ASIAN MANAGEMENT INSIGHTS

SMU
SINGAPORE MANAGEMENT UNIVERSITY

Economic Growth In India
An interview with K V Subramanian, Chief Economic Advisor, Government of India

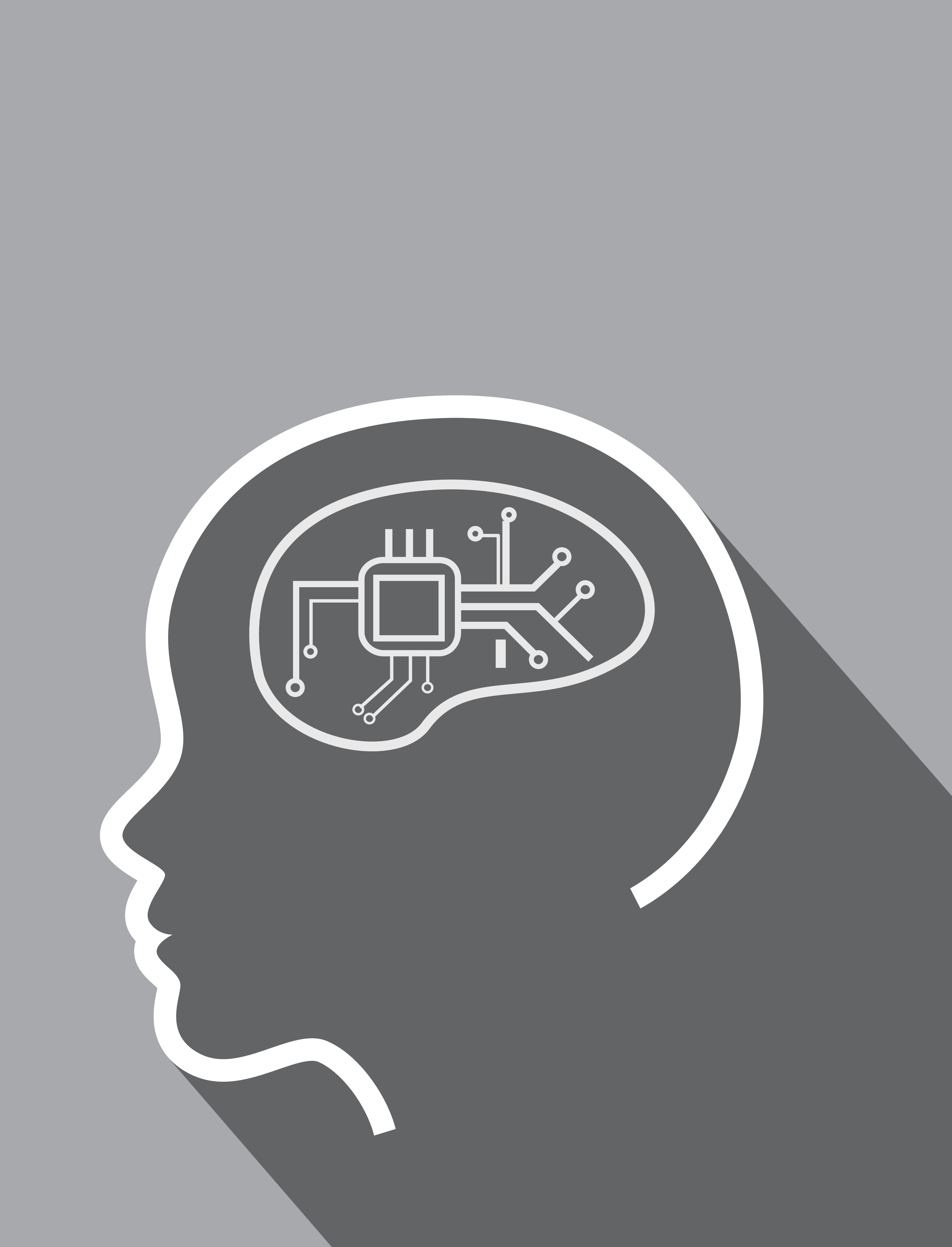
Platforms As Brands
Potentials and perils

Leadership Capabilities
For the digital age

CORPORATE INNOVATION

Digitising innovation management

VOL.6 S$16.00
ISSN 2315-4284



CONTENTS

06

10

India needs three key reforms: changing the size distribution of firms, revising labour laws, and enforcing contractual agreements.

- Dr K V Subramanian, Chief Economic Advisor, Government of India

Asian companies need to leverage their potential for growth, inclusivity and sustainability.

- Havovi Joshi, Editor-in-Chief, Asian Management Insights

INDUSTRY WATCH

THE ENTREPRENEUR'S CORNER

CASE IN POINT

EXECUTIVE BRIEF

A WALK THROUGH ASIA

PARTING SHOT

ASIAN MANAGEMENT INSIGHTS

Asian Management Insights (ISSN 2315-4284) is published biannually at a recommended retail price of S$16 by the Centre for Management Practice, Singapore Management University, 81 Victoria Street, Singapore 188065.

We welcome comments and letters to the editor, which should be sent with the writer's name, address, and phone number via email to editorami@smu.edu.sg. Letters may be edited for length and clarity, and may be published in any medium and at the Editor's discretion. All letters become the property of Asian Management Insights and will not be returned.

Submissions: We encourage submissions. Proposals for articles should be addressed to editorami@smu.edu.sg. Unsolicited manuscripts will be returned only if accompanied by a self-addressed stamped envelope.

Subscriptions: Please email enquiry to subscriptionsami@smu.edu.sg

For further information, to advertise or request reprints, please contact: enquiryami@smu.edu.sg

FROM THE EDITOR

Redefining corporate strategies and functions

Traditional corporate planning—marked by a march towards a series of deliverables, detailed spreadsheets that project costs and revenue into the future, and review meetings according to an annual calendar—is not enough to succeed in today's business environment. Ken Favaro, Senior Partner at Booz & Company, warned leaders of the common trap of confusing vision, mission, purpose, plans or goals for the real work of strategy. He explained that if these five are the cart and strategy is the horse, leaders who put the cart ahead of the horse often end up with no horse at all.

The importance of strategy, as opposed to tactical planning, holds true for countries as much as companies. The importance of the *right* investment, whether real or financial, resonated in our executive interview with Dr. K V Subramanian, Chief Economic Advisor to the Government of India. While optimistic about the Indian economy, he is not complacent, and emphasises the importance of higher investment rates, good quality loans, and structural reforms for boosting India's economic growth.

Technology is becoming a key enabler and an integral part of corporate strategy. Asian innovation thought leaders Suraya Sulaiman and Azim Pawanchik discuss how the digitisation of innovation management allows organisations to spend less time managing innovation and more time on things that really matter, like uncovering insights and opportunities, working on prototypes and pilots, and creating value for customers and the company.

Building such a digital culture and shaping the cultural transformation in the 'digital age' will not be easy for large organisations, as Katharina Lange, Flocy Joseph and Markus Karner point out. They believe that leaders will have to strike a balance between speed and thoroughness, the old and the young, centralisation and decentralisation, as well as technology and the human touch. Discussing change, Lalit Jagtiani contends that change management can be successful by winning over the support of staff and aligning team members who are driven by different professional agendas.

Meanwhile, Charles Chen Yidan, co-founder of Tencent and founder of the Yidan Prize Foundation, reflects on how his entrepreneurial journey has brought him back to focusing on the basics. In his view, education and innovation are not only the engines of economic growth in an increasingly knowledge-based global economy, but they also lead us to the solutions of the crises we face today. At an individual level, it is through learning that we are able to move beyond our personal boundaries.

Still on the topic of human resources, Chandrasekhar Sripada redefines hiring practices through inclusivity, as opposed to diversity. Diversity, he says, is the mix, and inclusion is getting the mix to work well together. We may not be lacking talent as much as we fear, and Sripada shows us how to learn to detect, discern and develop untapped talent.

Philip Zerrillo shares with us his observation of infrastructure and its effects on society as he travels around Southeast Asia. While the urgency to build and improve infrastructure is always imminent, investing in it is a high stakes game for emerging countries. It is essential that the investments these countries make are well-prioritised to maximise the economic winds that fill their sails.

As roles reverse and Asian businesses enter Western markets today, Martin Roll says that the one crucial factor that would differentiate winning businesses from the others is the equity of a strong brand. He shows us how to compete globally, sustain competitiveness, and master customer loyalty by building customer-centric brands.

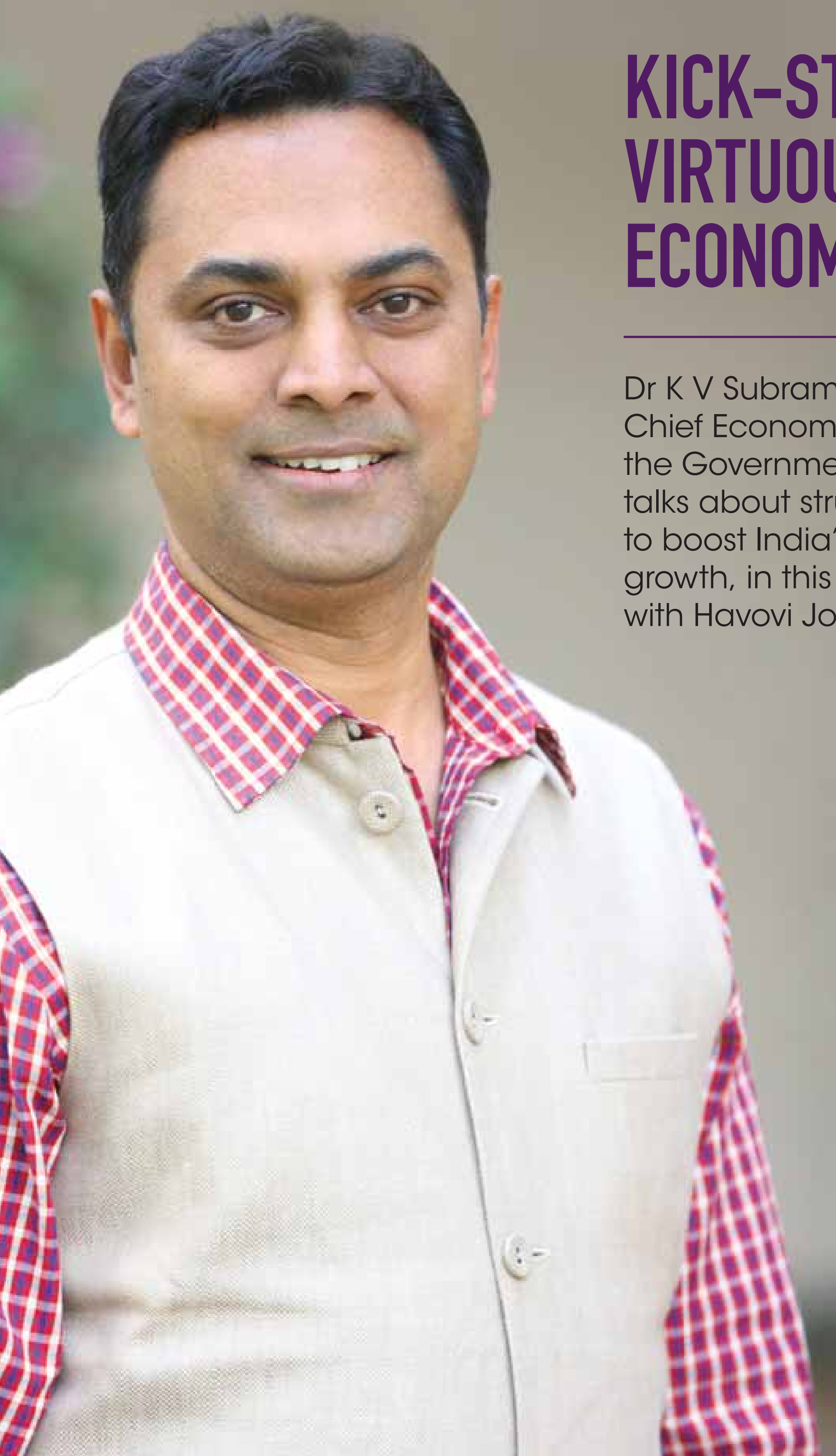
JP Kuehlwein helps us rethink brand building through the concept of platform brand. Their key tenets—participation, personalisation and shared purpose—lay the foundation for transforming brands from just being a producer of goods to a platform for relationship-building and co-creation. The more a brand is able to engage its users, the more powerful, dynamic and relevant it can become. Kuehlwein also enlightens us about the inbuilt potential and perils of these platforms.

