

# A lesson from Iceland on how to re-establish growth

## Main points:

- For the Icelanders the severe economic crisis has provided an opportunity to turn the nation's growth initiatives upside down
- With assistance from the Kellogg Innovation Network, Iceland has discovered growth potentials which were hitherto overlooked
- Iceland is case-study on "how to exploit a crisis to spur radical innovation" say the experts

Virtual warriors, elves and trolls will give Iceland new life, after wizards wearing business-suits from the financial sector brought the country to economic ruin. The small volcanic island now bets on becoming the world's leading online and computer gaming nation. Additionally, the island wants to attract new foreign investment by focusing on becoming the world's hydrogen- and bio-economy, just as the Blue Lagoon will provide a platform for health and wellness tourism.

## The way out of the crisis

- Bring new actors into the game and move beyond the usual suspects
- Abandon the tendency to focus on incremental improvements and open up to more radical innovation
- Think global even though the crisis is local or national. Recognise competition coming from emerging economies, large markets at the bottom of the pyramid and global trends like sustainability ...
- Focus on the unique capabilities of local economic actors. Are there areas where the country has a natural competitive advantage, which makes it difficult for others to copy new ideas?

"Iceland has to reinvent itself" says Patrick Crehan, director of the Belgian consulting company Crehan, Kusano & Associates. He is among the inner circle of representatives of KIN (Kellogg Innovation Network), the international innovation network which is a central actor in Icelandic aspirations to create radical innovation processes. The KIN network states that Iceland provides a template for other crisis ridden economies. It is a small nation, isolated and a long way from established centers of the global economy. After its financial collapse, Iceland was seen as an unsafe place for investors. If the Icelanders manage to pick themselves up, make Iceland attractive to the rest of the world, and attract both talent and investment, the country could become a poster child for other unsafe economies. There are many signs that Iceland has good opportunities for being successful.

According to the experts from KIN, a number of international companies have shown interest for locating activities on this small volcanic island.

Patrick Crehan explains that the Icelandic challenge is twofold. Firstly, they need to redirect the economy in completely new directions. The financial sector, which until the crisis was Iceland's growth engine and locomotive, has been sent to the scrap yard, and new sectors will have to be nourished. Secondly, Iceland needs to convince the outside world that the island still has unique resources and capabilities that make it an attractive business partner. "When we got involved, the nation was in shock. There was no money to pay for fancy prestige projects, and there was an acute need for solutions which could deliver in the short time" said Patrick Crehan.

In other words, radical thinking was called for and incremental measures were not on the agenda.

### **Goodbye to the usual suspects**

If Iceland is to succeed in pulling itself out of the crisis, it is paramount that its development is driven by entrepreneurs and by non-traditional sectors. "You cannot rely on the usual suspects, because they often come up with ideas which tend to mirror those that led to the crisis in the first place", says innovation expert Jørn Bang Andersen, a member of the Kellogg Innovation Network and one of the initiators of the Icelandic project. "The established patterns have to be broken by changing the environment and involving players that were

previously on the fringe. We put those in contact with the decision makers, so that they could get a seat on the inner circle". The question is however, why the new growth industries haven't shown their value a long time ago, if the potential really is as big as the KIN experts say. The answer to this, according to Jørn Bang Andersen, is that the focus of all previous efforts had been directed towards the seemingly inexhaustible potential of the financial sector. Alternative growth areas were overlooked. The crisis has changed all that. Entrepreneurs, who earlier had lived in the shadow of finance, can now surface and move forward with their radical innovations efforts.

Among the authorities it is acknowledged that they needed the help of KIN to see the new growth areas because "it helps when someone from outside sheds light on things". "The team had an eagle's eye for innovation which was already taking place in Iceland. It helped us to take the next essential steps" says Hallgrímur Jonasson, director of RANNIS, Iceland's Research Council.

The KIN team has identified a number of areas that Iceland should focus on:

#### **MEDIA, DESIGN AND ENTERTAINMENT**

After the financial crisis highly educated people from the financial sector have begun to seek work within the creative industries. For example the development of an online computer gaming company attracted economists, psychologists and IT experts. This has increased the competence level within the

industry and made it a promising business area. Apart from games played in virtual worlds there is great potential in the live role-playing games organized in the harsh Icelandic landscapes which so easily evoke the worlds portrayed in online games.

