

**KEYNOTE ADDRESS DELIVERED BY PROF. PAT UTOMI AT THE 4<sup>TH</sup> VERDANT ZEAL INNOVENTION SERIES, ON THE 24TH OF MARCH, 2015 AT THE CIVIC CENTRE, VICTORIA ISLAND, LAGOS.**

'Very Distinguished Ladies and Gentlemen,

May I begin by Congratulating our Chief host for this series because I think it's very important, if we are going to travel the appropriate track for sensitivity to innovation, and Innovention Series is something that we have to value.

First, I'll like to say about Innovention, that in some ways it should not seem like something special, should not seem extraordinary because man was created to innovate, the very purpose of creation is my favorite interpretation of Genesis2:15, is a man who was created to be a co-creator with God, moving creation towards its perfection, and so by our nature we are supposed to continually innovate, unfortunately we don't do it as well as we should very often. Indeed man's existence on earth was for millennia or misery because he failed to innovate appropriately, there's a nice book, really nice book, actually for some reason I have it with me written by a professor at Princeton called Angus Deaton, the book is titled THE GREAT ESCAPE, it's about how man has escaped misery in recent history, the truth is that for millennia and for most of the human race, life is still an extremely miserable enterprise. Batches of Humanity has begun to escape this misery and that book is essentially a discussion of the Great Escape of how poverty which has held man back for so long... the function of lack of innovation in many areas particularly around health care and of course productivity which enables us to improve the quality of life that we live, I think therefore that the appropriate place to begin a conversation on innovention is to do cursory swing through human history and how man has evolved through this great run of misery into an age in which a few of us, a few human beings now live extremely comfortably, there is a historian whose dominated thinking of how civilization has emerged in recent times, "he's a young guy, a historian who has chairs at Harvard, Oxford, he seems to be all over the place, his name is Niall Ferguson, Naill Ferguson writes in the book Civilization, a grand sweep of man's more recent successes and has worked himself into what ill like to describe as a dominant

paradigm in explaining how human beings have made progress, and that paradigm is built significantly around the role of institutions and how institutions aid human progress, indeed Niall Ferguson's work in many ways was prosocial to the book by Robinson Acemoglu which is titled WHY NATIONS FAIL, which also takes the perspective of institutions in why some nations succeed and others fail, in fact even more interestingly a financial times editor, a global trade economist called Alan Beatti has done a remarkable excursion of looking at why northern American has done so much more than Latin America and particularly focuses on the difference between the performance of Argentina compared to the united states of America because if you look at Argentina in the 1930's and the united states in the 1930's they were literally at the same level of development, they were among the top ten economies in the world but by the 1990's Argentina had dropped to west Africa GDP, while the united states was by far the words preeminent economy and the question of what happened that led to the great gap developing between these two countries is really an understanding of the role that the institutions play in human development and Today, I'll like to speak of the roles that institutions play in innovation and sustaining human progress in a matter of speaking, but still looking at the Great Escape and human misery, the late Peter Drucker made a very interesting statement just before he died that I like option to point to, he made a point that at the beginning of the 20<sup>th</sup> century at the year 1900 the difference from the quality of life of the average African and average European was marginal, the leads, the super-rich at the top who always had a way of cheating the rest of us and extracting more than they should in Europe, obviously had super quality of life but most of humanity that lived in Europe and in Africa in 1900 the quality of their lives was more or less same level, perhaps marginally different, but by the close of the 20<sup>th</sup> century, the quality of life of the average African and the average European was like night and day, and so during the 20<sup>th</sup> century something happened that resulted to featuring in this great escape, escaping Africa and that thing from the local perspective was an increase in productivity, what led to this rise in productivity? In the minute you'll find that it has to do with education & technology and how they relate, but they are other perspective in looking at this, while I'm going to emphasize the perspective of institutions and the roles that play in how the quality of our lives evolve and particularly innovate, I'll also like to note that there's a perspective that comes from culture and I think it's a very important perspective, they debates officially between the economists and people who come from sociology, social sciences about the importance relative to