Our case study for this issue focuses on Iuiga, a lifestyle retailer that has a curated range of high quality products at transparent, affordable prices, effectively leveraging the original design manufacturers model and an online retail platform.

As the memory of the 2008 financial crash fades, Vijay Fafat offers a few cautionary thoughts on why we tend to overshoot in our optimism, and why even genius comes to grief in the face of capricious, mercurial capital markets. These words of advice are even more relevant in the context of the current FinTech revolution, as Rene Michau and Danielle Szetho say that it remains to be seen how the wealth of knowledge on new technologies and business models in the area of finance can effectively and efficiently drive change and seize new opportunities being created in the vast and fast-paced world of digital and crypto-assets.

The future may be uncertain, but magic happens only when we step out of our comfort zones. Companies in Asia will need to take that leap of faith to realise the potential of growth, inclusivity, sustainability and market disruption.

DR HAVOVI JOSHI
Editor-in-Chief
Asian Management Insights
havovijoshi@smu.edu.sg



KICK-STARTING THE VIRTUOUS CYCLE OF ECONOMIC GROWTH

Dr K V Subramanian, Chief Economic Advisor to the Government of India, talks about structural reforms to boost India's economic growth, in this interview with Havovi Joshi.

What are your thoughts on the Indian economy today?

Let's go back to 2004 to get a sense of why we are where we are today. Between 2004 and 2009, we took growth for granted. We focused a lot on distribution, without really enhancing the efficiency of distribution. The bellwether of that period was the loan debt waiver that was announced in the 2008 budget, which was by far the biggest ever for any emerging economy in dollar terms and as a percentage of the country's GDP. Then, 2009 to 2014 was a period of huge misallocation of resources that was evidenced by scams and scandals, such as the 2G or coal scam, each of which ran into billions of dollars. From an economist's perspective, such events meant that scarce resources, which should have been allocated to those who are the most efficient at managing it, were allocated instead to others who may not be as productive. As a result, the productive capacity of the economy suffered.

Now this is a relatively benign view. The origins of banking stress, which we've been seeing for a long time, also started around 2009-10. The banks started lending like there was no tomorrow. While the quantity of credit went up, the quality was oftentimes quite suspect. The balance sheets of corporates took off–they were highly leveraged. Not only did they leverage a lot, they did so with extremely low equity. Very often, debt was taken on the parent company's balance sheet and put as equity in the subsidiary's balance sheet, or vice versa. As a result, the quantity of equity in the system was very small. There was also irrational exuberance, where people assumed that the higher-than-eight percent growth rates would continue to prevail. The 2008 financial crisis, combined with excessive leverage, the lack of sufficient equity in the system, and lending to low-quality projects, placed a lot of stress on the balance sheets of the borrowers which in turn affected the balance sheets of the banks.

My view is that when a banking sector experiences stress, there are only two ways through which an economy can try to get out of it. One is to grow out of the problem, where you basically achieve much higher growth rates for reasons unrelated to the banking sector. Just as a higher tide lifts all boats, banks grow out of the problem when growth picks up. The second way is by completely burning the badly affected part of a forest so that the rest of the area does not get affected. In other words, intervene early rather than pretend that the problem does not exist. As growth slowed down and the interventions came later, the bad debt problem built up. And because we did not have a functioning bankruptcy law, there was a culture of building bad credit. We also had issues relating to the incentive structure for public sector banks and even private sector banks. And the banks continued to lend poorly. So when the investigating agencies moved in to look into the wilful defaulters and the frauds, the bankers stopped giving credit. When this happened, the Non-Bank Financial Companies (NBFCs) moved into that space.

Now the asset liability structure of NBFCs is skewed towards assets of shorter maturities and liabilities of longer maturities, leading to an asset-liability mismatch. Moreover, they too ended up lending a lot without paying much attention to the quality of credit. At the same time, the real estate sector was going through a correction due to the Real Estate Regulation Act, which affected the NBFCs because a lot of them lent to the housing sector. In some cases, the Supreme Court came in and invalidated all the licences that were given, for instance, for coal blocks. As a result, all the power projects that were being built based on the coal block allocation delivered non-performing assets (NPAs). So the sector ended up with a significant number of NPAs.

The banking sector today is the result of these developments that have also affected liquidity in the real sector. So a lot of the concern stems from the financial sector, which has shown up in the real sector. Between 2014 and 2019, we invested time in identifying these problems and tried to address them through initiatives such as the bankruptcy court and the Reserve Bank of India's Asset Quality Review.

What are some of the key reforms that you would recommend to boost economic growth?

Growth has stalled because productivity is low. The 2019 Economic Survey of India revealed the importance of investment for the virtuous cycle of economic growth–it starts with investment that enhances productivity. Improvements in productivity show up as increases in the wages of people because labour productivity gets enhanced. Improvement in productivity is also important for growing exports because we have to compete in global markets. Both of them create jobs and increase the purchasing power of people. This creates demand, and firms invest more when they anticipate an increase in demand. That's how this virtuous cycle works.

The virtuous cycle of growth slowed down because of the problems in the financial sector and corporates that I spoke about earlier. It is not moving fast enough to produce the over 7 percent growth rate that we need. In order to get back to high growth rates, the focus has to be on investment again, and good quality investment. If you look at it in terms of aggregate data, the investment rate (what economists call the gross fixed capital formation as a ratio to GDP) was about 40 percent in 2008, but it came down to 28 percent in 2018. It has started going up, albeit slowly. To become a US$5 trillion economy, the main thing that we need to focus on in the medium to long run is to grow the rate of investment.

Structural reforms are required to increase the investment rate; implementing the Goods and Services Tax and the enactment of the bankruptcy court have been initial steps taken in this direction. If we compare the reforms to the proverbial nine pins, the first pin is a cut in the tax rate because that is really critical for investments to flow into the economy. In my view, the recent 15-percent tax rate cut for new investments is a good thing, as we are now as competitive as our peers. In terms of the size of the economy, we are, of course, significantly larger.

At the macro level, there are three key reforms that we need to work on: changing the size distribution of firms, revising labour laws, and facilitating the enforcement of contractual agreements.

The first is the size distribution of firms in India, which is a real challenge as it is much skewed on the side of small firms. Basic economic principles tell us that economies of scale is one of the key drivers of productivity. However, if you look at the Indian manufacturing sector for instance, 85 percent of firms are small with less than a hundred employees. These firms account for less than 25 percent of total employment. If you look at it in terms of their contribution to productivity, they contribute less than 13 percent. So we have 85 percent of Indian firms accounting for less than a quarter of the employment and less than a sixth of the value added in the economy. We need to incentivise our small firms to grow. Why has this happened? Over the seven decades since independence, we have actually been incentivising firms to remain small. A 40-year-old firm continues to be small in size because it receives the incentives and benefits of a small firm. So what you have is a 40-year-old adult that has not grown in size but continues to take away resources that should be directed to a five-year-old or an infant who is trying to find their feet. That is one of the major issues that we need to address.

Secondly, our current labour laws impose significant restrictions on larger firms. For instance, the Industrial Disputes Act, which governs decisions on hiring, is applicable to firms that have more than 100 employees. As a result, many firms are able to avoid coming under its jurisdiction by remaining small. So we need to relax the labour laws.

The third thing that we need to do is to improve the ease of contractual enforcement. While we have improved significantly on the ease of doing business, we are still ranked 163rd out of 192 countries in terms of the ease of contractual enforcement, placing us within the bottom 15 percent. Of the thousands of cases that remain stuck in our courts, close to 90 percent are in the lower courts, which are basically the district and subordinate courts. In the recent Economic Survey of India, we've pointed out that the first thing we need to do is to clear all of them. That means that there will be no piling up of any further cases, or that the number of cases that are coming in should equal the number of cases that are disposed of. For this to happen, we need to have more judges. We have laid out a plan to reduce this backlog of pending court cases in the next five years through improvement in productivity that would come about through a combination of possibly reducing the vacation period of judges, increasing the number of hours they work, and implementing some technological improvements. The combination of these three is expected to deliver a 25-percent improvement in productivity, which in fact is not very ambitious. With these measures, we believe the backlog can be completely cleared in the next five years.

What are your thoughts on the banking sector, and the initiatives taken to reduce the financial stress on the banks?

Capital has now been provided to these banks and the focus now is on giving them appropriate incentives to improve the quality of loan screening. There are also concerns about the quality of lending by private banks. Overall, the use of data and analytics in lending decisions is still not technically advanced in the Indian banking sector. All over the world, banks are focusing on using technology to make better lending decisions. This is something that India needs to focus on as well.

We see some consolidation already taking place in the public sector banks, and this will continue. This type of consolidation is already happening in other parts of the world, and is a trend that India has also followed. It is something that is required as there is a minimum size threshold to ensure that investments in technology can be made.

