

# The Next Big Thing?

Trends Shaping Nordic Innovation

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## **The Next Big Thing?**

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*Nordic cooperation* is one of the world's most extensive forms of regional collaboration, involving Denmark, Finland, Iceland, Norway, Sweden, and three autonomous areas: the Faroe Islands, Greenland, and Åland.

*Nordic cooperation* has firm traditions in politics, the economy, and culture. It plays an important role in European and international collaboration, and aims at creating a strong Nordic community in a strong Europe.

*Nordic cooperation* seeks to safeguard Nordic and regional interests and principles in the global community. Common Nordic values help the region solidify its position as one of the world's most innovative and competitive.

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# New and Emerging Models of Globalisation



Perhaps the most established model of globalisation was that based on access to external natural resources. This gave way to a model based on trade access to external markets. It is possible to see this model being played out today in situations such as where the main participants are the so-called BRIC countries using both each other and the poorer resource-rich countries of Africa, Eastern Europe and Latin America as targets. Recent reports suggest that an entirely new development dynamic is emerging involving China and the Middle East. Chinese manufacturers whose sales to the US collapsed as a result of the financial crisis are now searching for new markets in the Middle East. In early 2009 China overtook the United States as the world's largest exporter to the Middle East. Each year the Middle East now purchases \$58 billion worth of goods and materials from China. Much of this growth is the result of the entrepreneurial efforts of small Arab traders venturing on their own to cities such as Yiwu, which is located about a four hour drive south of Shanghai. This city receives about 200,000 Arab visitors annually. It has over a dozen Arabic restaurants on its main street. This only began in 2001<sup>3</sup>. Ben Simpfendorfer<sup>4</sup> relates how in the case of one textile manufacturer in the coastal province of Zhejiang, the Middle East now accounts for 20% of his exports. The exporter now plans to set up a branch office in Dubai. As production costs in China rise, others are scouting for manufacturing locations in the Middle East. Egypt, with its low-cost workforce, is a particularly attractive investment destination.

A more recent model is based on access to external knowledge. Knowledge, especially high-level scientific and technical knowledge, is a global commodity. The last 10 years has seen a significant shift in terms of how large innovative companies meet their research needs. Outsourcing and offshoring, combined with the mediated sourcing of scientific and technical services are now well established components of this trend. In recent years, the "open innovation" practices of major companies have received considerable attention from managers and innovation researchers. It is natural that the quest for knowledge relevant to the innovation and business development needs of companies is globally oriented, and most Nordic countries have independently established international inno-

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<sup>3</sup> Newsletter of the MEC Analytical Group, 17 May 2009, China and the Middle East market

<sup>4</sup> "The New Silk Road: How a rising Arab world is turning away from the west and rediscovering China" by Ben Simpfendorfer, published by Palgrave Macmillan in 2009.

vation infrastructures intended to provide access to the global knowledge and to support innovative companies in their ventures abroad. This issue has been discussed in some detail in the NICE report entitled “The Establishment of Nordic Innovation Representations in Asia?”<sup>5</sup> The report discusses the concept of a jointly operated system of international innovation centres that would complement existing national systems and thus explore the opportunities provided by new and emerging markets and their associated hot-spots linked to research, innovation or emerging market opportunities.

Recently, there has been progress in the development of EU accession countries as well in those North African countries neighbouring the EU. These countries have made significant progress in developing structures, policies and practices linked to FDI. This has been true in particular of Morocco, Tunisia and, more recently, Syria. FDI has played a very important role in their emergence as global trading partners, and these countries have become serious FDI targets for multinational firms investing in areas such as micro-electronics, energy, tourism, telecommunications, construction, retail, business services, aeronautical engineering and pharmaceuticals. It is possible that these low to middle income countries, which have largely been ignored by the Nordic countries, may be worthy of closer scrutiny in the future.

This is now a good time to examine two more globalisation models that have emerged in recent years, and which may deserve greater attention from policy makers and innovation researchers<sup>6</sup> in the near future.

The first of these new models deals with the markets of emerging economies, which may be considerably more promising than appears at first sight. They pose unique innovation challenges for the companies and entrepreneurs interested in the opportunities they offer.

Since 2006 the management guru C. K. Prahalad has written about “the Fortune at the Bottom of the Pyramid”<sup>7</sup>. He uses examples to illustrate how market opportunities exist in the poorest economies not just in emerging markets, but also in areas such as finance, health care, energy, communications, construction, agriculture and household goods. In 2007

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<sup>5</sup> <http://www.nordicinnovation.net/prosjekt.cfm?id=3-4415-291>

<sup>6</sup> These are fully addressed in a forthcoming paper by NICE on Global Innovation Related Trends.

