

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.