

## Corporate Innovation Online

Benchmarking innovation/Building and sustaining innovation/Articulating innovation

### *Russia's Silicon-Like Valley*

#### **Overview**

This comment was initially prepared on April 14, 2010 on the announcement in The New York Times that a 'Silicon-Like Valley' was to be established.

We provide a brief update on developments and post the original comment. Innovation is moving slowly but this is a big effort.

The site is moving ahead; a hypercube of steel, glass and concrete which provides conference rooms and working spaces is in place. Corruption has provided some reflection, but this is not rare in Russia.

In the meantime Russia has annexed Crimea, destabilized the Ukraine and taken actions which do not encourage inbound investment nor the building of trust with international companies, i.e. hoped-for investors.

It is a shame that Putin has the idea that rebuilding Russia into the old FSU concept is the way to move the ahead. The 'Valley' is a much better way to build the Russian brand – but even this has yet to be legitimized.

What to do? A troubling development is set out in 'Innovation by fiat' [The Economist – May 17m 2014] which points out the increasing role assumed by government agencies in raising venture capital. Maybe Putin is on the best track? Government everything!

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## Russia’s New Silicon-Like Valley<sup>1</sup>

### Will ‘tinkering’ be allowed to flourish?

Anyone who has worked in Russia will know that the Russians have an expression when listening to western advice; ‘we will do it in the Russian Way’ is what they say. The ‘Way’ never gets fully explained but one knows that the adoption of any western idea will take on a new form in Russia; for better or worse. So it is with this new announcement that Russia will establish a new ‘Silicon-like’ valley just outside Moscow. It’s so new that it has yet to be given a name.

For those of us who think like ‘Westerners’ the concept of *ordering* innovation is anathema to our understanding of how innovation really works. The traditional view is that, while innovation is based on ideas which emanate from individuals or small and large groups, government policies and management practices can contribute to success and/ or failure. Many highly-successful innovative companies had their beginning with one or more persons ‘tinkering’ in their garage. Too ‘order’ or force-feed innovation is difficult to fathom. On the other hand the role for government is to create the circumstances which will encourage innovation and inventiveness. While the intent of the Russian Silicon initiative is clear, the approach to making it happen is not – at least based on the information currently available.

Russia stands a world apart from other advanced developed nations when it comes to innovation. It is the one country in the world which has both the most talent per capita but at the same time realizes so little of its potential. Because of the system in place (whether this is the old or the new system) Russia has performed poorly relative to its potential. As a consequence, since the early 1990’s Russia has been very good at exporting its talent to the U.S., Canada, Israel and elsewhere. Russia’s loss has been a boon to many countries. Much of this out migration has been in the scientific and research areas; the very talent now needed at home.

When it comes to innovativeness – as in business affairs - Russia is a way behind. A most recent report <sup>2</sup> on global competitiveness by the World Economic Forum places Russia at 63 <sup>rd</sup> overall. But it is	Capacity for innovation	Canada	U.S.	Japan	Russian Federation
	University-industry collaboration in R&D.	9 <sup>th</sup>	1 <sup>st</sup>	20 <sup>th</sup>	48 <sup>th</sup>
	Quality of scientific research institutions	11 <sup>th</sup>	2 <sup>nd</sup>	15 <sup>th</sup>	42 <sup>nd</sup>
	Availability of scientists and engineers.	6 <sup>th</sup>	5 <sup>th</sup>	2 <sup>nd</sup>	48 <sup>th</sup>
	Utility patents (patents for invention) per million of population.	10 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	44 <sup>th</sup>

Russia’s ranking in the area of innovation that is particularly relevant to the new initiative. While ranking

<sup>1</sup> New York Times; April 11<sup>th</sup>, Innovation, by Order of the Kremlin, Andrew E. Kramer

<sup>2</sup> The Global Competitiveness Report 2009-2010 World Economic Forum



overall at 42<sup>nd</sup> place for its ‘capacity for innovation’, other factors relate directly to the country’s ability to become innovative; to get ideas off the ground and create successful organizations and create valued-jobs. On four of these attributes, Russia is well behind ‘advanced’ nations.

Beyond this rather negative appraisal, a number of other factors contribute to Russia’s rank overall 63<sup>rd</sup> rank. Some of these factors include;

- corruption,
- access to financing,
- tax regulations,
- inefficient government bureaucracy, and

others too numerous to note here.

Suffice to note that Russia has a major challenge ahead to make this new initiative successful. But one has to start somewhere and this initiative, if structured properly and nurtured over the long term, may turn out to be the best initiative which the country has taken since placing early reliance on the minerals, metals, oil, and gas industries. The intent mirrors the situation in numerous countries which have relied on their resource sector for economic prosperity and are now concerned about medium and long-term economic development.

## The ‘Russian Way’

Beyond the obvious, there are some subtle elements of innovation which need to be addressed, in the Russian ‘Way’ by both government and the private sector.



Tinkering, consumer-driven materialism, an open attitude to failure and the presence of an innovative infrastructure are four of the most important attributes of a dynamic, innovative economy.

**Tinkering** gets ideas going either in the head or on the work bench.

**Consumer-driven materialism** ensures a ready market for new concepts and gadgets.

**Innovation infrastructure** facilitates the relatively easy establishment and destruction of enterprises.

An open attitude to **failure** encourages people to try new ideas, gadgets, and business models. All four attributes are found in the most dynamic economies; probably most evident in the United States.



Russia has at least one of these attributes in spades; namely '**consumer-driven materialism**'. A society which, over decades has been denied material goods, now wants to have the latest of everything. The other three attributes, however, are less prevalent.