<sup>7</sup> “The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits” by C. K. Prahalad, published in 2006 by Wharton School Publishing Paperbacks, ISBN 978-0131877290

The World Resources Institute<sup>8</sup> published a study of the global BOP<sup>9</sup> markets entitled “The Next 4 Billion”<sup>10</sup>. The report is based on household surveys carried out in 110 countries. It segments BOP markets in Africa, Asia, Eastern Europe, Latin America and the Caribbean on the basis of rural and urban households and their annual incomes. It provides estimates of their spending capacities related to essentials such as food, water, ICT, health care, transport, housing and energy. The study estimates that these correspond to annual markets worth \$5T, in which consumers have largely unmet needs and in which they are penalised by overpaying for existing solutions. For example, in Mexico they show that the BOP consumer category corresponds to 75% of the population, that they are concentrated in higher earning segments and have an aggregated annual income of \$155B.

Major international companies such as P&G, Unilever, Kraft and Nestlé have examined the issue of consumer goods. Cargill has addressed issues relating to logistics. Ericsson is leading important initiatives in Africa, as is Nokia in India. Nicolas Negroponte championed efforts to create a \$100 laptop. There are projects to develop the \$10 mobile phone and the \$1000 car. Microsoft Corporation has launched its Unlimited Potential Program<sup>11</sup> with a commitment to bring the benefits of relevant, accessible and affordable software to 5 billion more people, combined with a goal of reaching the first 1 billion by 2015. Are such activities only the domain of large companies? Or do small- and medium-sized companies have a role as well? Much more remains to be done.

“Portfolios of the Poor”<sup>12</sup> goes even further than “The Fortune at the Bottom of the Pyramid”. It looks closely at how people who live on less than \$2 a day – about 40% of the world population – manage their money. This study finds that such people often employ sophisticated techniques to get the most out of what they have; they actively budget, save, access credit and manage risk on the basis of extensive social networks usually involving family and friends. It provides deeper insights

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<sup>8</sup> [www.wri.org](http://www.wri.org)

<sup>9</sup> BOP is Shorthand for “Bottom of the Pyramid”

<sup>10</sup> “The Next 4 Billion – market size and business strategy at the base of the pyramid” ISBN: 1-56973-625-1 available for free online at [www.wri.org](http://www.wri.org).

<sup>11</sup> <http://www.sidw.org/event/2007/unlimited-potential-connecting-the-next-five-billion>

<sup>12</sup> By Daryl Collins, Jonathan Morduch, Stuart Rutherford and Orlanda Ruthven, published in 2009 by Princeton University Press, ISBN 978-0-691-14148-0

into the financial context in which these people run their lives, enabling the authors to re-examine existing systems of micro-credit, to suggest improvements, and to identify new market and business opportunities.

Many are familiar with the story of Mohamed Yunus, the Grameen Fund and the invention of micro-finance<sup>13</sup>. This has helped many people and has led to the creation of a new kind of banking industry that has spread rapidly, especially in the developing world. It has brought access to finance to an entirely new generation of people who are otherwise lacking in collateral, and has made an important contribution to progress in many developing economies. The story of micro-finance is not without controversy but it is an evolving sector and it will be some time before the last word on the subject is written. It demonstrates that innovation in finance, consumer credit, and business lending is possible even in the poorest economies.

Jacqueline Novogratz, as CEO of the Acumen Fund, has developed a new approach to investing in emerging economies. Her recent book<sup>14</sup> explains the current challenges facing the philanthropic community and the opportunity as she sees it to move from the traditional public sector approach to development aid. Her approach is to employ what she calls “patient capital” in order to help entrepreneurs bring in management and organisational skills to realise projects providing essential commodities such as food, water, health care or affordable housing. The Acumen fund evaluates projects on the basis of leadership, economic sustainability and scalability. Scalability comes down to whether or not the enterprise can reach at least a million customers, thus providing a model that she can apply on a global scale.

The central argument is that there is an alternative to aid of the kind advocated by rock stars such as Bono of U2, and experts in poverty such as Jeffrey Sachs. Whereas charity and disaster relief have an important role to play in the world, writers such as Prahalad and entrepreneurs such as Mohamed Yunus and Jacqueline Novogratz make the point that business and trade represent the only sustainable means of improving the lot

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<sup>13</sup> “Banker to the Poor : Micro-Lending and the Battle Against World Poverty” is an autobiography of Mohamed Yunus, the founder of Grameen Bank and inventor of micro-finance, published in revised and updated form in 2003 by Public Affairs, ISBN 978-1586481988.

