



# Making the Connections

Remarks by:

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It's an honor to take part in this Fuse event. It's a great idea to bring progressive thinkers together from across New York to focus on ways to enable business growth.

This is a perfect opportunity to make the connections and start forming the partnerships that can open the doors to all sorts of new and promising endeavors. So I'm glad all of you could be here.

I thought I'd open up our discussion this evening by sharing a couple of thoughts about innovation – and then I'll spend a few minutes sharing with you the key efforts The Business Council is driving to promote economic growth and prosperity in New York State.

So let me begin with innovation — a topic that is being talked and written about a great deal these days.

And the reason is obvious. In this era of economic globalization, where goods, capital, technologies, ideas and talent can move around the world with remarkable speed, the rate and pace of commoditization has greatly accelerated.

It doesn't matter what business you are in, someone somewhere will quickly try to replicate it and do it cheaper.

So you have to continuously innovate to create differentiating value in this new flat world – whether you’re a country, a company, a university, or an individual. We all have to become innovators to stay relevant.

Necessity may be the mother of invention, but *survival* is the mother of innovation. As we pointed out in *Let Go To Grow*, only 16 percent of more than 1000 companies tracked from 1962 to 1998 have survived – and things have only gotten tougher in the past five years, with all the pressures of globalization.

Last year, the GDP of the world’s emerging economies increased by \$1.6 trillion — that's \$200 billion more than the rest of the world combined. India and China represent about a fifth of that growth.

The rest is coming from places like Eastern Europe and Latin America. Most of these countries are teeming with young professionals in business, engineering and the sciences.

Talent is migrating around the world by the millions, and work is migrating as well. Thanks to global networks and standards-based processes, an enterprise can conduct its operations almost anywhere — application development in India, order processing in Brazil, procurement in Scotland, manufacturing in Hungary.

It’s clear that those of us who are decision-makers today are facing unprecedented challenges. How should we adapt to compete in this new flat world?

CEOs recognize they have two options — either create the differentiating value that brings greater profitability and growth, or be a commodity player, focusing on high-volume, mass-market products and services at the lowest possible cost. There’s just one way to the high road; that's why, in industry after industry, you hear CEOs talking about market strategies built around innovation.

To get some deeper insights into the changing nature of innovation, earlier this year a team of IBM consultants conducted some 800 face-to-face interviews with CEOs around the world.

The CEOs we interviewed took a broad view of innovation. They do not equate innovation simply with invention. It is not limited to a few brilliant minds working in an R&D lab.

It’s not simply about products and services. Not just the next new iPod or the next new Internet application.

CEOs are interested in innovation across many dimensions: business processes, management systems, business models and, very important, the work climate and culture required to sustain innovation.

One other point about the changing nature of innovation that came through in the study: The best innovators today don't do it all themselves. In fact, the CEOs told us they actually think that more ideas now come from outside the company than from their own employees.

The fact is, in a flat world, no enterprise, no university, no national or state economy stands alone. Global connectivity gives us the unprecedented ability to collaborate and learn from one another.

From our CEO survey, we learned companies who collaborate externally were doing significantly better in their financial performance than their competitors who don't engage outside their four walls.

I should point out that enlightened government leaders are just as focused as the private sector on innovation. In Japan, Prime Minister Koizumi has made innovation the centerpiece of his government's plan for economic revitalization. In the U.K., the government has set a goal to increase investment in research to 5 billion pounds by 2008 to help promote innovation and economic growth.

Earlier this year in China, the National People's Congress endorsed a five-year economic development plan that centers on innovation and government-funded research. The President and Congressional leaders have created proposals to stimulate our nation's capacity for innovation.

So the marketplace is telling us that innovation is a priority. We know that the nature of innovation is changing – becoming broader, more collaborative and multidisciplinary. And clearly, globalization has arrived, it's here to stay, and we have to compete in this new world.

Given these realities, the Business Council last year developed and began to drive a strategic agenda for innovation in New York State. We call it "Ahead of the Curve" – which is where we want New York to be in this emerging innovation economy of the 21<sup>st</sup> century.

For those of you who aren't familiar with the Business Council, it's by far the largest business association in the state – with 3,000 member companies who employ well over a million people. Our main function is to serve as the voice for business in New York and as an advocate in the state's legislative arena – serving as an influential, progressive force for economic progress.

With Ahead of the Curve, we've been taking a two-pronged approach: focusing both on solutions to address the excessive cost-of-doing business issues that are putting the economic health of many regions of the state in jeopardy ... while also looking longer-term at the steps we should take to strengthen New York's innovation capacity.

In this election year, the Legislature accomplished little on workers' comp, liability reform, health care costs – or any of the other pocketbook issues that put New York companies at a distinct disadvantage competing with firms in

other states, let alone other nations. One small business owner in the Southern Tier, for example, told me that his energy costs alone are 300% higher than his competition in other states. Hard to compete when your base costs are that much higher than the other guy.