Corporate governance in India still appears rather weak. What are your views on improving governance?

There are a few areas in corporate governance that need improvement. The first relates to the oversight that is provided by auditors. The second area that is quite critical is the oversight provided by company boards. The third is enabling the market for corporate control. When a company is not doing well, having a takeover market enables the changing of hands. And the fear of losing control tends to make managements keep their practices in check. Therefore, developing a market for corporate control is extremely critical when we talk about governance.

How can the government address the issue of India's rising infrastructure deficit?

The government has announced INR100 trillion (US$1.4 trillion) of infrastructure spending in the next five years, primarily to address the deficit that we are facing on infrastructure. We are taking steps to enhance the flow of debt funding into Indian markets by listing some of the bonds in the index funds and incentivising foreign portfolio investors to participate in the debt market.

India is a large economy with high growth rates, so the returns for investors are quite significant. And that is important to enable more capital, especially debt capital, to flow in. We need to create an environment in which debt and pension funds, insurance companies, sovereign wealth funds, etc. are encouraged to invest in and fund our projects.

Is inflation a concern for India?

No. From 2014 to 2019, the average rate of inflation was 4 percent. To a large extent, this is because food inflation has been under control. Looking at the overall trend, food inflation has been quite low, which is a good thing. Today, if I look at India's macro performance over the last five to six years, I think the one aspect that stands out most is low inflation. That's been a real success story.

How is India navigating around the US-China trade dispute? Can India benefit in any way?

Firstly, India has a very small share of global trade—less than 2 percent. If we were to increase our share say, from 2 to even 4 percent, we can benefit a lot. In fact, after the recent tax rate cut, I think there may be significant opportunities for us to get into sectors that are really critical. We can then identify the opportunities that this serious conflict between U.S. and China presents for India.

As I mentioned earlier, if you want to compete in the global market, you have to be more productive. Therefore, I would continue emphasising productivity improvements, especially changing the size distribution of firms and enabling growth in the number of mid-sized firms. In the global context, a large firm would be one that has tens of thousands of employees. A mid-sized firm, I would say, is anywhere between 100 and 2,000 employees, and we don't even have enough of those. These are the firms that create jobs and also really contribute to the export markets.

Looking ahead, are you optimistic about India's economic growth?

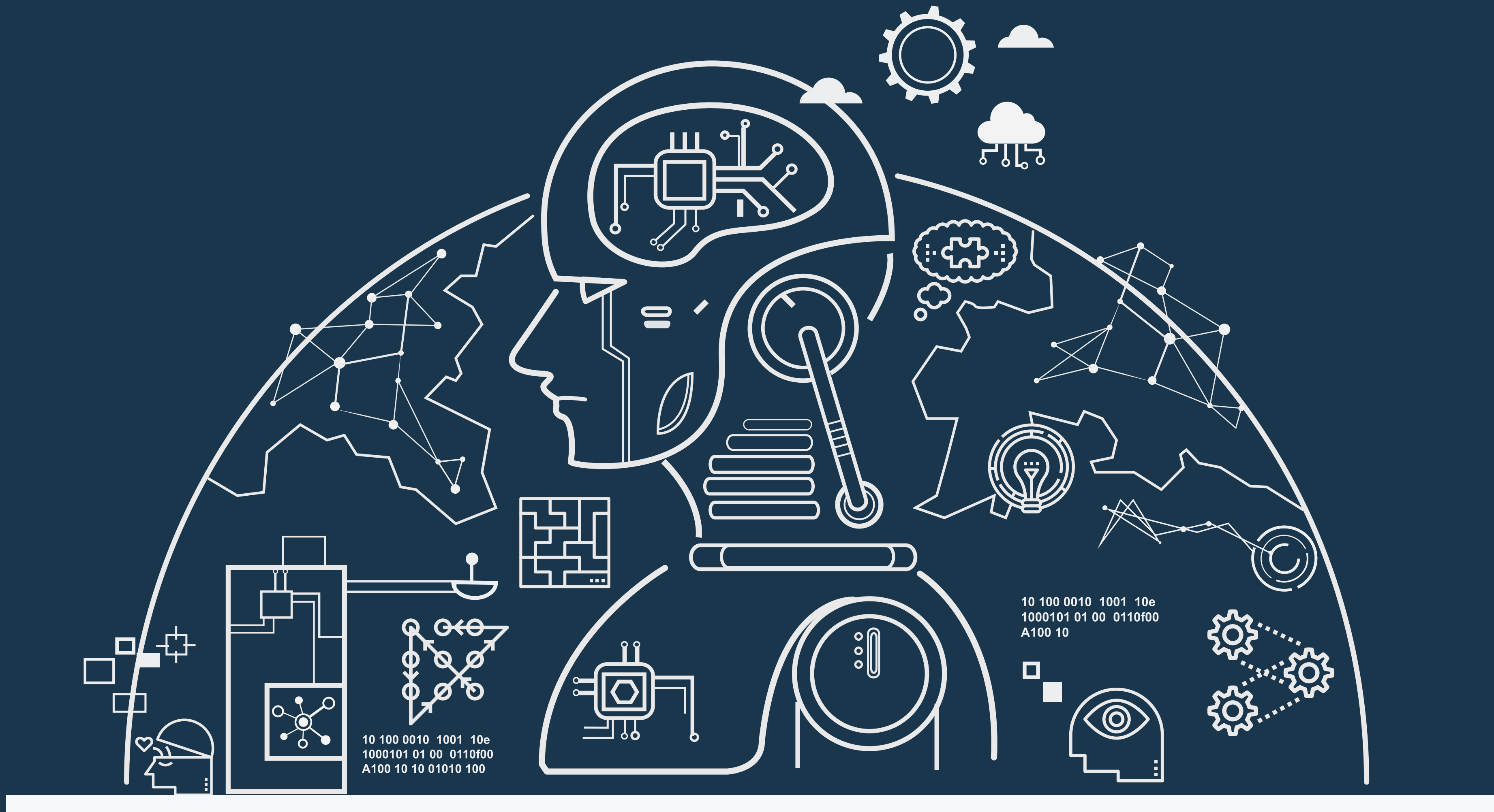
Yes. There are many opportunities for India to grow significantly. If we focus on just two or three of the key structural reforms, especially those for the factor markets, I think we can easily achieve an 8 percent growth rate.

In a world economy that is struggling to grow at 2.5 to 3 percent, opportunities for foreign investors in a large economy like India that is growing at about 7 percent are significant. So I certainly remain optimistic about the growth prospects.

I would say that, sometimes, a slowdown or some challenge serves as an eye-opener and gives us the opportunity to address some of those issues that need fixing. I look at this current slowdown as an opportunity to make the necessary changes that will propel us to grow at a very high rate in the future.

Dr K V Subramanian
is the Chief Economic Advisor to the Government of India

Havovi Joshi
is the editor-in-chief of Asian Management Insights and the Director of the Centre for Management Practice, Singapore Management University



CORPORATE INNOVATION

Digitising innovation management.

By Suraya Sulaiman and Azim Pawanchik

News on digital disruption, digital economy, platform economy, and digital transformation is ubiquitous in the media today, much more than ever before. There is plenty of hype and debate on how Blockchain technologies, algorithms, Artificial Intelligence (AI), and the Internet of things (IOT) would transform industries and create new growth opportunities. In Southeast Asia, the digital wave is dominated by technology start-ups such as Lazada, Traveloka, Tokopedia, Grab, and Gojek, where the latter two have morphed from ride-hailing companies to 'super apps' that offer everything from food, transport, delivery, payment, and insurance services in a single experience.[1] These start-ups have provided income opportunities for many individuals and businesses and have delivered value to millions of customers. They were able to come this far by fully embracing the digital and platform economy, coupled with their customers' readiness and ecosystem infrastructure and support. They derive their competitive edge from customer data, algorithms, network of partners, brand, and–at the core–innovation. The fact that business media brand Fast Company crowned Grab as the second most innovative company in the world in 2019 is testament to this.[2]

While much of the spotlight appears to be on the arena of start-ups and purely digital companies, many large corporates and traditional industries are also harnessing the benefits of digital operating models, where digital transformation appears to be eclipsing innovation as a corporate agenda. Many companies have created digital teams, hired Chief Digital Officers, developed digital labs, and initiated hackathons to explore new technologies, businesses, or operating models. The latest Altimeter report also showed that digital transformation is becoming more pervasive, evolving beyond IT and becoming an enterprise-wide movement.[3]

This journey, however, does not appear to be the same for all industries. Consulting firm Capgemini reported that the insurance and utilities industries are digital conservatives, due to a strong mix of low digital governance capabilities, regulatory concerns, and a risk-averse culture.[4] At the other end of the spectrum lie the retail and high technology industries that are digitally mature and have revolutionised customer experiences and relationships as they leverage on data, analytics, and mobile accessibility.

‘Going digital’ and adopting the same operating model and approach as start-ups may seem extremely attractive for many organisations as the success of many tech start-ups are glorified. However, corporates embarking on this journey should proceed with caution as the goals, operating models, mindsets, investment levels, and expectations on returns can be drastically different. Grab and Gojek, for instance, had raised a total of US$3 billion and US$1.5 billion respectively, whilst many other smaller start-ups could easily attain funding of between US$10 million and US$200 million.[5] This pales in comparison with the funding allocated to internal innovation projects of many corporates.

Compounding this, not all technologies have reached the level of maturity that can provide a clear long-term value proposition. Singapore’s DBS Bank, recognised as the world’s best bank for its digital innovation and transformation efforts, has recently rolled out Digibank, a mobile-only bank in India, which offers its services entirely via digital channels. It serves its customers via a conversational AI platform, which handles 82 percent of customer requests and helps 1.8 million customers manage money, track expenses, analyse spending, and improve overall financial literacy.[6] On the other hand, AI in the autonomous vehicle arena of self-driving cars and trucks is still under development as the technology and ecosystem maturity are not aligned with the hype generated so far.

Today, most AI systems tend to augment instead of automate. For example, while intelligent diagnostic systems can read x-ray images, radiologists are still required to define the imaging to be performed, and correlate imaging results with symptoms, previous medical records, and other test results.[7] This opens up vast new opportunities for collaborations between humans and machines. There will be a need for human-machine symbiosis so that this new generation of intelligent machines can be leveraged to augment the innate remarkable capabilities of humans in ways that enhance business and organisational capabilities for both adaptation and productivity.[8]

As much as it is important to implement technologies to stay ahead of the game, technological relevancy and execution capability must be carefully considered. Digital transformation efforts by corporates need to start with a clear purpose and an embedded strategic agenda to obtain the full-fledged competitive advantage. Therefore, digital transformation efforts should not be viewed as an endeavour on their own; they should be integrated with the corporate innovation agenda.