<sup>14</sup> “The Blue Sweater - bridging the gap between rich and poor in an interconnected world” by Jacqueline Novogratz published in 2009 by Rodale, ISBN 978-1594869150.

of the world's poor. Dambisa Moyo<sup>15</sup>, a former Goldman Sachs economist, claims in her recent and widely acclaimed book "Dead Aid", that aid to Africa has largely been a waste and has contributed to exacerbating the problems of corruption, low saving and even local business development. She points out that non-aid policies have worked for the BRICS, and especially for India and China, which 20 years ago were much poorer than most African nations. She points to South Africa and Mozambique as examples of countries in Africa where this approach is working. She effectively challenges donor countries to change from a trade rather than an aid approach to development, at the same time reminding us that 60% of the population of Africa is under the age of 24.

Business success in these unfamiliar and challenging environments will require innovation on the basis of an ability to strip issues down to their essentials, and to simplify complex, over-engineered products intended for advanced markets with high spending power. This will provide reasonably priced, simply recyclable and easily maintained products that meet the unfulfilled needs of the local population. Success will require innovation not only in terms of adapting products and services in this way, but also in terms of organisation and business model design, sourcing and local manufacturing, pricing, packaging, payment, branding and distribution. It will require a total innovation approach.

The second new globalisation trend involves the global acquisition of external land via lease or outright purchase, by governments, private companies and groups of individual entrepreneurs. The Economist magazine has recently referred to this phenomenon as "Outsourcing's Third Wave", noting that in the last two years alone over 2 million hectares of external farmland has been bought up or leased by foreign governments and well-connected private businesses, for a value of between \$20-30B. This practice is not new but the scale of recent activity is unprecedented and has caused alarm among international organisations such as IFPRI (the International Food Policy Research Institute). Despite the controversy this is a trend that could result in real benefits for both the Nordic countries and those to which they export their production know-how. The trend may be worth investigating with a view to projects funded by the program administered by the Nordic Innovation Centre.

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<sup>15</sup> "Dead Aid – why aid is not working and how there is another way for Africa" by Dambisa Moyo, published in 2009 by Penguin Books, ISBN 978-1-846-14006-8.

Some Nordic countries have had considerable success organising agricultural production abroad. One of the most important examples is Denmark's extraordinary ability to export pork production systems incorporating all of the associated management and organisational know-how.

In an address given at the World Agricultural Forum<sup>16</sup> in May 2009, Prof. Paul Collier, author of "The Bottom Billion"<sup>17</sup>, explained that the involvement of the bottom billion in world trade was important for promoting the capability of the world to feed itself. He also stated that large-scale industrial agricultural practices would play a critical role, combined with systems for transport and logistics, quality and productivity improvement. He is of the opinion that peasant agriculture on its own is not enough, and that the future lies in helping Africa not only to feed itself but also to integrate itself into global trade systems and thus make a contribution towards feeding the rest of the world. He is clearly indicating a role for innovation support when he says that:

"In agricultural production, scale and modern organization matters ... modern agriculture is all about marketing, capital, technology and innovation" ... and that there was a need for ... "a parallel development alongside efforts to improve peasant agriculture".

Radical approaches towards supporting innovation at the level of organisations and communities in emerging economies include The Rural Innovations Network<sup>18</sup>, supported by the Villgro Foundation of Chennai, the Positive Deviance Initiative<sup>19</sup>, supported by the Rockefeller Foundation, and Changemakers<sup>20</sup>, which is an initiative launched by Ashoka<sup>21</sup>, the Indian organisation that develops open source solutions to social problems by utilising collaborative competitions to reveal the best solutions, and thence to refine, enrich, and implement them. Although these initiatives have arisen in the context of development aid, they provide us with many lessons in terms of the organisation of innovation in the challenging and relatively unfamiliar context of emerging economies. They may also

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<sup>16</sup> <http://www.worldagforum.org/>

<sup>17</sup> "The Bottom Billion – why the poorest countries are failing and what can be done about it" by Paul Collier, published in 2008 by Oxford University Press, ISBN 978-0-19-537463-6.

<sup>18</sup> [http://www.rinnovations.org/home\\_html](http://www.rinnovations.org/home_html)

<sup>19</sup> <http://www.positivedeviance.org/>

<sup>20</sup> <http://www.changemakers.net/en-us/competitions>

<sup>21</sup> <http://www.ashoka.org>

provide a useful starting point for understanding how to extend the existing international infrastructure of the Nordic countries to areas of business opportunity based on the next 4 billion.