ANGLING FOR EFFECTIVE INNOVATION GOVERNANCE IN ASIA

Lessons learnt from Singapore's Qian Hu Fish Farm.

By Thomas Menkhoff and Ong Geok Chwee

Would you feed herbal medication to help fishes heal? This proposition may seem like a wild idea, but it was a calculated act of innovation by Qian Hu Corp Ltd, a Singapore-based Chinese family ornamental fish business. How can Asian enterprises, especially family businesses, not only build innovation capacities, but also govern their innovation in a strategic way? This is especially critical when the business landscape in many Asian economies is dominated by Chinese family businesses, spanning the gamut of small and large firms.[1] Despite prevailing notions about their growth restrictions due to cultural characteristics such as familism (which may dispose them to nepotism) or a lack of professional management, many have grown into globalised multinationals, as exemplified by the financial institution Oversea-Chinese Banking Corporation (OCBC), the conglomerate Hong Leong Group, and traditional Chinese medicine company Eu Yan Sang International. In today's fast-changing Asia, contrasting 'traditional Chinese' with 'modern Western' organisations to fully understand the empirical reality is quite ineffective as a heuristic, owing to the complex growth dynamics and ongoing intergenerational transitions, not only in Chinese, but also more broadly, Asian family businesses.[2]

In this article, we draw a few lessons gleaned from our ongoing research project on innovation governance in Asian enterprises, specifically that of Qian Hu, which has expanded beyond its core business and won several national awards, including one on innovation excellence, along its path of success. Through the lessons and Qian Hu's examples, we argue that innovation governance is so central to an organisation's performance and survival that it needs to sit squarely with top management. In other words, innovation governance is a strategic capability that cannot be delegated to any single corporate function or to lower levels of the organisation.

An innovation governance system

Corporate innovation has become increasingly challenging due to pressing concerns around heightened uncertainty ("how will our customers react?"), creeping complexity ("how best can we manage diverse groups of internal and external knowledge experts from different disciplines?"), low degrees of predictability ("who might disrupt us?", "what will happen when we develop a new innovation strategy for the company?"), and promoting creativity ("how do we nurture a climate where creativity can flourish here?"). Therefore, business leaders not only need to be innovative themselves, they also need to be able to strategise and orchestrate innovation efforts. Equipping them with the right governance frameworks, tools, and techniques would enable them to do so with a clear focus and a balanced portfolio of various innovation initiatives.[3]

Corporate innovation governance can be understood as a systematic approach to "align goals, allocate resources and assign decision-making authority for innovation, across the company and with external parties".[4] It is clear that innovation governance is a 'top management responsibility' that cannot be delegated to any single function or to lower levels of an organisation.[5] A good innovation governance system states clearly the vision and intended goals of the organisation's innovation efforts, as well as the nature and quality of its relationship with both internal and external collaborators such as in the context of open innovation. It also clarifies what constitutes the desired innovation culture in the organisation, thus providing guidance on how the management intends to create and sustain a climate where new ideas are not only encouraged and rewarded, but also where failure is an acceptable option and not stigmatised as a shameful defeat.

Effective innovation governance ensures that appropriate innovation metrics are deployed in the organisation, establishing proper management routines regarding innovation project management. This relates to various tasks including information sharing and making timely decisions associated with the various stages of the product innovation process such as 'Go to Development', 'Go to Testing', and 'Go to Launch'.[6] Without a governance system to curate a well-balanced portfolio of incremental and radical innovation initiatives, organisations may become too product centric. They may even become impatient to launch new product lines or services, thus coming under undue pressure to generate sizeable revenue.

Making innovation governance work in Asia

While the dos and don'ts for innovation governance approaches towards non-Asian firms are fairly well-researched, less is known about the ways of governing innovation in Chinese family firms. While many would agree that winning firms are characterised by strong innovation governance approaches, empirical research on this topic in Asia remains scant. Anecdotal evidence tells us that many organisations lack formal innovation governance systems. We notice that amongst the couple of real champions where innovation is effectively governed, they did so through solid innovation management frameworks, top leadership support, and capable managers aimed at creating sustainable business and societal value.

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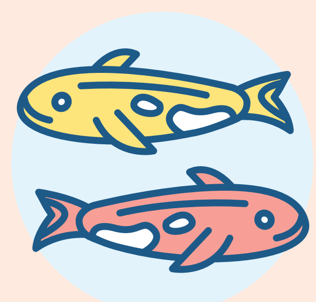
QIAN HU CORP LTD

Qian Hu is an integrated ornamental fish service provider incorporated in Singapore in 1998. The firm's business activities include the breeding of dragon fish (also known as arowana), as well as farming, importing, exporting, and distribution of over 1,000 species and varieties of ornamental fish. By 2014, its farm accounted for 15% of Singapore's ornamental fish supply and exported four million ornamental fish to 80 countries and cities, which amounted to about 6% of global supply.[7] Under the leadership of Kenny Yap, Qian Hu's Executive Chairman, Qian Hu expanded its range of products beyond ornamental fish exports to include aquarium and pet accessories, and has ventured into aquaculture.