Impediments in corporate innovation

There are many approaches and techniques to innovation, such as design thinking, lean start-up, business model canvas, and stage gate. Regardless of the approach, every innovation effort should focus on the following four key outcomes:

1. Uncovering and determining what and where to innovate
2. Generating fresh ideas or solutions that can be prototyped and piloted
3. Providing resources to convert prototypes and pilots into full-scale solutions
4. Ensuring there is adoption of new solutions that simultaneously generate value for end-users and the company

> Digital transformation efforts should not be viewed as an endeavour on their own; they should be integrated with the corporate innovation agenda.

Generating these outcomes in large organisations is different from doing it in start-ups. This is because a range of functions and stakeholders need to be involved at different stages of the innovation process to ensure alignment with the company’s strategic direction and risk appetite. Secondly, for almost all large organisations, innovation is not a full-time focus but one of many competing priorities for employees. A recent survey highlighted key obstacles for innovation, which included lack of trust and empowerment, and lack of clear direction from management.[9] These barriers stem from human factors relating to bureaucracy, silos and cognitive biases.

Bureaucracy refers to the complex and multi-layered systems and processes within an organisation. While these systems and procedures are designed to maintain uniformity and control within an organisation, it fuels power distance, which ultimately leads to an authority gap and delays decision making. Asian countries like Malaysia, the Philippines, Indonesia, and Singapore show significant power distance as opposed to New Zealand, Denmark, and Norway.[10] An executive coach who works largely in Southeast Asia reported, “Senior-level people get no information, and believe that they have nothing to improve upon, and junior-level people do not bring ideas forward. It’s hard to innovate under these conditions.”[11] Moreover, management styles and deference to hierarchy remain deeply rooted in the cultural psyche of most Asian organisations. This leads to the loss of a trove of potential ideas from across the organisation.

Adding salt to this wound are business unit silos, which present themselves in conflicting agendas, limited leadership, lack of collaboration, and an enhanced overconfidence gap. In the face of digital transformation, organisational silos were rated as the biggest barrier, with 73 percent of votes from HR leaders, and 54 percent from IT leaders.[12]

Cognitive biases further compound the issue as individuals, unable to process all the information around them objectively, resort to mental shortcuts when making decisions. These biases occur unconsciously and may result in irrational and ineffective decision-

> Management styles and deference to hierarchy remain deeply rooted in the cultural psyche of most Asian organisations. This leads to the loss of a trove of potential ideas from across the organisation.

IMPEDIMENTS TO CORPORATE INNOVATION

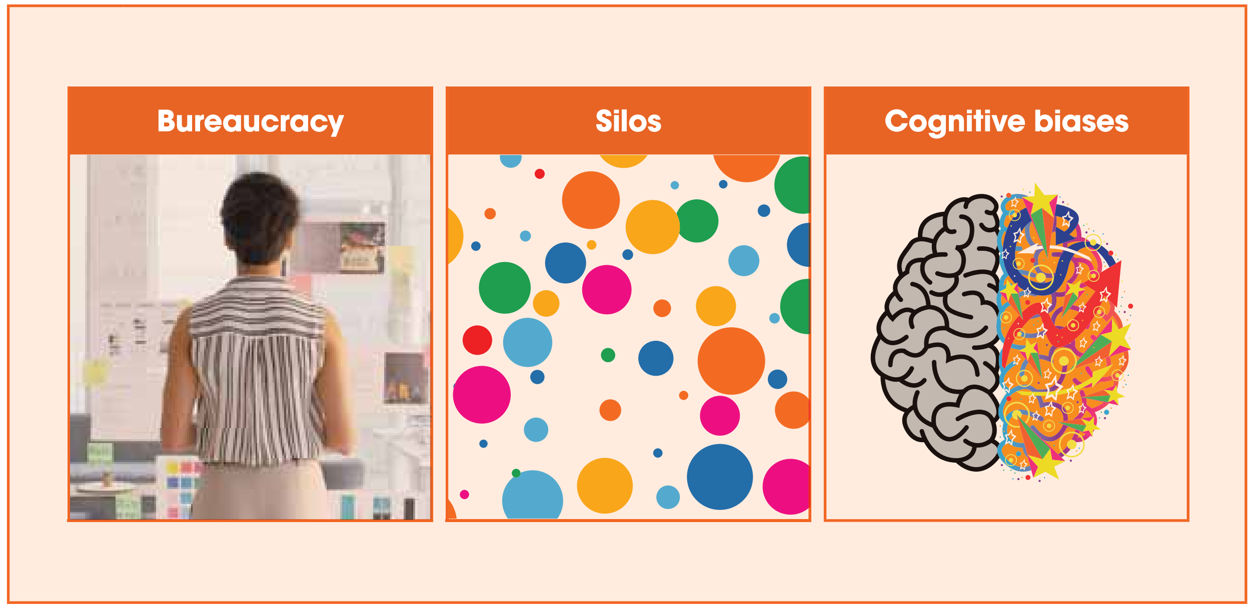


FIGURE 1

Source: Alpha Catalyst

making, as the brain, in an effort to instinctively reduce uncertainty, chooses a default 'safe and well-trodden path'. While there is a list of over 100 biases, there are three that most critically affect decision making for innovation projects: inertia, risk and loss aversion, and myopia (refer to Figure 2).[13]

KEY COGNITIVE BIASES

	Description	Potential impact on innovation projects
Inertia	– Inclined to rely on familiar assumptions with a reluctance to change even with supporting evidence	– Reluctance to look at how to capitalise on new trends, opportunities or new markets – Ignoring emerging competition
Risk and loss aversion	– Sensitive to negative events, would prefer to avoid losses than to achieve gains – Fearful of losses, so avoids them	– Companies do not invest in projects that have uncertain returns or success
Myopia	– Tendency to overweight the present or near future and underweight the distant future	– Unwilling to take risks on projects that are not directly applicable or relevant at the present time

FIGURE 2

While not everyone experiences biases in the same way or to the same extent, a combination of several biases may potentially disrupt optimal decision-making, and critical and creative thinking. They may also lead to one's reluctance to engage with innovation, which takes considerable time to adopt and convert. Companies need to adopt new methods to determine the areas to innovate in, or identify ideas to prototype or pilot, monitor and communicate project progress, and capture the value generated, in order to account for the challenges presented by bureaucracy, silos and cognitive biases.

Digitising innovation management

Rapidly changing markets and sectors call for new tools, attitudes, and mindsets towards innovation and transformation, so as to create a sustainable process and culture within organisations. While digital transformation initiatives are predominantly focused on customer experience or operational efficiency, there has not been much change in the way innovation itself is managed within organisations.

The convergence between digital transformation and innovation management thus presents an opportunity to revolutionise what is still largely managed in a traditional manner: through emails, instant messages, spreadsheets, presentations, post-its, and an endless schedule of meetings.

Digitising the innovation endeavour through the use of platforms provides for safe storage in the cloud, increased efficiency, reduced operational costs, and eases data analysis. Additionally, a digital platform provides scalability, structure, and repeatability for the innovation process. This allows organisations to carefully plan, manage, and monitor their innovation efforts in real time whilst tracking the process and aligning it with intended goals and objectives. More importantly, digital platforms can help overcome the many barriers to innovation stated earlier.

INTERNAL COLLABORATION

In an attempt to combat hierarchy, bureaucracy and silos, digital tools can convert the organisational chart from a linear to a network structure (refer to Figure 3). These digital platforms create inter-organisational networks that increase channels of communication among siloed functions, promote continuous collaboration on ideas among organisational layers, and democratise the ideation process. They allow ideas from every corner of the organisation to surface. When implemented correctly, the internal tools help organisations circumvent cultural barriers by offering equal airtime to employees regardless of rank. Employees also gain a new sense of ownership and motivation towards self-selected projects, increasing the likelihood of follow-through of ideas from the prototype to launch stages.

> Digitising the innovation endeavour through the use of platforms provides for safe storage in the cloud, increased efficiency, reduced operational costs, and eases data analysis. Additionally, a digital platform provides scalability, structure, and repeatability to the innovation process.

Digital platforms lend themselves to a heightened level of transparency and visibility, making delays in decision-making a thing of the past. Digital governance also addresses biases in decision-making; as transparency encourages more diligence and quality to action.

Magnus Karlsson, former Director of New Business Development & Innovation at Ericsson, expounds the virtues of internal collaboration in his report, 'Collaborative Idea Management'. While at Ericsson, he helped design IdeaBoxes, an internal innovation space devoid of hierarchy that facilitates collaboration on employee-generated ideas. The platform has allowed for the creation of over 60,000 ideas since its inception in 2008.[14] Karlsson explains that such innovation platforms allow companies to utilise the collective creativity of its employees, as well as ensure that the right ideas meet the company's innovation needs. Idea management thus becomes embedded within the innovation tools.

Another example of successful internal collaboration can be found at the Kuala Lumpur office of Nestlé, the multinational food and beverage company. In 2016, the company held its inaugural Innovation Awards, aimed at promoting idea generation amongst its employees. The results were momentous–6,000 participating employees generated 50,000 fresh ideas, which in turn translated into a 10 percent increase in sales revenue in that same year.[15]

The increased pace in all digital domains has resulted in a situation where innovation needs to be continuous, relentless, and fast. Collaboration has become essential to enabling this, and innovation platforms are able to create the ecosystem that allows continuous and collaborative innovation within organisations. Digitising innovation management then provides a powerful channel that leverages digital affordances while harnessing and enhancing the human potential.