one another, there's a much celebrated Peruvian economist called Hernando De Santo he has come here to Nigeria a couple of times has written this lovely book that's titled THE MYSTERY OF CAPITAL and Hernando De Santo argues, for example, that's it's all about the institutions, it's really about the institutions that the west is rich and the rest of us are poor and when he came to Egbe in 2008 or 2009, whichever one it was, I had a clear sense that whoever in the audience really understood what he was talking about even if he was making a very profound point but it seemed too simple, the poor of the world have assets but their assets constitute in the main dead capital, because of institutional arrangements, the thing he likes to call representational systems, where every plot of land that exists in the united states, for example or Europe is documented somewhere, it has value and that value can enable you to access capital, take a second mortgage of your house, example that piece of land your grandfather left you in Scotland can lead you to the raise capital, so the asset is fungible, so it is capital, huge acreage of land that your uncle left you in ile-oluji amounts to nothing, same to the first bank manager "that hectares in ile-oluji ehnn" and so you forget it, whereas the guy in Europe can take a second mortgage on the house his great grandmother left him somewhere in that place and is able to access money and grow wealthier and create more value, the culture perspective is also very important, a perspective, there's a gentle man called Gerald Diamond, Gerald Diamond many of us will probably know number of interesting books he's written, the one that interests me the most is titled COLLAPSE, how societies have failed through human history and in the main, Gerald Diamonds point is that, it is values that shape human progress and that most societies that fail, fail because at some point there's a collapse of culture, I think it's a very powerful statement, a statement I think in some ways was re-echoed by a colloquium at Harvard a couple of years ago , which was based on a statement by former Harvard professor who became a politician, finished his career in the US senate, succeeded by Hilary Rodham Clinton and I recall the cover of time magazine, the week he retired from the US senate, its News Week, we call him GLA, the greatest Living American, Daniel Patrick Moynihan who makes the point that the central conservative truth is that there's culture and not politics that's responsible for the progress of the society and the central liberal truth is that politics can change a culture and save it from itself and I feel particularly... I'm going to come back to this in the remarks that I make here later, I feel particularly special that's this is coming in a week in which we pay tribute to the passage of Lee Kuan Yew, because Le Kuan Yew was giving a great example of a man who

took a society that was literally now where and simply changed its culture and in changing that culture took that country in one generation from third world to the first, taking a death poor fishing village into the biggest concentration of billionaires and capital anywhere on the earth, how did that happen? I think understanding that, is understanding the culture explanation and what I have argued in my writings is critical of Des Soto's position, I love Des Soto and his work but the critical of the position is that is only about the institutions that culture does not matter and that both can work together and then who were familiar with my own work, that are familiar with the growth drivers frame work, what makes for growth, we know it's a frame work that includes a culture, it includes obviously institutions , includes policy choice, it includes something that its critical to Innovention that we'll talk about later, human capital includes obviously creative destruction and entrepreneurship and very very importantly includes leadership because the most important things that leaders do is to shape culture and Lee Kuan Yew was a classic example of a leader who shaped culture and because he shaped culture in certain direction made that society make phenomenal progress.

And the point of innovation again, is that it's a constant activity, that man must continue to innovate and that's why this whole business is called creative destruction, society must creatively destroy what was yesterday's great advance if it's to have a greater advance and the Austrian Economist Joseph Schumpeter is particularly credited with the concept of the idea of creative destruction and because again "one of the games I play with my MBA students always get them chip on this, one day somebody answered the question right, so I thought oh my goodness, ah finally failed and the guy said well, I have to confess, I heard you say it somewhere two years ago" I ask which was the economy that had the highest per Capita income in the world in 1789, Highest per capita income in the world 1789, that country was, it is today the poorest country in the western hemisphere and that country is Haiti, why was the country that had the highest per capita income in the world now the poorest country in the western hemisphere, because there are trends and the world is in constant change, unless the rate of learning... and this is an axiom it's called Rewane's axiom, unless the rate of learning is equal to or greater than the pace in environment the organization is progressively becoming a dinosaur. Haiti based on the plantation economy was the wealthiest country in the world in 1789, then comes this fellow called James Watts, James Watts redesigns the steam engine and in redesigning the steam engine power based production become possible and man makes a phenomenal transition in his