Since its ISO 9002 certification in 1996, Qian Hu has emphasised value creation through quality products and processes. The family business started to innovate internal processes in 1997 by semi-automating its packing processes, at a time when most of the other fish farms still relied on manual processes. In 2009, the company established a strategically integrated division to spearhead the firm's research and development (R&D) efforts. For Yap, technology is a key innovation driver. He stressed, "Before I retire, I want people to call Qian Hu a technology company, not a fish company, because regardless of what we do, we use technology to enable what we are doing."

R&D is critical for further differentiating Qian Hu from its competitors. In 2013, the company won the Innovation Excellence Award from SPRING Singapore (now known as Enterprise Singapore, a government agency that supports enterprise development, and serves as the national standards and accreditation body for the country).



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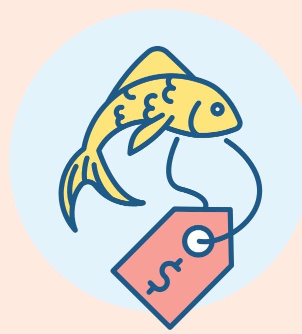

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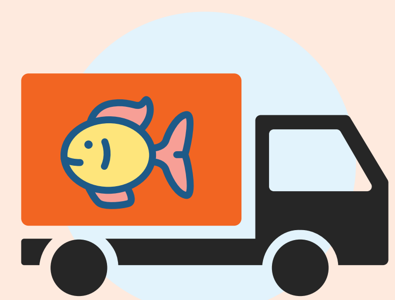

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Here are the five main lessons we draw from Qian Hu's experience.

1. MAKE INNOVATION A TOP MANAGEMENT PRIORITY

The CEO needs to take ownership of innovation. This individual should become the *de facto* 'innovation czar' of the organisation, acting as the champion and key driver of innovation efforts. This is because the lower levels of management and staff lack the complete picture about the company's finances and the entire range of resources at its disposal to optimise innovative outcomes at the firm level. According to Yap, "If the CEO does not have the heart and the belief in making innovation work, I don't think that the organisation can make it happen."

Making innovation continually conspicuous on the agenda of those at the helm ensures that it is more likely to remain as one of the organisation's core priorities, even after a leadership transition. As Yap said, "A CEO's job is to plan for the company to be managed beyond the current generation."

An effective innovation governance system defines the roles and responsibilities related to the innovation process, including establishing clear decision-making power lines (e.g., developing, approving, and tracking innovation budgets). In Qian Hu, minor decisions about potential new projects, such as those valued at less than S$100,000 (about US$75,000), are delegated to the deputy directors and managing directors of the firm's subsidiaries; higher-value projects remain in the domain of top management, especially at Yap's discretion.

Research tells us that the board plays a critical role in innovation governance.[8] This is also reflected in Qian Hu's dynamic approach. Its selection and appointment of the firm's board members constantly changes according to the needs of the company, which are contingent upon the specific stage of business development, the importance of technology as an innovation lever, and the required expertise at that point in time. Yap said, "Initially, [our board] only had lawyers, accountants, or consultants... A few years ago, I started replacing a few or added new board members with a greater emphasis on innovation or technology. Two or three years ago [as we ventured into aquaculture], I invited a retired [Agri-Food and Veterinary Authority] expert, who was head of fisheries with a PhD in fish diseases, to become a board member."

2. HAVE A LONG-TERM INNOVATION STRATEGY

With regard to formalising innovation strategy, the business leader needs to be able to hold a dualistic, even contradictory view. On the one hand, a long-term business perspective ensures business continuity and successful strategy execution, whereas a short-term business perspective based on quarterly reporting can hurt the business quite badly. Here, Yap points out an advantage of family businesses, "Nobody can fire me because my family owns the business, so I can think long term." The Singapore-based family business had implemented a strategic, formalised approach towards innovation based on a five-year plan, which helped the firm clinch the Innovation Excellence Award from SPRING Singapore in 2013.

On the other hand, a budget-driven, strategic R&D management approach cannot become fossilised. It should be balanced with a flexible one that accommodates surprises and unplanned opportunities. For instance, Qian Hu's R&D expenditure was higher than its annual net profit between 2011 and 2017.

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This more organic, less structured approach towards innovation management in Qian Hu is buttressed by an innovation-friendly environment. Yap noted, "Innovative ideas can just appear. So we give our staff a good environment to innovate. Whenever they propose a good idea, we will implement it, and we'll recognise this by giving them a plaque or a monetary award. So we have this system of asking all staff, including those on the ground, to be innovative... During top management meetings, we always talk about the new things that we do that can create an impactful outcome."