FROM LINEAR TO NETWORK STRUCTURES

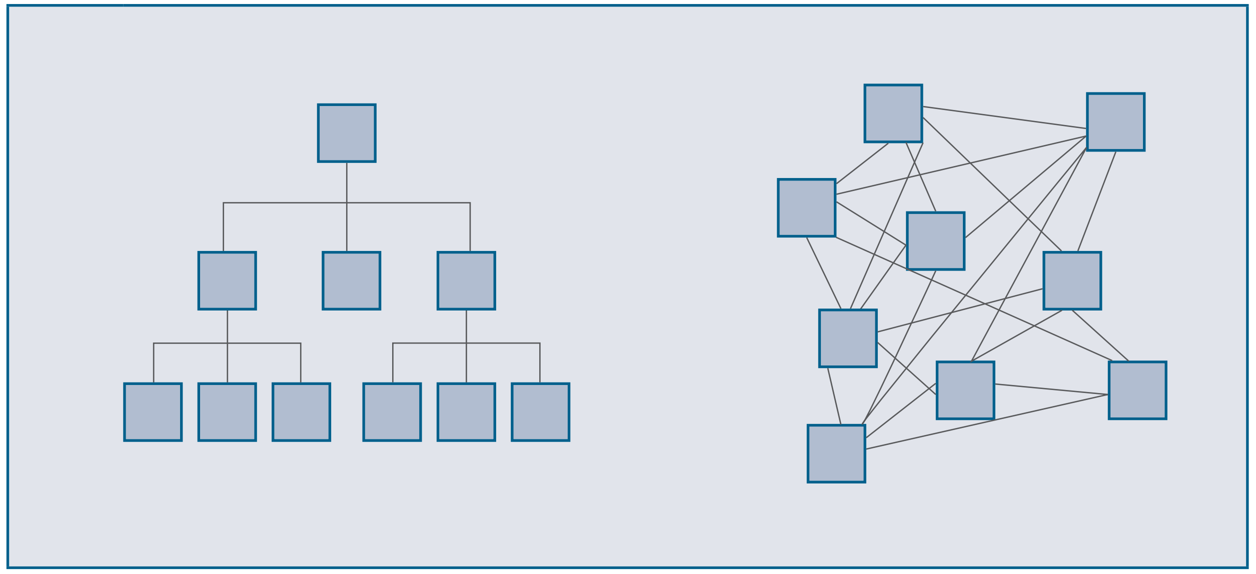


FIGURE 3

Source: Alpha Catalyst

EXTERNAL COLLABORATION

Building upon the idea of harnessing internal collective creativity, a similar approach can be undertaken by external stakeholders via co-creation or open innovation, allowing for collaboration with customers, suppliers, start-ups, and a wider network of partners. There are many approaches to how this can be done on a variable scale. Crowdsourcing harnesses the power of collective intelligence from external parties. For example, what do hazelnut macchiatos, little green splash sticks, and free Wi-Fi have in common? All three were ideas suggested by customers to Starbucks via its portal, My Starbucks Idea. The website gathered more than 150,000 ideas over five years since its launch, with over 2 million votes cast. My Starbucks Idea served three strategic goals for the coffee giant. First, it helped crowdsource innovation ideas for free. Second, it involved its customers much earlier in their journey with the brand. And finally, the platform's voting functionalities validated and tested the proposed ideas by customers in real time.

Crowdsourcing is not limited to simple consumer products or services, as attested by the Malaysian housing developer giant, Sime Darby Property Sdn Bhd. It launched an online platform, dto, with the goal of co-creating the end product with potential buyers. The platform allows potential customers to vote for their preferred development concept, design, and amenities of a future property, while simultaneously engaging, empowering, and educating potential buyers.

At a larger scale, Haier, a consumer electronic company from China, created a global network of 400,000 institutions and technical experts to collaborate on the company's R&D efforts via its platform, HOPE (Haier Open Partnership Ecosystem). When it needed help designing blades for a new air conditioner, the platform helped to solicit numerous proposals, all within the span of one week. Eventually, a total of 33 institutions contributed to the design and development of Haier's air conditioner, which became an instant hit after its launch in 2013.

Haier's openness to crowdsourcing was also seen from product feedback and the defrayment of development costs. When it developed Air Cube, a creative and novel combination of a humidifier and air purifier, more than 800,000 online 'fans' offered their feedback. Once the prototype was ready, it was made available on a popular crowdfunding site, through which the company garnered more than 7,500 customers. Haier used the feedback to further refine the Air Cube before its formal launch. The online product development process reduced the time from concept to market by 70 percent. Tan Lixia, Haier's Chief Financial Officer, commented on the company's open innovation processes, "The border of the company is not important. If you can help create value for users, it shouldn't matter whether you're an employee or not."[16]

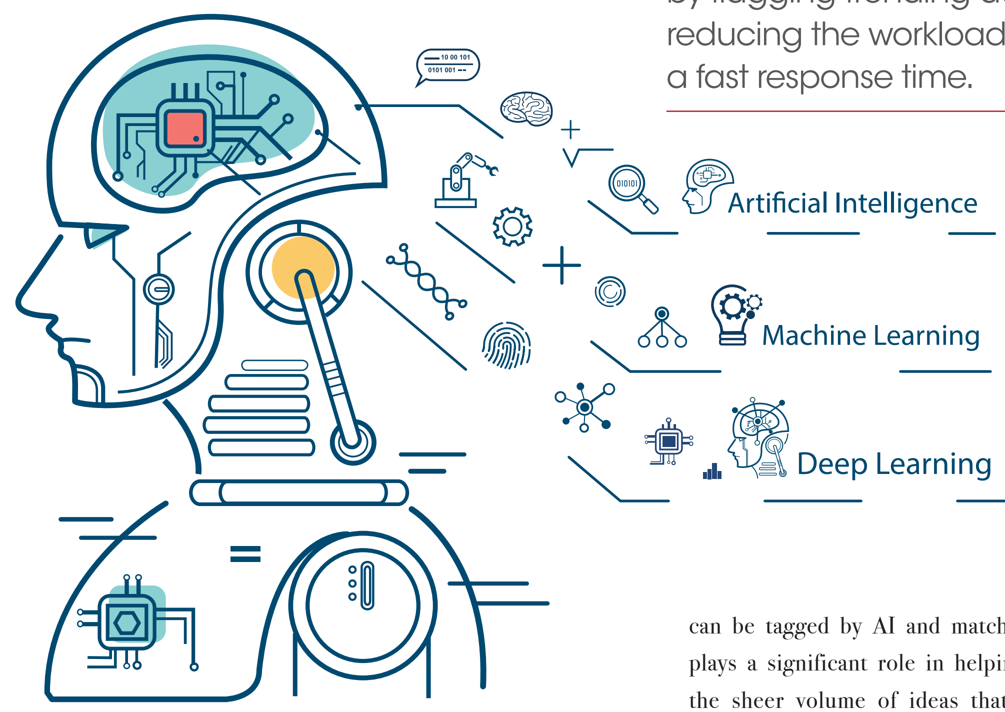
Companies, however, don't necessarily need their own digital platform to collaborate. There are several open innovation platforms that can be tapped upon globally. Singapore's Infocomm Media Development Authority, for example, launched the Open Innovation Platform in 2018, which acts as a neutral, government-driven intermediary that matches business challenges that problem owners face to a pool of problem solvers.[17] So far, 68 challenges have been hosted, with over 3,800 solvers on board. The prize money is determined by the problem owner, as the platform prioritises churning out proofs of concept and prototypes.

Another example of collaborative innovation is where a single organisation acts as an anchor and collaborates with other organisations to offer a truly unique product. This is illustrated quintessentially by the app launched by Prudential insurance company called Pulse. This first-of-its-kind app in Southeast Asia offers holistic health management to consumers, powered by AI and real-time information. Pulse integrates offerings from multiple providers—U.K.-based Babylon (symptom checker and health assessment) and Tictrac (personal wellness services), Malaysia's DoctorOnCall (online consultation) and AIME (dengue outbreak predictor), Singapore's MyDoc (video consultation with a doctor), and Indonesia's Halodoc (digital healthcare).[18] These are complemented by payment portals like Boost (in Malaysia) and OVO (in Indonesia). Pulse was created as an evolving platform where Prudential will be adding new partners, tools, and value-added services in phases.[19] Initially launched in Malaysia with plans to expand into 10 other markets in Asia, Pulse is a great example of how large companies can collaborate with start-ups to ride the fast-paced innovation scene. All partners bring their unique cutting-edge technology, which would have required extensive resources if developed in-house. Instead, Prudential, with its 15 million customers globally, acted as the platform on which others can interface to provide consumers with an exceptional product.

ALGORITHMS AND AI

The previous examples illustrate how companies can harvest the collective intelligence and assets of internal employees or external partners through the adoption of digital mechanisms. This data serves as a means to accelerate both internal collaboration and external innovation efforts. Altimeter's 2018 report highlights the numerous potential applications of AI within organisations, especially in analysing the areas of business intelligence, customer relationship management, market research, and web analytics in a more integrated manner.[20] AI is used as a predictive tool by the world's largest trend database, Trend Hunter, to refine insights on consumer behaviour. It can crunch and analyse three billion views and 300,000 ideas as individual data points, subsequently churning out automated reports and accurate forecasts for innovators to identify opportunities for innovation.

> AI plays a significant role in helping innovation teams manage the sheer volume of ideas that come through by flagging trending activities, thereby reducing the workload and ensuring a fast response time.



Applying the deeper extension of AI, Machine Learning is able to accelerate the process of generating and testing new molecules and materials. This aspect of AI, applied to the rigour of testing all molecular combinations possible, can expedite the process of finding new drugs or inventing new materials for clean technology. The result is a dramatic reduction in cost of R&D, while also shortening the time to market.

AI also takes on a noteworthy role in re-conceptualising how innovation is managed within organisations. Aggregated issues and opportunities generated by the internal crowd can be tagged by AI and matched to existing solutions. AI plays a significant role in helping innovation teams manage the sheer volume of ideas that come through by flagging trending activities, thereby reducing the workload and ensuring a quick response time. People analytics is another area where AI takes the lead. The technology can analyse strengths, interest and performance of individuals, which can subsequently be used as recommendations for them to be part of a team or as a technical evaluator of a project. AI partakes in recommending specific challenges to particular individuals, based on their area of expertise or past interest and actions. This reduces cognitive overload for the individual.

Next step: Creating the right mindset

As we move towards a digital business paradigm, machine and human decision-making increasingly coalesce. Blending technology-enabled insights with a thorough understanding of human judgement, reasoning, and choice will allow organisations to create and sustain a competitive edge in this increasingly complex world. The precursor for this is not the technology itself, but the current digital behaviour of employees and management that need to embrace the digital and platform economy. Many are used to engaging in digital experiences in their daily lives but it may not be that easy to apply the same to their work. In planning this journey, organisations should consider the following roadmap:

1. ASSESSING INNOVATION AND DIGITAL READINESS

It is important to begin with an understanding of the current level of readiness to enable the organisation to identify potential obstacles and advantage points to maximise efforts. The organisation should consider the strategy, process, capability and culture, and the funding to innovate. It also needs to assess its digital readiness from technological, digital literacy, and cultural perspectives.

