Scarcity and innovation: Powering the developing world

Scarcity of resources, scarcity of political consensus and scarcity of financing for innovation. These are some of the major challenges faced by companies in today's global environment. That's according to Leif Beck Fallesen, editor-in-chief and CEO of the Danish publication Dagbladet Borsen. Fallesen was the moderator of the first plenary session at the INSEAD Leadership Summit. He said these concerns are highlighted by a growing food crisis (wheat prices rose more than oil prices last year), climate change and decreased foreign investment (down by 9 per cent).

The current scarcity of resources, he points out, will be further exacerbated as the energy and resource needs of developing countries increase as their respective economies grow. A resulting concern will be the adverse affects the mounting consumption will have on local environments.

The solution, Fallesen says, is innovation.

Barbara Kux, a member of the group management committee of Royal Philips Electronics, opened the panel discussion with a positive outlook on innovation in the developing world. “The opportunities are great,” she says, adding that the potential will only grow with time, because by 2040, developing countries will comprise 85 per cent of the world’s population. “It’s almost incredible to grasp,” she says, “but it’s a fact.”
A significant opportunity, she says, is Web 2.0, “a technology that enables anybody around the globe to generate content.” Web 2.0 will allow developing countries to “hook into our world,” she says, “and to profit from all our wisdom and our innovation.” But the benefits would be mutually interesting, she adds, “because we can tap into their innovation potential.”

Kux says Philip’s approach to opportunities in the developing world focus on sustainability as a “great business opportunity,” adding this is not about charity.

Outlining a two-pronged strategy, she says one aim is to maintain the Human Development Index (HDI), which “measures not only the GDP … (but) measures the well-being of people around the world in terms of education, health and also basically purchasing power.” The other aim is linked to the ecological footprint, which compares human demand on the Earth’s ecosystem and natural resources with its ability to regenerate them.

At present, the ecological footprint is at 1.2 planets, Kux says, meaning that "it takes one year and two months to compensate our CO_2 emissions, which is, of course, not a sustainable position."

Kux says that part of Philips approach in combating this is through clean technology, including energy-efficient lighting solutions with some 30 per cent lower energy use, and the strategy has paid off. Revenues for its 'green businesses' accounted for 20 per cent of the company's total revenues in 2007, Kux says.

Another panellist, Simon Bennett, an executive vice president of Russian oil venture TNK-BP, comes from a vastly different perspective on scarcity and innovation. "Gas may be unfashionable, but energy demand continues to

Contrary to global trends of declining oil and gas resources (best gauged by measuring the reserve-replacement ratio—the amount of new reserves added every year), Russian reserve-replacement ratios are skyrocketing.

“Our own company announced about 170 per cent reserve replacement ratio,” he says, adding “so you can see there is enormous potential in Russia.

On the downside, Bennett acknowledges a host of major concerns in Russia: poverty and poor health, corruption, and the greenhouse gas effect. He says that in addition to spending money on combating poverty, TNK-BP spends significantly “in educating our people about the prohibition of bribery and political contributions.”

As for the greenhouse gas issue, Bennett says the current situation is far from ideal. At present, he calculates that “about 30 per cent of the useful gas produced with oil … currently goes out the flare stack.”

The Russian government is pressing to get those levels down to 5 per cent by the year 2011. Consequently, Bennett says his company plans to spend $2 billion over the next four years as part of that effort, “and I think this will have a huge impact on greenhouse gas emissions allegedly associated with global warming,” Bennett says.

Also in the plenary session, INSEAD Professor of Economics and Political Science Ethan Kapstein emphasized that developing and emerging markets represent future growth for a wealth of multinational companies. Companies who are able to have a positive impact on economic development and poverty will be best positioned.


©INSEAD/Vincent Loison

To underscore the impact foreign companies could potentially have in those markets, Kapstein highlights Unilever’s example in South Africa. (Kapstein was asked by Unilever to evaluate the company’s investment there — a rarity, according to Kapstein, given that most companies do not allow research into their operations in the developing world).

In creating 4,000 direct employees, Kapstein found that Unilever supported 100,000 jobs either directly or indirectly. The financial benefit for South Africa was impressive: one per cent of all its tax revenues were generated by Unilever.

Kapstein stresses, however, that if Unilever were to outsource globally, the effects would be catastrophic. “Most of the development impact of a multinational is felt through its supply chain. If you don’t support a local supply chain, you’re not doing anything developmentally,” he says.

In the session, Kapstein also voiced concerns about the renewed debate on foreign direct investment (FDI). He cites a Harvard study which likenes FDI to bad cholesterol, concluding that neither development nor growth was impacted by FDI. But Kapstein argues there is a lack of data available to make such a conclusion. He encourages multinationals to change that trend: “My message today is pretty simple: if leadership is partly about looking at the truth clearly and directly, starting out with the facts is pretty important."

Find article at
https://knowledge.insead.edu/responsibility/scarcity-and-innovation-powering-developing-world