

Rewarding ideas

Global Innovation, IPR and Growth

Tuesday morning, 3 June 2008

Moderator: **John Thornhill**, Editor, European Edition, *Financial Times*, United Kingdom

Alison Brimelow, President, European Patent office

Laurent Cohen-Tanugi, Chair “Europe in the Global Economy” Task Force, France

Soumitra Dutta, Dean of External Relations, INSEAD, France

Pedro Lichtinger, President, European Pharmaceutical Operations, Pfizer

Pier Carlo Padoan, Deputy Secretary-General, OECD

The session highlighted the fact that encouraging innovation is a complex problem, made even more challenging by the statistical problems associated with measuring innovation and gauging the results of policy. Generally, though, participants agreed that individual governments had to adopt more ambitious and wide-ranging policies tailored to suit their own economies. Rather than just focusing on the high-tech sector, as has often been done in the past, the future challenge is to extend innovation policies to address their educational, social, managerial and labour market aspects.

Soumitra Dutta discussed the key drivers of the recent switch in emphasis in the business school world from analysis of corporate structures to a focus on innovation. Along with globalisation, Mr Dutta identified two main drivers behind this process. The first is that the western world is losing its monopoly on new ideas, and the rapidly-growing emerging economies are catching up or even taking over. Scale is one important factor, with the size of the Chinese and Indian markets changing the dynamics of innovation, forcing companies to focus on the needs of major developing economies. The second driver is technology, which is advancing at an exponential pace, and which is likely to accelerate further. Rapid change presents a number of challenges for governments and businesses, including providing good governance, which has a strong statistical correlation with prosperity. In addition, successful innovation requires human talent, which must be attracted and retained via innovation-friendly capital markets and support for a risk-taking and innovative culture.

Alison Brimelow, while underlining the important role that intellectual property rights (IPR) have on innovation, noted that this is just one of the variables that have an influence; others include development of human capital, political stability, and a genuine free market. All of these variables need to be evenly balanced in order to create a suitable environment for innovation. Moreover, while having a patent system in place is important, it is necessary to make sure that it works properly. However, this is quite a complex issue and Ms Brimelow expressed a worry that the mere counting of patent applications as a way of measuring innovation would be misleading; as Ms Brimelow put

it, “more does not mean better”. In particular, getting patent applications in early might be used as a way to block critical innovations by establishing monopoly positions, leaving demand for more effective products unsatisfied. Backlogs in applications can also be a problem. What is needed is a patent regime that is “fit for purpose”, with greater emphasis placed on the quality of the patent regime.

Focusing on the specific case of the pharmaceutical sector, **Pedro Lichtinger** noted that the industry requires huge levels of R&D investment, and substantial collaboration between the public and private sectors. In order to protect these investments and stimulate innovation, the industry needs strong intellectual property protection, otherwise R&D spending in these industries would collapse. But this does not mean that the big players should necessarily dominate the field. Mr Lichtinger offered the example of the incubator concept, by which research by small companies is supported by large laboratories, followed by collaborative development of promising products, an approach which can prove to be cost effective. He also highlighted the role of incremental innovation, noting that the first product to market is not always the best and that the need for IPR therefore has to be balanced against the need to encourage further research and progress. Ultimately, it is important to reward innovators, and Mr Lichtinger called on partners to work together to strengthen global innovation.

According to **Pier Carlo Padoan** the OECD is devising an innovation strategy to provide economies and companies with a framework conducive to innovative practices. The global scene is expanding rapidly and new players are asserting themselves. As information opens up, there is an increasing need for a collaborative approach to working with outside partners. Attention should also be paid to the non-technological aspects of innovation, chiefly the social and managerial dimensions.

The challenge of measuring innovation lies in evaluating the inputs rather than just focusing on the final results. Mr Padoan also recommended supporting creative communities, developing effective education systems that “go beyond national boundaries”. In addition, putting in place “soft intellectual property rights” could encourage the market for knowledge and hence stimulate innovation. But there is no “one size fits all” innovation strategy, rather several combinations of different variables, and these must be addressed across all departments.

Laurent Cohen-Tanugi gave a short review of the European response to the knowledge economy challenge, originally conceived to bridge the knowledge gap with the US. This “Lisbon process” has unfortunately proved to be overoptimistic. The target was to raise R&D expenditures to 3% of GDP by 2010, but spending has in fact declined slightly. One problem was that achieving the target was dependent on EU members’ goodwill in pushing through necessary measures. Some did well—generally speaking the smaller member countries. But in some of the larger states spending on R&D has fallen. The successful countries have implemented significant reforms of their education and knowledge-economy policies. The future challenge for the EU is the intensifying

competition from emerging economies that are putting increasing effort into innovation. The EU's response should be to develop a more broadly-based and ambitious strategy that focuses not just on the high-tech sector but also incorporates aspects of educational, social, labour market and other policy areas.

Moderator **John Thornhill** launched the discussion with participants from the floor by addressing two main questions to the panel: how do we measure innovation? and how should we restructure organisations in order to encourage innovation? On the issue of measuring innovation, Ms Brimelow stressed the importance of “going beyond the numbers game” and paying close attention to broader indicators of performance, such as the development of successful brands and trademarks and educational performance. Addressing the question of organisational structure, Mr Dutta pointed to the invaluable inputs of employees and the importance of developing the right culture to foster innovation. There is also a need to celebrate success, which is often a weakness in Europe. Mr Cohen-Tanugi also underlined the importance of obtaining the correct mix of educational policies.

One conference participant questioned the panel on the “poor use” of social science research by companies. Mr Padoan agreed that social capital is crucial, and that societies need to be more tolerant of failure. For example, legal systems that do not penalise failure as heavily could be put in place. Another conference participant questioned whether policies such as those aimed at curbing public healthcare spending in developed countries might hinder innovation. Mr Lichtinger agreed that cost containment can be an obstacle to innovation in the pharmaceutical industry, while Mr Dutta also noted that, in some circumstances, the need to control costs could actually spur innovation. For example, the development of cheaper drugs might open up the large potential market for cheap healthcare in developing countries.

Another participant asked the panel to identify the main factors behind the sometimes lengthy lags between innovations and their eventual practical application. Mr Lichtinger listed bureaucracy, lack of access to capital and distrust between public and private institutions. Mr Cohen-Tanugi added that delays sometimes stemmed from social attitudes towards risk, for example, in relation to health and safety concerns. Mr Padoan also noted that barriers to the adoption of innovations are often dictated by the nature of the technology involved.

Another participant from the floor questioned the effectiveness of measuring innovation by analysing inputs, instead suggesting the use of output measures such as productivity and growth. Mr Padoan noted that in the past, macroeconomic measures of productivity had failed to show the real impact of innovation, for example during the IT revolution in the 1990s. A focus on productivity data at the level of individual firms might help achieve a clearer view of how productivity and innovation interact.

MS/HEC-AB, MZAB