**Tinkering**<sup>3</sup> is a concept that has pervaded the success of the U.S. economy more so than most other economies in the world. The notion of one or two people (most often male) working on a project in their garage and years later having a successful global company is a classic example of successful entrepreneurship in America. Think of; Microsoft, 3M, Lincoln Electric, Facebook etc.

**Innovation infrastructure** is the notion of a system of government, jurisprudence, laws, which encourage the creation of enterprises but also facilitate bankruptcy should the initiative fail. The development of this infrastructure takes place over decades. The establishment of government/corporate laws, open and transparent, are fundamental to the availability of venture capital and the assumption of risk with a 'cap' for corporations and for individuals.

**Attitudes to failure**, at both corporate and individual levels, have changed dramatically over the years. In terms of new ventures, some corporations; e.g. P&G<sup>4</sup>, 3M and other innovative companies are explicit about failure; some even have quantitative goals so that employees (and shareholders) understand that there is risk inherent in moving forward with new ideas. The idea is to encourage risk taking, and with that, an acceptance of failure. Failure is treated as a learning experience.

Perhaps the attribute that will most challenge this new Russian initiative is **the notion of trust**. The business culture in Russia, brought about by centuries of domination and latterly communist times, has created a legacy of mistrust among individuals and corporations. Two decades after the fall of communism in Russia, the legacy still exists, less so than before, but is still present. Trust among individuals and between corporations and stakeholders is fundamental to the encouragement of ideas, the sharing of information, and the collaboration necessary to get ideas off the ground. A supporter of the Russian initiative, Yevgeny Kaspersky, says that 'People still have an iron curtain in their minds'.

All four of these attributes will have to be satisfied for the Russian Silicon Valley to be successful. Like most success stories, it takes a congruence of factors to bring about change. Innovative countries have many of these attributes working in their favor while Russia has a long journey to make in each case.

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<sup>3</sup> One who enjoys experimenting with and repairing machine parts<sup>3</sup>

<sup>4</sup> See <http://www.corporateinnovationonline.com> for examples of 'risk explicit policies'.



## Characteristics of Russia's New Silicon-Like Valley

The proposal to initiate Russia's Silicon Valley has all of the characteristics of a 'Russian Way' solution although the detail seems far from being fully worked out at this stage. Let's look at just a few of the ideas.

- The location is apparently a village (on the site of a once state-owned agricultural institute) just outside Moscow; a scientific town based on the Western idea of technology ventures located around universities.
- It is next to a prominent business school.
- It is to be test model for similar centers across Russia.
- Incubation is a focus and encouraged by tax breaks and grants from government.
- This is a Moscow-Kremlin centered initiative, power-driven from above with \$200 million in seed money.
- The initiative is to be isolated from bureaucratic government 'handcuffs' - scientists apparently need to be isolated from Russian reality.
- A newly-appointed scientific council will decide who can locate in the site.
- Government will build and run the city and own the land; and rent it out to participants.
- There will be a liberalization of tax and custom rules, similar one imagines to traditional 'free-trade' areas.
- Its start will depend on attracting a mix of start-ups, established companies and academic institutions.
- Commercialization is to be emphasized.
- Government will offer grants to scientists to help with private financing.

The description suggests the usual heavy hand of government will be ever present, but one presumes, a different kind of government in the enclave of Russia's Silicon Valley. Time will tell.

Mr. Putin's comment, when asked by Michael S. Dell if Russia would like help to develop its IT sector; "We don't need help. We are not invalids. We don't have limited mental capacity" is absolutely true! The point is precisely that the mental capacity is among the best in the world, but it's the system which needs a complete overhaul and that will take time. Helmut Schmidt, Chancellor of Germany from 1974 to 1982, when asked at the time that Russia was emerging from communism, how long it will take before Russia



will operate – dare one say – in a Western sort of way- estimated it would take 50 years. Russia is now 40% along the way but not there yet.

April 14, 2010

Post Script<sup>5</sup> courtesy [techcrunch.com](http://techcrunch.com)

The economy has entered the doldrums and needs re-balancing for the modern world. As the OECD has pointed out, Russia needs a thriving SME and start up culture if it is to prosper in the future, particularly in science and technology. Though Russia has some of the best of breed in these sectors, it's had difficulty spinning that capability in science, technology and research into global commercial successes.



Although completely different from the old days of the Naukograd, could it be that Skolkovo, a new project to create large new science and tech cluster just outside of Moscow, will be Russia's fast track to innovation?

So, in a typically Russian approach to the problem, it's come up with Skolkovo, a vast new science-based city, to catapult its economy into a new era of technology and innovation. The Skolkovo Innovation Center will be a planned high technology business area with its own set of laws, designed to encourage science and technology companies. The 400 hectare site is predicted to house over 20,000 people permanently, with another 10,000 commuting in to work. In other words, this is a massive project on a typically Russian scale. But in an untypical break with the past the whole project is being run by a specially created non-profit, the Skolkovo Foundation.

Companies housed there will enjoy special privileges compared to companies in other parts of Russia. The Skolkovo area is being created as a special economic zone in its own right, with its own border controls and legislative incentives for startups, such as a tax holiday lasting 5–7 years. It also has special laws enabling entrepreneurs to work there from other countries – in effect Russia's 'Startup Visa'.

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<sup>5</sup> [Techcrunch.com](http://Techcrunch.com) - Skolkovo, Russia's Massive Project To Emulate Silicon Valley, Gets A \$4B Commitment