## HEALTH and WELLNESS

The Blue Lagoon provides a launch pad for an entire health and wellness tourism. This unique phenomenon of nature is the source of knowledge to be translated into value added products and branding opportunities for a whole sector. For instance people are not only heating their farm houses with geothermal energy from the Blue Lagoon, they are creating high value added products on the border between biotech and the cosmetics industry.

## BIO-ECONOMY

The KIN team suggests that Iceland should establish the world's first "bio ministry" with the goal of making the transition from traditional farming to laboratories for enzyme production and knowledge intensive products. ORF Genetics is one of the Icelandic biotech companies, which is at the forefront of its field. It produces barley for the industrial production of complex molecules which can be used in the treatment of diabetes.

## GREEN ENERGY

As a consequence of its underground volcanic activity, Iceland has access to cheap geothermal energy and heating. At the same time, Iceland has a tradition for using green energy sources. This combination

makes Iceland an attractive test bed for new environmental technologies. For example, one of the world's leading internet hosting companies expressed interest in setting up a server park in Iceland because of the advantageous prices for green electricity and easy cooling of its server park. The experts point out the potential of Iceland as a test-bed for green energy based on hydrogen technology which is a potential replacement for fossil fuels. Hydrogen comes from the separation of water into its elements. So far the development of hydrogen technology has stalled because this separation process requires an enormous amount of energy which primarily comes from non-sustainable sources like coal, gas and other fossil fuels. Car manufacturers have already used Iceland as a test country for hydrogen driven cars.

After the financial sector meltdown, it seems obvious to invest in these four new areas as growth platforms, the KIN experts say.

For the Icelanders it was a big surprise that the KIN experts selected and focused on precisely these four areas. They had never before considered them as drivers of economic growth. Today they are however, in full-swing implementation of the KIN experts' action plan.

For instance, Iceland's game industry now cooperates with Icelandic Air about how to realize the dream of making Iceland a 'Mekka' for online-gamers. The tourism industry has indeed gone from being an independent industrial sector, to being a

horizontal enabler of all other identified sectors with growth potential. This sector works for example to create international promotion and visibility towards the growth platforms.

At the same time the Icelanders are working deliberately on upgrading their marketing skills and capabilities in the business sector.

One of the challenges for Icelandic entrepreneurs is that very quickly they have to be able to compete on a global market. This is so because their home market is too small to allow them to grow to any size. That is the reason why massive marketing know-how is ploughed into newly established companies so that they can take on a global identity from the very beginning. "Although a global mindset has been a precondition for success for a long time, it is really only since the crisis that it became a focus", says Hallgrimur Jonasson.

"Before the crisis the economy was so focused on financial activities, that innovative companies and entrepreneurs had difficulties in attracting qualified people. We also had export problems, because the Icelandic currency (the Krone), was so strong. For this reason our high-tech companies didn't grow from 2003 to 2007".

#### KIN – The INNOVATION MOTOR

Kellogg Innovation Network has its origin at the famous Kellogg School of Management at Northwestern University. Members include people like the marketing guru Philip Kotler.

KIN functions as a meeting place for innovators from all over the world.

The network counts business leaders and innovation experts from academia as well as politicians.



# Læren fra Island: Sådan genrejser man væksten

## HØVEDPUNKTER

- For islændingene er den dybe økonomiske krise blevet en mulighed for at vende op og ned på landets vækstinitiativer
- Med hjælp fra innovationsnetværket Kellogg Innovation Network har islændingene fået øje på vækstpotentialer, som hidtil har været overset
- Island er en case på, hvordan kriser kan udnyttes til radikal innovation, påpeger eksperter

VIRTUELLE KRIGERE, elvere og troldmænd skal give Islands økonomi nyt liv, efter de slipseklædte finans-troldmænd har ført landet ud i økonomisk ruin. Den lille vulkanø satser nemlig på at blive verdens førende computerspilsnation. Herudover vil øen tiltrække nye udenlandske investorer ved at satse på at blive verdens første brint- og bioøkonomi, ligesom Den Blå Lagune skal udnyttes som fundament for sundhedsturisme.