We're anticipating a very busy year ahead after the election. The new governor, whoever wins, will be confronted with some daunting challenges, right off the bat ... facing a projected \$5B deficit – with looming issues such as the lawsuit over New York City schools financing and the recommendations of the hospital right-sizing commission coming to the forefront.

With the budget crisis, we're anticipating more action around cost-of-business issues than we've seen in the past decade. Our legislative team will be engaged on many of these issues, working hard to see that any new policies and legislation make the state more attractive to business growth, not less. Incidentally, Steve McCormick of Anheuser-Busch here in Syracuse is heading up our Board task force on health care – a huge concern for employers in New York.

So we'll be very engaged this year on cost-of-business issues. But at the same, we do not want the urgent priorities in Albany to cause us to lose sight of the very important long-term, multi-year agenda we need to pursue if we want to make New York the hub of innovation in the 21<sup>st</sup> century.

Two years ago, the American Council on Competitiveness – a group of two dozen of the top CEOs, university presidents and labor leaders in the country – launched the National Innovation Initiative. The purpose was to create a national innovation strategy to keep the U.S. as the world's leader in the 21<sup>st</sup> century global economy.

The NII released a set of recommendations built around the three pillars of innovation: Investment, Infrastructure and Talent.

During the year ahead, the Business Council will assemble a multi-company, multi-region task force to draft a broad, long-term plan of action built around these three pillars. We will be one of the first states in the country to use the NII framework to develop an innovation strategy for our state.

For the investment pillar, for example, the task force will be examining how the state can better invest and manage our economic development funds ... what tax incentives are required to attract investment by business?

In the area of infrastructure, how can New York transform its energy systems so that they are low-cost, efficient and reliable? What investments need to be made in fiber optics so our telecommunications are second to none? How do we launch more vibrant regional economic hubs such as the Albany Nanotech Center?

The third pillar – talent – focuses on education. How do we prepare the next generation to become innovators?

Having met with many leaders from all walks of life across the state over the past year, I can tell you there is no single issue that ignites as much passion as education. And it's an issue everyone can rally around.

Some neat things are happening.

We were pleased when the state legislature passed a version of our proposal to fund college scholarships in New York for prospective math and science teachers, which are in very short supply.

IBM's transition to teaching program – which we announced last year to help IBMers in the latter stages of their careers move into teaching careers — is off to a very strong start. In fact, we will expect to have 100 IBMers in the first “transition to teaching” class of 2006.

As a result of an education summit we participated in with Education Commission Mills and educator leaders across the state, the Business Council committed to providing better information on the connection between education and careers – and agreed to urge our member companies to create more internships for both students and teachers. I was pleased that a group of companies here in Syracuse offered a “Teachers in The Workplace” professional development program this past summer for Syracuse area teachers.

A group of regional leaders I met with in Rochester came up with the idea of a regional collaborative to improve preparation of math and science teachers. They have since prepared a detailed grant proposal to try to raise \$1 million to create a Rochester Area Colleges Center for Excellence in Math and Science.

One of my basic principles is we should build on our strengths. I may be biased since I went to school here, but I believe we're blessed with some of the finest colleges and universities in the country. And our country, by the way, continues to have the finest system of higher education in the world – one of our innate advantages as we compete in the global economy.

I'm looking forward to our panel discussion with Chancellor Cantor – and exchanging ideas for how we can best leverage the great intellectual capital resident in our universities to stimulate innovation in our state economy.

We have some pockets of activity around the state but I sense we haven't fully tapped the potential here.

So that's a quick overview of what we're driving at the Business Council. Obviously, there's a lot of debate and competing points of view around many issues. But I've been very encouraged by the enthusiastic response to our innovation agenda I've received across the state, regardless of political

affiliation. We're seeing other groups – in health care and other areas – frame their own agendas around innovation.

Which is terrific – because making New York the innovation leader should be more than just an initiative of the Business Council. It's a noble cause for all New Yorkers to take up as we look to build a better future for our state.

I began by talking about innovation and the growing importance of collaboration. I'll conclude on the same note.

The CEO survey validated my own gut belief – supported by my experience – that we really are entering a golden era for collaboration. The Internet and all the great new technologies have made it much easier to reach out beyond the borders of our organizations – and get things done.

But at the end of the day, it still takes personal leadership – and initiative – to make it happen. So I would urge to you to engage with us at a regional level to help drive the innovation agenda. We want to be your partners.

If you have a good idea around innovation, call the meeting – assemble the group of local talent who can build on your idea and make it tangible – I guarantee you, you'll be surprised at how eager people are to participate.

It's through that collaboration that we can come up with the real breakthrough ideas ... and together make Empire State once again the world capital for innovation.

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