3. BUILD INNOVATION OUTSIDE-IN

Firms should be clear about how innovation can help differentiate themselves from other companies and be agnostic about the sources of innovation. Often, these sources may turn out to be outside the confines of the company walls. Qian Hu supported a project with National University of Singapore researchers to produce high-value fish albino, which is a unique variant in high demand even under the current challenging Covid-19 conditions. The company expressed interest in recruiting the researchers during this period if the technology proved to strengthen its R&D capabilities.

External collaboration could also start small with explorative 'probes' to understand the nature of the innovation and the team developing the technology. Qian Hu recently invested in a start-up. "We might want to acquire the company. I think the best way to assess this is to do a project first and then see whether management is comfortable with it. If we are, then we might acquire the company," Yap related. This was not the first time Qian Hu took such a step. This was how it had acquired the know-how in developing a medical plant-based formula for its aquaculture development while exploring alternatives to using antibiotic treatment. As Yap pointed out, "We must have something to treat [our fishes] when they get sick, right? We acquired the herbal formula because it would have taken us years to develop it on our own."

4. FOSTER A CULTURE OF INNOVATION

Qian Hu has put great emphasis on nurturing an innovation-friendly environment and focused on building and sustaining a robust culture of innovation. To do so requires a 'portfolio' of both intangible and tangible ways. One intangible and symbolic way Qian Hu took to endorse the culture of innovation was to put it into the company's mission statement, so that employees knew that the organisation was serious about differentiating itself from its competitors. Another was that Qian Hu's management also tried to provide a psychological safety net where employees could try new things without getting penalised when mistakes were made.[9]

Qian Hu deployed two tangible measures to foster a culture of innovation. First, top management must lead by example, as Yap and the company board had demonstrated in a tangible manner. He added, "The identity of a company is determined by its culture and the behaviour of higher management." Second, the family business developed a system to reward its staff immediately for suggesting good ideas, instead of recognising their action later such as only during annual performance evaluation.

5. EXPAND THE DEFINITION OF 'FAMILY' IN FAMILY BUSINESS

According to Yap, even though most of Qian Hu's shares are owned by the Yap family, professionals from the outside comprised 70 percent of top management while family members made up the remaining 30 percent. Yap also puts strong emphasis on family values, and that who counts as family goes beyond blood relations. He pointed out, "Regardless of race, sexual preferences, gender, and religion, if you concur with [Qian Hu's] values and you agree with [Qian Hu's] culture, you're part of the Qian Hu family." Yap was especially proud of how Qian Hu, as a family business, had helped its staff to provide a brighter future for their families. "We came from a poor family... That's one of the biggest incentives for me to come to work, more than anything else. I think maybe Qian Hu has created something good in the broader sense," he said.

Conclusion

Innovation governance in a dynamic Chinese family-based enterprise such as Qian Hu is markedly different compared with that in large, non-family-owned organisations and the Anglo-American corporate governance model. Qian Hu's innovation governance approach was both explorative and exploitative. The 'Yap family values' provided guidance on managing both people and partners, while business processes

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were optimised through information technology and strategic R&D approaches with a view towards achieving better business results. Key capabilities include Yap's visionary and values-based innovation leadership, and his strategic innovation approach which are exemplified by the emphasis on family continuity, value creation through R&D, and product innovation beyond existing ones.

Not surprisingly, innovation governance is largely driven by one larger-than-life business leader, who often assumes the face of the family business.[10] Decisions at Qian Hu are driven by the Executive Chairman himself, rather than people appointed by him or the board. The role of the company board in innovation governance was skewed towards providing expertise that the firm needed, while Yap stood out as the company's 'innovation czar'. Decisions on major innovation investments were mainly made by him, with smaller ones delegated to managers of the respective business units.

Other factors for Qian Hu's success in innovation governance include proactive innovation leadership with a clear vision towards innovation and productivity improvements, a robust organisational culture, and inclusive family values beyond the immediate family as drivers of intra-organisational innovation efforts, as well as disdain for a codified (rigid) innovation strategy.

Qian Hu's management approach comes across as organic and contingent, rather than inorganic-mechanistic, which is well-aligned with the current volatile, uncertain, complex and ambiguous environment.

This article is based on the authors' conference paper "Innovation Governance in Chinese Family Business: A Case Study" in Proceedings of the 15th International Joint Conference on E-Business and Telecommunications (ICETE), 1, pp. 158-165, 2018.

Thomas Menkhoff
is Professor of Organisational Behaviour and Human Resources at Singapore Management University

Dr Ong Geok Chwee
is Chief Executive Officer of Bridge Alliance. She received her doctoral degree in innovation management from Singapore Management University in 2020

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