ideas into reality, being innovative is an important ingredient when it comes to sustainable business advantage. In this article we look at the power of innovation and what support is available for your business*

### Introduction

Innovation is a significant positive change, as the ability to innovate is now a top priority for companies everywhere. “Smarter not harder” is at the forefront of modern day business where we continue to develop and integrate technology into our business in search of efficiency, greater profit margins and increased customer satisfaction.

### The innovation challenge

Innovation can lead to the implementation of new ideas, creation of dynamic products and improving existing services. Successful innovation should be an in-built part of your business strategy, where you create a culture of innovation and lead the way in innovative thinking, this is proven to have a positive business impact. In the world of accounting, we too have been asked to adapt to a changing landscape.

The introduction of cloud technology, increasing regulation and our customers expanding or moving business (becoming multi-national) have resulted in a need to embrace technology and adapt to changing regulations ensure we not only remain relevant but also on top of our clients’ changing needs. In the end, this decision to innovate was an obvious one when you consider the number of alternatives eroding competitive advantage.

Our industry is not alone in facing the business risk of ‘redundancy’ or obsolescence through an inability to adapt. A specific example of this business risk is that of a client, the client was asked a question about better supply chain management solutions available in the market by a customer. This innovation challenge was driven by customer demand, and the need to meet the need was heightened as it meant his customers were looking for an opportunity to extend the current boundaries of an already good service.

He tells us that it forced him to do the following:

- think outside the box (at 55 being creative was easy); and
- the importance of perseverance (because it took a few times getting it wrong before he got it right) and to remain focused on an outcome which had a result.

Very interesting points when you consider the reason to innovate was born out of conversation. That conversation occurred two years ago and to this day he gets excited when you ask him how he did it and even more excited about what it means for the business now (opening up new markets).

### Why not start now?

There are many barriers to innovation, such as a lack of resources and/or leadership, it’s OK to have incremental innovation or just a lack of an incentive to innovate. It is likely that we all agree on the need to innovate but sometimes it comes down to the cost vs benefit equation. The cost of innovation with no guaranteed return is too much for a middle market business to commit to!

There is a potential solution which will help contribute in part to potential research and development costs to allow the innovative part of the brain to work for business. In New Zealand, [Callaghan Innovation](#) "Callaghan" (a government agency) currently administer millions of R&D grants a year in business R&D funding through their various programmes e.g. Growth Grants, Project Grants, designed to help accelerate innovation for different entities.

In December 2015 Callaghan made some changes to its grant criteria, we have incorporated these in the table below:

| Criteria                               | Growth and Project Grants   |
|--|---|
| Eligibility Criteria                   | <ul style="list-style-type: none"> <li>• Company registered under companies act 1993</li> <li>• Limited Partnership under limited partnerships act 2008</li> <li>• A Maori incorporation or a trust established under Te Ture Whenua Maori Act 1993, or</li> <li>• A trust established on behalf of Maori claimants to receive and manage assets as part of the settlement of a claim under the Treaty of Waitangi, or</li> <li>• A Maori statutory body, or</li> <li>• A business that is controlled by one or more of these types of Maori entities.</li> <li>• Government entities are ineligible</li> </ul> |
| Reputation                             | <ul style="list-style-type: none"> <li>• Must not bring the reputation of Callaghan or the R&amp;D Grants programme into disrepute.</li> </ul>  |
| R&D Spend                              | <ul style="list-style-type: none"> <li>• Have had a minimum R&amp;D spend of \$300,000 in eligible R&amp;D expenditure in the last two financial years</li> <li>• Have had R&amp;D expenditure of at least 1.5% of their review in the last two financial years.</li> </ul>   |
| If eligible you are able to apply for: | <ul style="list-style-type: none"> <li>• Eligible funding rates do range from 40% of the first \$800,000 of eligible R&amp;D then 20% for the remainder or</li> <li>• A flat rate scheme which is dependent on the type of grant</li> </ul>   |

Note: In this article we do not cover off the student or collaborative grants.

### Protect your application

From our experience, how organisations manage their R&D spending will define their position to obtain eligible grants and more importantly reduce the risk of 'claw' back conditions if contracts are not complied with. Not widely publicised but relevant and a point to consider is that Callaghan have been focused on ensuring successful applicants maintain compliance with grant conditions.

For 'eligible R&D' it is important you keep accurate records of R&D expenditure that in general complies with the provisions and guidance of New Zealand Equivalent International Accounting Standard 38 ("NZ IAS 38"). This should also be considered in conjunction with NZ FRS 13 Accounting for Research and Development Activities ("NZ FRS 13").

As a brief summary, R&D expenditure can include:

- (a) the salaries, wages and other related costs of personnel engaged in research and development activities;
- (b) the costs of materials and services consumed in research and development activities;
- (c) the depreciation of equipment and facilities to the extent that they are used for research and development activities;
- (d) overhead costs related to specific research and development activities;

(e) other costs related to research and development activities such as amortisation of patents and licences

One of the changes implemented as part of the December 2015 update is in relation to overseas expenditure. Previously this was considered to be prohibited however under the new changes this may be acceptable in certain limited cases.

Callaghan provide more than just financial assistance. There are a number of programmes which could assist you to make the first step and ensure your journey is a managed one. For more information about [Callaghan Innovation](#) and how they can help you, please visit their website [www.callaghaninnovation.govt.nz](http://www.callaghaninnovation.govt.nz)

## Conclusion

RSM provide a specialised service which focuses on R&D grant requirements to ensure expenditure is in line with [Callaghan Innovation](#)'s guidelines. Innovation is a trending business concept that even we as traditional 'bean counters' need to embrace. Should you require assistance with your R&D grant requirements feel free to [call us](#) for a confidential chat on how we can help.

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