capacity to create wealth, power based production takes a further leap with the invention of the moving assembly line and Henry Ford in applying the concept of the moving assembly line, made mass production something that we all own and improve the quality of life of people, when the motor car was first invented, it was something for the phenomenally rich and Henry Ford decided to build the model T4 which he used moving assembly line make mass production, if you recall how obsessed Henry Ford was with the whole idea of mass production, the model T4's were all black and the famous question I'm sure most of us have heard, some of us will ask him "Mr. Ford when are we going to have a red model T and Ford arrogantly said you can have whatever color you love as long as it's black", but you know that nearly killed the Ford Motor Company because it was the first time ordinary people were owning Motor cars, so just give me that model T, I don't care whether it's black. One of the things that technology and innovation did was... and of course very important to this discussion, Competition, General Motors, it begins to emerge from combination of those other smaller players and there's a red Chevrolet, there's a yellow Cadillac and Ford begins to lose market share, in fact the world war II had not come and Henry Ford was succeeded by his grandson after world war II because world war II helped with the war effort, the Ford Motor Company which really thought us to produce cars in mass would have died, because of the mind set of Henry Ford which in one era led to extraordinary success, one of the other points that I'll like to make from the Ford story and the quality of life that we all have is that people often don't realize that the concept of the middle class as we know it in the world today was literally a Ford invention. Like the industrial class emerging, making money, workers were paid so badly and the grind, 'you all read Charles Dickens and all of that' and Henry Ford was arguing with his workers the Labor union wanted some 5% wage increase, Ford said No, One day Ford had this brain wave, why should people who produce car not be able to drive it and he walks up the next day, people who were asking for 5% increase and he refused then he suddenly gives them a hundred and something percent wage increase, they think he had gone mad but that begun a trend that led to emergence of the middle class as we know it today and people got quality income for good work done, that was INNOVENTION! And it helped the Ford Motor Company to become even much more successful but in spite of those innovations from Henry Ford, the Ford Motor company nearly dies because Ford did not respond to competition in their environment and the innovation that was coming from the competition. And the context of innovation as we go down this track.

Again but staying with the team of institutions as critical to innovation. I think it's important to recognize that change and the adaptation of institutional frames to change is really at the heart of what sustains progress for mankind, it's a subject I can spend 30hrs talking about because it fascinates me a great deal but somebody who has done a profound job of it and won a Nobel Prize in economics for this efforts is a young man called Douglas North, in 1990 Douglas North wrote a book that was titled INSTITUTION, INSTITUTION CHANGE AND ECONOMIC PERFORMANCE to show how institutions evolve and how the evolution of those institutions and their ability to help adopt to change leads to society being constantly on top of the game and making progress in the course of conservation.

Talking of Financial innovation and economic growth, Two former University of Chicago graduate school of business professors Raghuram Rajan and Ligui Zingaleas wrote this book titled SAVING CAPITALISM FROM THE CAPITALIST and essential trust of this conversation is the fact that the greatest danger to progress are todays successful capitalist, "if you want advertising to make progress drown Shobanjo" you know those who make progress today do not want those who are coming to overtake them and their ideas are from yesterday, if this progress must take place you must creatively destroy them and so people will mistake when I say sometimes "if Nigeria is going to make progress we have to destroy Dangote" and they say "oh my God, what is this guy saying" that's the truth of the matter because capitalist are by nature, even though they make a lot of noise about competition, I incline towards monopoly and domination, the guys who invented the type writer did a great thing in the world, look at how we used to write with feather and someone can just type with ease, its progress. Who comes up with this idea, some small guy who has no access to capital, if the typewriter manufacturer finds out about him he will do everything to kill him, the essential argument of Rajan and Zingaleas is that united states of America is one of the most renewing economies in the world because it has institutional arrangements that make it easy for that small guy to creatively destroy the great typewriter builders of this world because a young man proofed it in many ways, when I ask finance people around here, how many of you are familiar with concepts like search funds, vulture funds and those kind of funds and they think something is wrong with me, but you know somebody can walk up to a fund, somebody has put together a list of five hundred doctors who are three hundred thousand dollars or something per year and what he does is he finds a smart guy, his only real asset

