



Role of innovation in sustainable growth

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Moderator: **Ann Mettler**, Executive Director, Lisbon Council

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Andrew Wyckoff, Acting Director, Science, Technology and Industry Division, OECD

There is much talk about innovation, not always with a clear notion of what it is. The Internet, mobile phones and IT in general, are the obvious tokens, impossible to miss because of their dramatic impact. But other innovations have also been key to the recent period of growth, and neglecting them will not help a recovery either.

Moderator **Ann Mettler** opened the session by pointing out that innovation, while often regarded by governments as a panacea economic turmoil, proves less attractive to companies, which become more risk averse in times of hardship. "Will we have the courage to use innovation to bring about the change that we urgently need?" she asked.

Jacques Mollet used the example of the Korean government's and Samsung's actions during the 1997 Asian Financial Crisis to illustrate how innovation, fostered through joint initiatives between government and the private sector, can save a country from dire consequences. "The crisis was a major trigger for Samsung," he said. Today Samsung employs 40,000 researchers and funnels \$5-6 billion into research and development.

Sull Wonhee also stressed the positive impact of innovation on Korea. He said that the high speed Internet and mobile telecommunications saved the country from the '97 crisis. After the crisis, however, the question arose as to how to sustain this innovation; doing so requires constant refinements of the original idea. One consequence of the IT innovation was increased demand, which led to higher GDP and profitability for companies. This in turn enabled companies to innovate further.

IT is a big producer of social capital, according to Mr Sull. "Social capital" refers to communities that develop from social networking. When such communities develop, demand and consumption rates rise, much more so than when people act individually. One sees this happening everywhere in the world.

He echoed Jacques Mollet's opinion that the crisis was a driver of change. "Financial crises might be regarded as the birth pains for a new era" he concluded.

Olivier Tardy introduced some interesting figures from the joint BCG-Businessweek Innovation Survey. Despite the current economic crisis, 64% of managers still include innovation as one of their top three priorities, compared with 66% prior to the crisis, and 58% said they planned to increase their innovation budgets. He said that innovation influenced four growth factors. The awareness that: resources are limited; rapidly developing economies have unique needs; In a crisis, customers focus on essentials; consumers expect more in terms of sustainability from governments and companies.

Vincent van Quickenborne agreed with the view that innovation is the way through a crisis, but with the caveat that the choices of government are often inimical to innovation. He equated “bad government” with setting wrong targets, favouring national champions over smaller entrepreneurs, and closing markets. What spur growth and sustainability are open policies for entrepreneurship, competition and investment. The results of such reforms in Belgium have cut red tape for start-up companies, eased restrictions for work permits and dramatically improved performance in innovation. The minister called for a “holistic” approach to innovation. In the end, it is government itself that must be innovative.

OECD’s **Andrew Wyckoff** summed up the debate and highlighted the role that social challenges play in stimulating innovation. He also pointed out that facilitating start-ups is not the only issue: exit strategies were of equal importance. How do you get out of the market so as to get back in later?

From the floor, **Nicolas Arpagian**, chief editor of *Prospective Stratégique*, drew attention to the fact that in times of crisis customers worry more about affordability than innovation. Olivier Tardy responded that cheaper did not necessarily mean less innovative.

Rut Bizková, the Czech deputy minister for the environment, made a case for an increased focus on environmentally-friendly innovation.

Jacques Mollet acknowledged that the crisis had permanently altered consumer behaviour. Large corporations must adapt their products to the customers’ demand for greater transparency and environmental responsibility.

“Innovation creates value” said Vincent van Quickenborne. Nevertheless, innovation necessitates sound governance. He said that consumers tend to switch to smaller, more efficient cars when CO₂ emissions tax schemes provide them with the incentive to do so. In less-privileged countries, low-margin innovations such as cell phones shared by entire families and low-price laptops (netbooks) can instigate tremendously positive change.

Aly Badara Samassekou from Bamako University in Mali suggested that the Sahara desert, for example, held great potential for solar energy projects.

From the floor, **Ken Morgan** from the University of Western Australia expressed disappointment over the lack of discussion regarding the “university ecosystems” in fostering innovation. An entrepreneur from Uganda concurred, citing the example of poor collaboration between Uganda’s academic and business worlds.

Andrew Wyckoff said that innovation, as a concept, has arguably joined mainstream economics.

Ann Mettler concluded the session by saying that, in the end, what may be needed are more incentives to encourage individuals to innovate.

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