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Technology Expert Sees Fear of Failure Inhibiting Russian Innovation

By Guennadi Moukine

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Jason Pontin, publisher and editor-in-chief of MIT Technology Review in 2011. **Jason Pontin**

Despite its extraordinary scientific capacity, a stated desire to be competitive and the availability of capital, it may take several generations before Russia's investment in innovation will bear fruit, a report by MIT on the country's role in global innovation shows.

Russia has many of the necessary elements to take its place next to the U.S. and China as one of the great developers of global technologies, said Jason Pontin, editor-in-chief of MIT's Technology Review, which conducted the research.

But there are things that Russia is doing to encourage innovation that are really not best practice, he said in an interview.

"I did not know how idiosyncratic Russia's understanding of the innovation process was," Pontin said. "I admire Medvedev's commitment to making Russia a technological center

of the world. Russia does have the intellectual capacity to do it." But there is an important aspect of corporate governance here that puts Russian technology entrepreneurs at a disadvantage, he added.

"If your company goes bankrupt in the U.S., and you are a founder, you are not personally responsible for the bankruptcy. But [this scenario] does not exist in Russia. And as long as Russian entrepreneurs feel that they are personally at risk ... it forces them to fear failure. And the great point about being an entrepreneur and an innovator is you have to not care about failure. In fact, you have to know that failure is a good thing," he said.

"But in this country, failure is terrifying. And for a good reason as well — you can go to jail!"

Although Russia has the "OOO" structure as its equivalent to a limited liability company in the West, the understanding of "wrongdoing" by an owner that could lead to personal liability is much broader and includes errors committed by financial officers and even accountants.

"According to the Russian law, company founders are liable if the bankruptcy is caused by their wrongdoing. This includes more than just fictitious bankruptcy," Vadim Tkachenko, a lawyer from the Gradient Alpha consulting group said. "The judicial practice has been moving in this direction ... since 1996."

Productization Problematic

In addition to that, Pontin said he did not realize how much Russia struggled with translating its research into commercial products — something that new research universities, like the Skolkovo Institute of Science and Technology, are now trying to do.

It may well be due to the fact that Russian scientists and the general public still think that "business is somehow dirty, and that business is the province of crooks and distasteful unsavory people," Pontin said.

According to the Global Corruption Barometer, a survey published by Transparency International this year, 57 percent of respondents in Russia felt that business was corrupt or even extremely corrupt.

"I think it has been said by many voices — it is a challenge and a big problem," said Esko Aho, former Finnish Prime Minister and now head of Business Team for Russia, an organization promoting economic relations between Russia and Finland. "If and when Russia wants to be an active player in the global arena and be active in global business, you do not have a choice but to have a very good governance system and code of conduct. It is critical," Aho added.

The MIT study, which was prepared for last week's Open Innovations forum in Moscow, has identified nanotechnology, hyper-connectivity, work automation and consumer power as the four most important areas of innovation in the global economy.

In each of the areas, Pontin identified ways in which Russia could become a leader on the world arena.

Russia-Specific Advantages

The report showed that having already invested more than the U.S. or Britain in nanotechnology, and with its advances in nuclear power, space technology and heavy industry, Russia may have comparative advantages in the future.

In regards to hyper-connectivity — mobile Internet adoption and the use of Internet-enabled devices — Russia has become the largest Internet market in Europe. Companies and government entities, at every level, are using large amounts of data. Natural resource and financial sectors are the leaders in this sphere because they have the most to gain from this technology.

"A crucial and unique challenge to Russia will be to navigate how public companies may use the data they have collected on their customers," Pontin said.

The work automation encompasses such technologies as 3D printers, mass customization and robotics. Russia needs to modernize its traditional manufacturing and invest in research and development, instead of trying to achieve new heights by doing things the old way, Pontin said. A highly trained workforce is the key to success in this sphere.

Regarding consumer power, the potential of the Russian market is extraordinary, Pontin said. Electronic commerce is the future of the digital economy in Russia, where online shopping is still in its infancy but has the fastest growth rate in Europe.

According to a June report from East-West Digital News, online sales in Russia reached $13 billion in 2013, a 27 percent increase year on year. With only 61 million people out of the 143.5 million total population using the Internet on a weekly basis, the Russian e-commerce market has huge potential.

Just a few years ago there was only a handful of researchers able to present their ideas to investors, Deputy Prime Minister Arkady Dvorkovich said during the innovation forum. "Now, we have tens of thousands to choose from."

This happened because the government has set innovation development as a political priority, Dvorkovich said.

Contact the author at g.moukine@imedia.ru

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