2. DESIGNING A ROADMAP AND PROCESS

Communicating a clear approach and process would allow the digitisation process within the organisation to be deployed in a systematic manner. This includes providing guidelines for:

- Individual/leadership roles to drive adoption of the new innovation management approach
- Internal and external collaboration
- Data access, sharing, security, and privacy
- Experimenting and prototyping with new collaboration partners and digital tools
- Investment in digital tools, platforms, and capability building
- Expected impact or value

THE HYBRID MINDSET

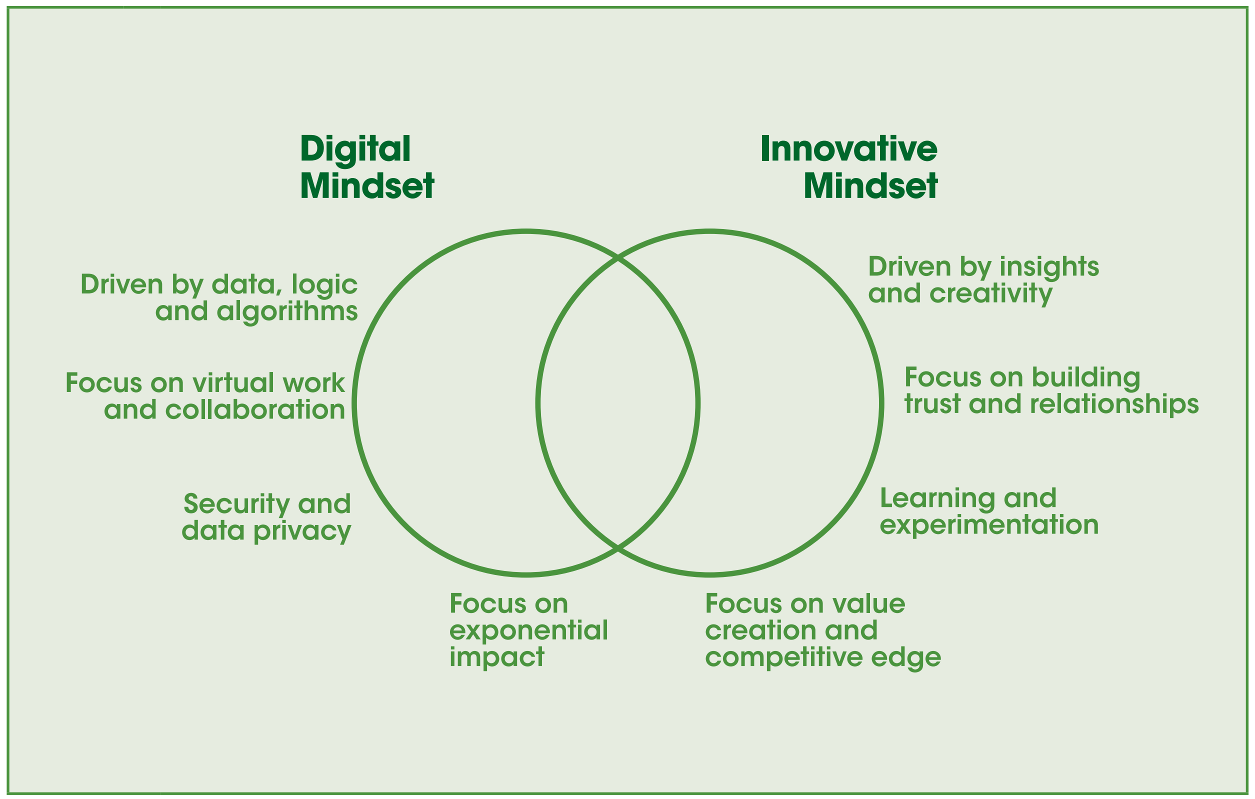


FIGURE 4 — *Source: Alpha Catalyst*

3. CREATING THE CAPABILITY AND MINDSET FOR DIGITAL AND INNOVATION

To digitise innovation management successfully, innovators need to have a digital and innovative mindset. This would include developing:

- The ability to generate and accept fresh ideas and insights
- Collaboration skills to build trust and relationships with a willingness to share information
- The ability to collaborate virtually on innovation projects
- The willingness to learn and experiment, and have guidelines to manage failure
- Technical collaboration skills, which include managing data safety and security, privacy policies and IP management
- Technical skills relating to data analytics and visualisation, as well as creating algorithms to manage and predict innovation

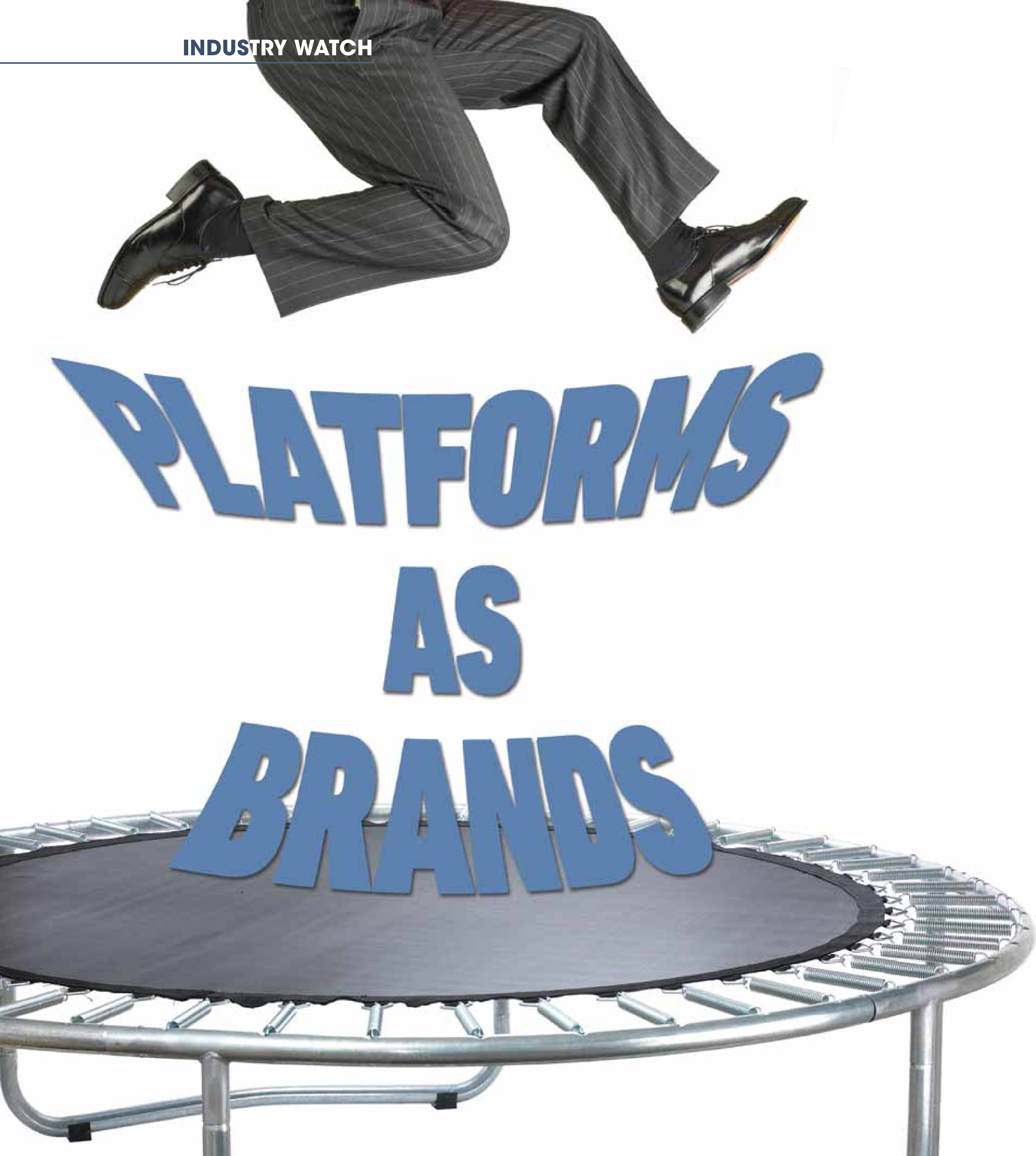
In conclusion, the digitisation of innovation management allows organisations to spend less time managing innovation and more time on things that really matter–like uncovering insights and opportunities, working on prototypes and pilots and most importantly, creating value for customers and the company.

Dr. Suraya Sulaiman
is the Innovation Provocateur at Alpha Catalyst

Azim Pawanchik
is the Innovation Strategist at Alpha Catalyst

References

[1] Clay Chandler, "Grab vs. Go-Jek: Inside Asia's Battle of the 'Super Apps'", Fortune, March 20, 2019.
[2] "The world's most innovative companies 2019", Fast Company.
[3] S. Etlinger, "AI in the Enterprise: Real Strategies for Artificial Intelligence", Altimeter, 2018.
[4] Capgemini Consulting, "The Digital Advantage: How digital leaders outperformed their peers in every industry", 201.
[5] Clay Chandler, "Grab vs. Go-Jek: Inside Asia's Battle of the 'Super Apps'", Fortune, March 20, 2019.
[6] Etlinger, "AI in the Enterprise: Real Strategies for Artificial Intelligence", Altimeter, 2018.
[7] S. Barro, S. and T. Davenport, "People and Machines: Partners in Innovation", MIT Sloan Management, 2019.
[8] S. Miller, "AI: Augmentation more so than Automation", Asian Management Insights, 2018.
[9] Azim Pawanchik, & Suraya Sulaiman, "Leading Innovation: Embedding innovation culture in Malaysia organizations", 2010.
[10] Kate Sweetman, "In Asia, power gets in the way", Harvard Business Review, April 10, 2012.
[11] Ibid.
[12] Tan Jee Yee, "Digital transformation in Malaysia seeing returns, but companies are still failing", Digital New Asia, July 22, 2019.
[13] J. Potts, J, "Can behavioural biases in choice under novelty explain innovation failures?" Prometheus (UK) 28(2), 133–148, 2010.
[14] Ben Paynter, "To Boost Internal Innovation, Ericsson Thinks Inside the Boxes", The Fast Company, April 16, 2013.
[15] Zulfadhli Zaki, "Nestle Malaysia in RM100 a share club, thanks to innovation", The Sun Daily, January 14, 2018.
[16] G. Hamel and M. Zanini, "The End of Bureaucracy: How a Chinese appliance maker is reinventing management for the digital age", Harvard Business Review, 96(6), 2018.
[17] Nicky Lung, "Singapore rolls out Open Innovation Platform to support innovative solutions", OpenGov, May 23, 2018.
[18] Digital News Asia, "Prudential launches all-in-one AI-powered mobile app", August 13, 2019.
[19] Ibid.
[20] Altimeter, "AI in the Enterprise: Real Strategies for Artificial Intelligence", 2018.



PLATFORMS AS BRANDS

The inbuilt potential and perils.

By JP Kuehlwein

Consumers are getting used to the notion of businesses as platforms—think Uber, Didi, Airbnb, eBay, Alibaba, Twitter, Google Search, Facebook, or PayPal. They are among the biggest businesses in the world today and yet do not necessarily themselves produce, own, or sell a product or service. What they do instead is provide the platform for the products or services to be traded. In addition, they derive value from the accumulation of the intelligence associated with these exchanges. These platforms acquire huge amounts of data on everything from their customers' profiles and behaviours to their desires and thinking.