is that he went to an extraordinary business school and the guy says 'I need \$250,000 to search for a business I can transform'... somebody walks up to Bisi First bank and say "Oga I don't have any idea I just want to go and look business I can transform, please give me Ten million Naira" what will you do? Maybe you'll send for security, but there's a fund that does all that, with this list of Doctors they will call them around and say look, each of you there's this guy he's so smart, he did this at Harvard business school, he did that at Stanford Engineering school, he wants to find a business he can transform, he needs \$250,000, each of them can put down \$5,000, if they lose \$5,000 it's a lot of money but it's not a lot of money but if that guy comes up with a Great Idea he can come back with a business plan to revamp that business and he can hand that fellow another \$20,000 a piece it can turn out to be a winner of a business and each of those doctors could either loose \$30,000 or make a million dollars, specific case of an example I like to give based on the Light business, chap gets access to such finance he's looking for a business to transform and he runs into a mom and pop operation that are making candles and he wonders who still makes candles in this age, obviously he doesn't know where Nigeria is... but some churches buy candles some strange people buy candles... so that's keeping this mom and pop alive making this thing but you know if they could get some money, any money that's decent they will get rid of the factory and buy some place in Florida and go on cruises for the rest of their years, so this guy makes them an offer for the factory, writes them a business plan and goes back to the fund and says the illumination business died a hundred years ago, nobody should be in the illumination business but this factory can be in mood business, no what do you mean by in mood business, you see that same candle, you can drop some nice fragrance on it, put a nice package around it and call it Valentine Mood Pack and there's firm assurance that as valentine day approaches, women lose all rationality, all they think of is that evening with their husband, they are not thinking this is light so a 25cents candle is now offered for \$9.88cents and the women are just taking it of the shelf, well the fellows business plan past and he bought the place and a 15million dollar investment within 3years was a one point something billion enterprise and each of those doctors walked away millionaires, Innovation in Finance and it goes on.

Development in nations that's going to be the hand of this, giving a small example of a nation growing, getting challenged eventually innovation we are reliving it, when I lived in the United States as a grad student in the 1970's, there was a wonderful man called Jimmy Carter who was president of the united

states but everything was going south, inflation was 29%, American companies were losing competitiveness against Japanese rivals, komatsu was giving caterpillar a run for its money, canon was overtaking zerox and so on America was unsure of itself, unemployment was beginning to rise and Americans said 'anyone but Carter' and this old man who had been running, running and running called Ronald Reagan gets into a debate with this president and when Carter goes, goes goes, Reagan will say 'Mr. president, there you go again Mr. President' and Ronald Reagan won that election, and Ronald Reagan has his vision about America and brings men like Don Reagan and Baker and all these people around him who share his vision and half of the time he's sleeping and they are running America but they created the American spirit, the 18 and 19 year olds rose to the occasion and created a new economy to the .com revolution and America was back, this is how the vision of a country creates the context of innovation that renews a nation. I hope something like that happens to Nigeria. It's about strategy, you cannot innovate without planning to innovate, part of the track that led to the innovation following the Reagan ascendancy was setting up of a competitiveness commissioning which people like Michael Porter at Harvard were enormously effective in creating the context of innovation in America, I recall back in those days there was a company that got its name from one of its staff, this company we all know as Motorola. Motorola had a certain crisis of his development pipeline and all of that and Bob Galvin who was Chief Executive of Motorola at 1881, grandson of the founder of the business had gone to Japan seeing the way things are being done in Japan and figured if things aren't changed the way we do business, these guys are going to kill us, going to eat our lunch, so there was a management conference, he was coming straight from Japan and went into the conference he had not had the conversation with the rest of them and he said 'look if we don't change, if we don't innovate we are going die' and everybody kind of looked at each other and said 'oh dear bob, he loves his brandy but why did they allow him to drink it so early in the morning' Motorola was doing very well, well they were watching Japanese countries overtake others because of the small challenge Bob threw, the small guys on the floor agreed, they said look 'these are development cycle etc.' Motorola began to rethink how innovated, when Reagan then came, the Porter team in this competitive commission set up a prize the Malcom Baldrige awards for the quality producers in America, it was only natural that Motorola was the 1<sup>st</sup> winner of the Malcom Baldrige awards, Malcom Baldrige was the former secretary under Ronald Reagan and I think that in looking at this, we must