De utraditionelle ideer er en del af islændingenes forsøg på at forvandle deres land fra kriseøkonomi til driftig innovationsøkonomi.

## Vejen ud af krisen

- Bring nye aktører i spil og gå uden om *the usual suspects*
- Lad tendensen til kun at foretage småforbedringer vige for radikal innovation
- Tænk globalt, selvom krisen er lokal eller national. Forhold dig til konkurrence fra nye vækstlande, det store marked blandt verdens fattigste og globale trends som grøn omstilling etc.
- Fokuser på unikke fordele i lokalområdet. Er der steder, hvor landet har et naturligt forspring, som gør det svært at kopiere nye ideer?

“Island skal genopfinde sig selv,” fastslår Patrick Crehan, direktør for det belgiske konsulentfirma Crehan, Kusano & Associates. Han er med i inderkredsen af repræsentanter fra det tværnationale innovationsnetværk Kellogg Innovation Network (KIN), der er en central spiller i bestræbelserne på at skabe radikale innovationsprocesser på Island.

KIN-netværket fastslår, at Island kan betragtes som en kritisk case for andre kriseramte økonomier. Landet er lille, ligger isoleret og langt fra økonomiske kraftcentre, og efter finanskrakket har det fået et ry som et usikkert kort blandt investorer. Lykkes det islændingene at samle sig selv op, gøre sig attraktive for resten af verden og tiltrække investeringer og talent, bliver det et forgangseksempel for andre usikre økonomier. Meget tyder på, at islændingene har gode muligheder for succes. Allerede nu har en række udenlandske firmaer vist interesse for at placere aktiviteter i det lille vulkanland, lyder det fra KIN-teamet.

Ifølge Patrick Crehan er den islandske udfordring todelt. For det første skal man give økonomien en

helt ny retning. Den finansielle sektor, som indtil krisen var landets vækstlokomotiv, er sendt til skrot, og nye sektorer skal opdyrkes. For det andet skal man overbevise omverdenen om, at øen stadig har unikke ressourcer, der gør det til en attraktiv og værdig forretningspartner.

“Da vi blev involveret, var landet i chok. Der var ingen penge til forkromede projekter, og der var akut behov for løsninger, der gav resultater på kort sigt,” fortæller Patrick.

Grunden var med andre ord lagt for radikal nytænkning. Småjusteringer var slet ikke på agendaen.

## Farvel til the usual suspects

Hvis det skal lykkes Island at rejse sig, er det afgørende, at udviklingen drives af iværksættere og utraditionelle brancher. Man kan ikke nøjes med at sætte sin lid til *the usual suspects*, for de kommer ofte med ideer, der til forveksling ligner dem, der førte til problemerne, lyder det fra innovations ekspert Jørn Bang Andersen, der er med i Kellogg Innovation Network og en af initiativtagerne til det islandske projekt: “De faste mønstre skal brydes af ydermiljøerne. Dem sætter vi i for-

bindelse med beslutningstagerne, så de kommer helt ind i indercirklen.”

Spørgsmålet er imidlertid, hvorfor de nye vækstindustrier ikke for længst har vist deres værd, hvis potentialerne virkelig er så store, som KIN-eksperterne hævder. Ifølge Jørn Bang Andersen skyldes det, at alles øjne hidtil har været rettet mod finanssektorens tilsyneladende uendelige potentialer. Alternative vækstpotentialer blev overset. Det har krisen ændret på. Iværksættere, som før levede et hensynende liv, kan nu komme igennem med bud på radikal innovation.

Hos myndighederne erkender man, at man har haft brug for KINs hjælp til at få øje på de nye vækstområder. “Det hjælper, når nogen udefra påpeger tingene. Gruppen havde falkeblik for den innovation, der allerede var i fuld gang her. Det hjalp os til at tage det nødvendige næste skridt,” fortæller Hallgrímur Jónason, der er direktør på for Rannis, den islandske Forsknings- og Innovationsstyrelse.

KIN-teamet har identificeret en række områder, der bør sættes på:

#### MEDIER, DESIGN OG UNDERHOLDNING

- Efter krisen er højtuddannet arbejdskraft fra den finansielle sektor begyndt at søge arbejde i kreative industrier. Bl.a. har udvikling af onlinecomputerspil tiltrukket økonomer, psykologer og it-eksperter. Det har øget kompetencemassen i branchen og gjort den til et lovende forretningsområde. Ud over spillene i den virtuelle verden er der store potentialer i at skabe en turistindustri baseret på live rollespil i den barske islandske natur, som minder om det univers, spillerne kender fra nettet.