From a consumer perspective, these brands have become part of our everyday lives and we participate in these platforms while taking for granted the market revolution that is taking place. In reality, platforms are shaking up industries and disrupting markets. They grow exponentially, driven by 'network effects', which refer to the multiplier effect where more producers attract more consumers and vice versa. They spread out to become multi-sided markets and networks across adjacent categories.

From pipeline to brand platform

The shift from products and services to platforms manifests as a transformation from businesses driven by production economies to businesses driven by demand economies of scale. Let us go back to the beginning with the fast-moving consumer goods (FMCG) business model. Since World War II, the FMCG supply-driven model has reigned large. Under this model, we have a producer and their (ideally) proprietary pipeline that is all about generating units of a product or service, pushing these units into the marketplace, and then scaling up production.

To push people to buy their products, producers imbue their products with physical and emotional characteristics that are attractive to their target audience. These strategies to create a differentiated offering are often referred to as the 'brand platform'. The act of 'pushing' became more important as scaled production of consumer goods started to significantly outgrow demand in developed markets. The more producers can scale up their production volume, the lower their costs and the greater their profit margin, or ability to lower prices to defend their turf.

Platform brands, however, are an entirely new species.

From brand platform to platform brand

Platform brands, in most cases, do not actually own the assets that produce the goods or services. They might not even own the intellectual property to the product or the capital. In other words, they do not own the goods or services that are being sold under their brand. For example, Airbnb is now one of the biggest hospitality businesses in the world but it doesn't design or own a single hotel room, nor does it host guests, or deal with any of the associated services (like cleaning and security). All it does is provide the platform on which hosts and guests can find each other and execute the ensuing financial transactions. Platform brands are simply the connector of data and money flows. What platform companies do is provide the infrastructure and impose the rules under which the participants can operate.

On many platforms, a consumer might switch to become a producer and vice versa. For example, within Airbnb, you might be a producer in that you are a host. But when you travel, you become a consumer, in that you are now a guest. Similarly, when you do a search on Google, you are a consumer as you receive a service by way of obtaining information. Simultaneously, you are a co-creator on Google, because with each search, your data makes Google smarter about things and you help it produce better search results.

This last example illustrates another key distinction: Unlike the traditional brand platform, platform brands are not driven by supply but by participation. With every transaction, platform brands learn more about the drivers of supply and demand. The more people engage with a platform, the smarter it gets and the more relevant it becomes with better offerings and more demand. With every new participant, the Airbnb offering becomes richer for travellers and more lucrative to hosts, while with every search, Google searches get smarter.

Participation at the core

Platform brands are different in that the 'consumer' becomes a 'participant' who is involved in the creation of the product. We find that participation, coupled with the elements of personalisation and a shared purpose, can be commanding elements of a strong platform brand, if harnessed well.

PARTICIPATION

Platform brands can give people a stake, a voice. They can give them a sense of 'belonging'. Compare selling flour through supermarkets with that of offering cooking classes where people gather to experiment and learn how to use the flour—what a profound difference in customer experience! Passengers who have connected with a driver on a long-distance trip on the BlaBlaCar platform feel differently about the driver and the journey than commuters who merely hopped onto a scheduled bus. At Airbnb, the participatory and very personal experiences associated with 'social travelling' are summarised in 'Belong Anywhere'—expressing a shared purpose rather than just a simple tagline or slogan.

> With every transaction, platform brands learn more about the drivers of supply and demand. The more people engage with a platform, the smarter it gets and the more relevant it becomes with better offerings and more demand.

PERSONALISATION

Airbnb offers programmes and experiences that are becoming almost infinitely personal in terms of the possible choices. Airbnb hosts are proud owners of their style and they connect with potential guests based on shared interests and tastes. Similarly, the pet food brand Mars Petcare is transforming from a maker of dog and cat foods to a pet well-being platform where products like smart collars enable the provision of personalised (and increasingly predictive) health, entertainment, and nutrition services and products.[1]

PURPOSE

Platform brands can be differentiated by how their platform rules of participation reflect their set of beliefs, and by their purpose, which attracts some people more than others. They might have a meaning, a higher mission that goes beyond their products and services. For instance, the U.K.-based insurance company VitalityHealth's shared purpose is to nurture a long, healthy life of the insured/participant.

Co-creation through participation is a powerful force in the service and B2B area too, as office software Slack illustrates. Developed by Slack Technologies, the solution provides software tools and online services for team collaboration. What makes Slack different is that the company provides a platform that integrates external apps and software, and encourages independent developers to innovate and build upon the platform. The declared purpose is to create a work environment that is more efficient and pleasant. In order to encourage more to participate, Slack has created a fund to support the development of the best ideas.

That is what participation can do for you as a brand; it transforms brands from just being a producer of goods to a platform for relationship-building and co-creation. The more a brand is able to engage its users, the more dynamic, relevant and powerful it becomes in a virtuous cycle of growth.

How platform brands outperform

Platforms and networks are increasingly proving to be a formidable way of providing goods and services for what people need across industries.

To begin with, platforms are more diverse in their offerings. Airbnb can offer more differentiated rooms and more diverse experiences than any hospitality provider can. Second, platform brands are also more agile and faster than any centralised producer and provider can be. For instance, Amazon Marketplace can offer more products and pick up on trends faster than any other retailer. Third, platform brands have the power to create truly transformational businesses through the dynamics of the many networks of connections that they offer.

Take Vitality. Created by the insurance company Discovery in South Africa, the Vitality health programme allows Vitality members to earn Vitality Health points by getting active, eating well, and doing their health checks. Members enjoy a variety of rewards at each Vitality Health status level, and their status elevates as they get healthier. Besides South Africa, this programme is offered in the U.S., the U.K., France, Italy and Singapore. Vitality has a shared goal with health insurance partners of enhancing the health and protecting the lives of their members. So they work with members and partners, and reward members for staying healthy. The programme hands out Fitbit devices and Apple watches to keep their members healthy and exercising, and in return, members enjoy a reduction in premiums or a reward of their choice. Vitality's network embraces insurance companies, sportswear brands, supermarkets, Starbucks, gyms, supermarkets, pharmacies, airlines, Uber, and more. Their data shows that its members are healthier than the competition's because of this programme. And all of it is driven by embracing participation and by binding its partners and consumers to the platform through a shared common purpose. With the success of its network approach, Vitality is transforming the entire insurance business.

> Platform brands can give people a stake, a voice. They give users a sense of 'belonging'.

What do these structural differences mean for platforms as brands? Our first look suggests that platform brands have the potential to be strong brands. This is because participation and personalisation, together with a sense of belonging and a shared purpose, are also what we find to be principal drivers of the desirability and success of modern prestige and lifestyle brands. These brands—we call the strongest of them 'Ueber-Brands'—create a sense of belonging and personalise their offerings to be among the strongest, peerless and priceless (refer to Box 1).

UEBER-BRANDS

Seven key elements elevate a mere 'product' to an Ueber-Brand. They are:

01 **Mission Incomparable**
Ueber-Brands have a sense of purpose and a vision that goes beyond sales and making money. This will create meaning for, and a stronger bond with those who buy into this mission versus just buying a 'product'.

02 **Longing versus Belonging**
Ueber-Brands balance accessibility and 'togetherness' with classic elements of exclusivity and distance. This gives people a sense of belonging while making them long for more.

03 **Un-selling**
Ueber-Brands seduce; they don't sell. Ueber-Brands connect with their targets without seeming too eager or needy. Remember, people don't want to be sold to; they want to buy into something and get closer to the unobtainable.

04 **Myth-making**
Ueber-Brands tackle what logic and science cannot explain and guide people to a higher truth or social ideal.

05 **A Product to Behold!**
Ueber-Brands remain the centre of attention. They have a flagship product that is unique and substantial (thus superior) in manifesting their ideals and mission.

06 **Create 'Truth'**
Ueber-Brands 'live the dream' inside the organisation and project it on the outside to fans and followers through everything they say and do.

07 **Grow with Gravitas**
Ueber-Brands are masters in growing consistently over time, avoiding perceived over-saturation and with it, a loss of equity and pricing power. Think vertical and horizontal integration versus deep penetration.

BOX 1

Source: Wolfgang Schaefer and JP Kuehlwein (2015)

'Ueber-Brands' create a sense of belonging and personalise their offerings to be among the strongest, peerless and priceless.

A pioneering example of a traditional pipeline-packaged goods manufacturer investing substantially into becoming a platform is the aforementioned Mars Petcare, which has grown far beyond its core products. The company has invested US$14 billion since 2016 into several dozen businesses to form a network that has generated US$17 billion in sales. A substantial investment no doubt. Today the richly networked business has healthcare centres, a pet research unit, pet hospitals, a nutrition institute, and an invention studio that invests into new pet ideas. The company has created a programme called 'Kinship' through which it reaches out to start-ups and outside companies to join its network with their unique pet-related expertise and solutions. It is also networked with Better Cities for Pets, a campaign that sponsors ways to make cities more pet-friendly. The firm shares with city authorities and volunteers what it knows about pets.

Mars Petcare demonstrates what a network can bring to the party. Its entire network connects up: data from the nutrition institute informs the firm's pet food and pet hospitals, while data from the firm's pet research unit steers its healthcare centres. Mars Petcare consumers can participate on a personal level and subscribe to the world of Mars Petcare. Or they can choose to participate on a higher level to help make the city more pet-friendly, to help in DNA research, or help other pets be more healthy. Because of this network, Mars Petcare can almost know what your pet needs before you do. The potential to create one purposeful, participatory, personalised platform for pets and their guardians is truly a breakthrough. Mars Petcare could evolve into a truly formidable Ueber-Brand.

The possibilities are immense… but so are the barriers

Despite this potential to appeal, why aren't most platform brands dear to our hearts?

In fact, the contrary is true for many of the leading platforms. Many people have started to be antagonistic towards Google, Facebook, Uber, and Amazon because people realise they are becoming dependent on their services. It is partly because stakeholders are not rewarded with a just distribution of control, power, and money for their participation. Take Uber in the United States. While the platform gets most of the control, power, and profits, and the passengers gain some control and power, the drivers have little control and struggle to make a living.

Participation is a really strong force, but if it is not built on interdependency, there is the risk that consumers do not trust the brand and it backfires. Backlash happens when the benefits of participation and purpose are one-sided and the platforms do not serve all stakeholders equally and fairly. In many cases, there is no higher purpose to speak of, resulting in platforms that are no more than efficient product delivery machines that spy on you.