seriously ask ourselves certain questions about how to... I was going to run through some national strategies but I won't, but just to bear in mind what has happened in a place like Finland and how Finland that small country could become the home of the Nokias of this world a signature tuned that the whole world came to share in, it's about the educational system, it's about this institutional arrangements that ensure access for those who are in position to innovate, I was going to talk about Singapore but one of the things Lee Kuan Yew was beating up by some people who was saying he was an autocrat, Singapore would say 'look this is where we are going' it means that next year there will be places for 90 engineering people in our universities, 2 history people, 3 biochemist, if you don't want any of the subjects stay at home, literally speaking and they got the appropriate kind of education and skills that enabled Singapore to develop in the direction it chose to go. Look at our neighbors because these things always seem from far places, Kenya is ahead of the world in mobile money technology, you go out in Nairobi you can pay your taxi ride with your cell phone, what were the conditions that led to Kenya being that innovative with mobile technology and how can we apply them? when the Agriculture Minister Akin Adesina talked about cell phones to farmers, I know we beat up on him for all kinds of things but we didn't think of the power of what that could do, that's Innovation and we need to be able to apply things to solve problem of today, so when we looking at innovation we need to bear in mind trends, problems and sustainable solutions, there are many things that we innovate that doesn't involve invention, most times when we talk innovation people think invention they are not necessarily the same, take Nollywood for example, what was the invention in Nollywood? A group of out of work guys take video cameras that are dying put cassette inside and begin to sell video and an industry is created, that's Innovation, that wasn't an invention but it was a great Innovation, that's how society makes progress.

Final analysis, I think that's important to recognize that the challenges before Nigeria as a country if we are going to develop appropriately with a huge bulge which we should see increasingly as an asset and not a liability, years ago economist used to talk about the liability of population then we saw the countries that were winning good quality of life by having fewer and fewer children, the Japan economy has been troubled for quite some time now because it doesn't have enough young people to produce because they have been refusing to produce and now they are getting visa lotteries and stuff like that because countries wants to steal their very best because they are not producing enough

to sustain their economies but we have now plenty, what we need to do is have the right educational policy, ensure that these young people are well and have the right the values around them, they will innovate and can make this the hub for supporting global economies and I have seen a lot of them doing remarkably well. I think the problem of our country is that we don't have the proper institutional arrangements quite yet, we are evolving, but if we had the appropriate institutional support, we will see that this demographic situation will instead of becoming a threat will become what economists now refer to as demographic dividend and so if we do that and we look at value chains, look at our factor endowment and each factor endowment , my view of how we should run Nigeria, pardon me this is not political but I was involved in the writing of the manifesto of the APC and this is inside it if you read it properly, you will see that we look at value chains and zones of development around the country and every part of the country has factor endowment of which we then educate people to dominate a global value chain of that, every part of this country will develop rapidly and we will pace each other and well get the opportunity of the success that we deserve.

I think that's an appropriate note to say thank you very much and appreciate the team of Verdant Zeal.