#### SUNDHED OG WELLNESS

- Med udspring i Den Blå Lagune er der basis for sundheds- og wellness-turisme, ligesom det unikke naturfænomen giver viden, der kan omsættes til special- og mærkevarereprodukter inden for sundhedsindustrien. Bl.a. er man begyndt at

opvarme drivhuse med varmen fra Den Blå Lagune, og det skaber mulighed for at udvikle højtforædlede landbrugsprodukter på grænsen af biotek og kosmetikindustri.

#### BIO-ØKONOMI

- KIN-teamet foreslår, at Island etablerer verdens første bio-ministerium med henblik på at transformere traditionelt landbrug til laboratorier for enzymproduktion og videnstunge produkter. ORF Genetics er et af de islandske biotekfirmaer, som er længst fremme på området. Det producerer byg til industriel produktion af proteiner, som indgår i lægemidlet insulin.

#### GRØN ENERGI

- Som følge af sin vulkanske undergrund har Island adgang til billig geotermisk varme. Samtidig har landet tradition for udbredt brug af grønne energikilder. Den kombination gør Island til et attraktivt eksperimenterium for ny miljøteknologi. Bl.a. har et af verdens førende selskaber inden for internet-hosting vist interesse for at placere en stor serverpark på Island pga. fordelagtige priser på grøn el og let adgang til nedkøling af maskinparken. Eksperterne peger også på, at billig grøn energi kan gøre landet til testområde for brintteknologi, som er en potentiel afløser for fossile brændstoffer. Brint fremkommer ved spaltning af vand, og hidtil er udviklingen af brintenergi blevet bremsset, fordi spaltningprocessen kræver store mængder energi, som primært hentes fra ikke-bæredygtige energikilder som kul, gas og andre fossile brændstoffer. Bilproducenter har allerede brugt Island som testland for hydrogendrevne biler.

Efter den finansielle sektor gik ned, står det lige for at sætte på de fire områder som nye vækstmotorer, mener KIN-folkene.

For islændingene var det noget af en overraskelse, at KIN valgte at fokusere på netop disse områder. De

havde aldrig før opfattet dem som vækstdrivende. I dag er de imidlertid i fuld gang med at efterleve KIN-eksperternes handlingsplan.

Feks. samarbejder Islands spilindustri med Iceland Air om at virkelig gøre visionen om øen som online-spillernes fysiske Mekka. Turismeerhvervet er i det hele taget gået fra at være et selvstændigt område til at bidrage på tværs af de identificerede fokusområder. Branchen medvirker bl.a. til at skabe international promovering og bevågenhed over for landets vækstinitiativer.

Samtidig arbejder islændingene bevidst på at opruste erhvervslivets strategiske marketingskompetencer. Et af grundvilkårene for iværksættervirksomhederne er nemlig, at de meget hurtigt skal kunne begå sig globalt, fordi hjemmemarkedet er for småt til at udgøre et solidt fundament. Derfor sættes der massivt ind med knowhow til nyfødte virksomheder, så de fra begyndelsen tager den globale identitet på sig. Selvom et globalt mind-set længe har været en forudsætning for succes, er der først kommet fokus på det, efter krisen satte ind, fortæller Hallgrímur Jónason:

“Før krisen var økonomien så fokuseret på finansielle aktiviteter, at innovative virksomheder og iværksættere havde svært ved at tiltrække kvalificeret arbejdskraft. Man havde også eksportproblemer, fordi den islandske krone var så stærk. Derfor voksede vores højteknologiske virksomheder ikke i perioden fra 2003-2007.”

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## Innovationsmotoren KIN

Kellogg Innovation Network (KIN) har sit udspring i det berømte amerikanske universitet Kellogg School of Management, der bl.a. huser profiler som marketingguru Philip Kotler. KIN fungerer som samlingspunkt for innovatører fra hele verden. Netværket tæller bl.a. innovationskyndige repræsentanter fra uddannelsessektoren, erhvervsledere og andre praktikere og politikere.