This is happening with many platform brands right now. People are upset with them for lapping up all their data. They do not get to decide what is being done with their data, nor participate in the value that is being created by it. Consumers and users claim these companies are tracking them through the iPhone, listening to them through Alexa, and harvest every email exchange for consumer intelligence—including the attachments. Any email you send, Google owns it, Google has analysed it, and Google has attributed it to you.

Unless there is interdependency and people have rights and responsibilities in the game and can truly participate, there is a danger of an Orwellian scenario developing with one omniscient power knowing everything and the powerless consumer owning nothing. To avoid such as dystopian scenario, or rather a popular or regulatory backlash, brands should embrace participation and harness its tremendous benefits. It is important to find out what forms of participation your target community is really keen on and wants to pursue, and this is no simple task.

The risk is high that somewhere en route to becoming a powerful, omniscient network, the brand begins to exploit the power of its network. John Deere, the American manufacturer of agricultural, construction, and forestry machinery, is leveraging technology in astonishing ways in the agricultural industry. It monitors the weather, tracks seed yields, captures the fertility of land parcels by the millimetre, and records the yield of each farmer, the machines used, and the maintenance of those machines. John Deere offers farmers a network that links up the weather forecast, the seed makers, the fertiliser makers, and more. With all the data provided by farmers, the network is able to offer farmers precise recommendations on everything–from soil, seeds and fertilisers to equipment–to optimise yield.

However, as the collector and owner of the data, it is up to John Deere whether it wants to share the data with the farmers who help populate it. Farmers have now become dependent on John Deere. The company can also detect faults and maintenance issues through its network of sensors and has been known to force farmers to only use its workshops for tractor repairs–to the point that the machine risks being remotely incapacitated by John Deere if it detects that the machine is being 'tampered' with by some other agent.[2]

If's and but's

Platform brands have inbuilt monopolistic tendencies that may potentially lead to backlash. Equally, network effects tend to lead to 'winner takes all' outcomes. And the 'always-on' connectivity can result in dependencies that many feel are addictive or invasive, or both. These potential risks are a call-out to governments to consider regulatory action. In some ways, platforms are no different from the mighty industrialists, the 'Robber Barons' of the industrial age, except that they leave the manufacturing to others.

We believe finding a shared purpose and ensuring a fairer distribution of the benefits arising from participation can go a long way in gaining support and 'de-commoditising' the offerings. Imagine if Uber drivers were given more means, i.e., margin, to increasingly personalise their services instead of hurrying from trip to trip to make ends meet. Airbnb is a pioneer in doing just that; it has so far been able to rally the support of both hosts and travellers against restrictive legislation in New York and other cities because they are sharing more fairly. Vitality and Mars Petcare may avoid backlash if the purpose behind their data gathering remains squarely focused on creating a positive payout in the form of improved health of participants.

The possibilities for platform brands that leverage the 3P's–participation, personalisation and purpose–to create a shared and equitable experience for customers are immense. In theory, platform brands could become beloved Ueber-Brands. They have inherent strengths when it comes to building the high engagement and affinity that consumers seek today. They have the participatory DNA that allows them to go beyond convenience and connectivity to offer meaningful experiences. It remains to be seen how many will see the light and take the leap.

JP Kuehlwein
is the Founder of Ueber-Brands and Adjunct Professor of Marketing at NYU Stern School of Business

References

1 Mars Petcare has over 85,000 Petcare Associates that are involved in every aspect of pet care from nutrition (through foods like Pedigree, Whiskas and Royal Canin) to high-quality medical care provided by Banfield Pet Hospitals, VCA and AniCura.

2 Kyle Wiens and Elizabeth Chamberlain, "John Deere Just Swindled Famers out of their Right to Repair", Wired, September 19, 2018; and Adam Minter, "U.S Farmers are being Bled by the Tractor Monopoly", Bloomberg, April 23, 2019.

Inclusive Hiring

Organisations need to learn how to recognise talent.

By Chandrasekhar Sripada

There is much talk today about a global talent shortage. While economists point to the bulging demographic dividend in Asian emerging markets, employers on the ground say they are facing acute talent shortages. According to ManpowerGroup's '2018 Talent Shortage Survey', the global talent shortage is at a 12-year high.[1] With technology evolving by the day, the crisis seems to be worsening–we cannot seem to find enough skilled electricians, mechanics and masons, not to speak of experts in artificial intelligence, machine learning, Internet of Things, and other such new-age skills.

Employers and youth alike are calling out for upskilling, reskilling and e-skilling, and governments are coming under pressure to reform the education systems to produce talent in large numbers to meet the burgeoning demand. While the plan to rapidly increase skill formation is the right policy initiative, can this be the panacea for the current talent shortage employers are facing? Or are we chasing a moving target?

Both academic theory and empirical evidence suggest that, while it is true that there is some shortage of talent globally, it is also true that there is a significant absence in recognising talent. I liken the global talent crisis to the musk deer paradox. The male musk deer is known (and poached) for the irresistible fragrance it emanates. The deer itself does not recognise where the sweet smell comes from and searches for it across jungles and mountains, not knowing that it is, in fact, within him. Similarly, societies and organisations have a lot of untapped talent but often lack the ability to detect, discern and develop it.

Diversity or inclusion?

Organisations often claim to take into account diversity and inclusion in their hiring practices without being fully aware of the nuanced difference between the two. Diversity is about recognising the differences we see in people–be it age, gender, ethnicity, culture, religion, disability, education or nationality–while providing an equal opportunity to work. Inclusion, on the other hand, goes deeper into respecting and valuing these differences, and tapping into the unique qualities, attributes and experiences that each individual brings to the organisation. While diversity asks that we be blind to differences, inclusion calls for full awareness with appreciation of an individual's distinctive traits. Diversity risks becoming tokenism, or degenerating to a quota-filling or a mere box-ticking exercise for the hiring company. Inclusion, on the other hand, creates a sense of empowerment and belonging among hires, qualities that help to build high-performing organisations with highly-motivated talent. In effect, diversity is the mix and inclusion is getting the mix to work well together.[2]

While it may seem obvious why companies should embrace inclusion, most are unable to engage in an inclusive hiring process due to personal and mindset biases, lack of agility in selection processes, lack of discernment for what soft qualifications and attributes are really required for a given job, and the inability to evaluate the competency levels of applicants. The differentiating questions that one needs to ask are: What is talent? Which talent is fit for task? Is the way we define and 'frame' our understanding of talent objective enough to include everyone who has some talent? Or are we suffering from unconscious biases, such as a preference for certain educational pedigrees or age groups?

People, people everywhere...

If hiring managers do not attempt to answer these tough questions, they risk getting trapped in biases and narrow, archaic procedures and static perspectives, whether they are searching for talent within or outside the organisation. Much like Procrustes, the bandit from Greek mythology who stretched or amputated the limbs of travellers to make them conform to the length of his bed, our HR executives today are creating Procrustean beds in their organisations to which they map and fit job applicants. For instance, very often talent within the organisation gets ignored due to a 'familiarity brings contempt' type of attitude. Leaders underestimate the value of continuity and cultural adaption that existing employees bring when they look at the novelty of external hiring. Ironically though, when external hires are considered, they are compared with the familiar bets within the company and are rejected on the assumption that they won't fit in! Such biases delay or deny access to talent both internally and externally.

Defining qualifications and attributes

If we take a futuristic view, we need to reimagine how we conceive and define talent needs. This starts with the education we are giving our youth today. Business schools the world over are reviewing whether standardised tests are useful in determining the real skills and talent that the world needs in the future. The graduate management admission test (GMAT), for instance, gauges analytical, writing, quantitative, verbal and reading skills—many of which can be replaced by artificial intelligence. In fact, our future business graduates would probably require greater skills related to judgement, critical thinking and empathy, which the current standardised tests do not take into account. If business schools continue to use these testing procedures to admit students, they will enrol cohorts adept at number crunching and quantitative analysis, skills that may no longer be required to be carried out by humans.

Just as education systems are preparing themselves to be skills-ready for the future, businesses need to do the same. Often, we are unable to tap into the wide diversity of talent because we have stereotypical views of what constitutes talent. When I headed the HR department of a large pharmaceutical company, the company had a shortage of lab analysts because we were unable to find candidates with a master's degree in pharmacy (MPharm), a requirement for the job. After assessing the situation, we questioned the need for the applicant to have an MPharm degree. Further research revealed that a Bachelor of Science (BSc) degree was adequate for the job. In fact, some exit interviews revealed that the MPharm degree was an over-qualification, which often led to frustration among employees and resulted in a high attrition rate. We widened our selection criteria to include BSc graduates and overnight, we had access to a much wider talent pool, and the hiring crunch was solved. The BSc hires needed a longer training time, but their subsequent performance was on par with MPharm graduates and their retention rate was much better.

Mis-selling the job

Companies feel they need to 'sell' jobs to candidates, and in the process end up over-describing or over-selling the job. This is often seen in the case of business graduates, who are hired for 'strategy' roles but end up in jobs that are transactional or operational in nature. Such situations lead to tension, lack of motivation and attrition, and hurt the reputation of the company as an employer.

A pharmaceutical company based in India that manufactures generic drugs was experiencing a very high, almost 40 percent, attrition rate of medical representatives, i.e., sales representatives who market and sell the company's drugs to doctors. The company observed that while a lot of people applied for the job, they soon realised (often within one or two months) that it wasn't the job they were looking for. Deeper introspection revealed that the issue was with the job description—the company was advertising it as a very attractive job when, in fact, it was quite the opposite. The job was similar to that of a door-to-door salesman, in which the medical representative would go from clinic to clinic and face long waits to see the doctor. After the wait, doctors would either cancel the appointment or give inadequate time to the medical representative to explain the product. As the medical representative's remuneration depended on the number of orders he/she was able to get, many left the job.

> While diversity asks that we be blind to differences, inclusion calls for full awareness with appreciation of an individual's distinctive traits.

To tackle this challenge, we created what we called a 'realistic job preview'. As the applicant pool for this job was very large, we set up a marquee-covered space outside our office, and, on a large screen, displayed a film titled, 'A day in the life of a medical representative'. The film provided a realistic representation of what the job entailed. Interestingly, about 20 percent of people who came to apply for the job dropped out after watching the film. So the applicant pool that remained was not only skilled, but also fully aware of what they were getting into. To that extent, the realistic job preview potentially helped to reduce attrition and was more inclusive, as now we could focus on those applicants who were really keen on the job.

Tapping into the 'invisible' talent pool

Inclusivity also means being able to tap into new talent pools that have, till now, been ignored due to fixed mindsets and biases, like refraining from hiring the boy from the village who may not be fluent in English but is an eager learner; the woman who can only work flexible hours but is most qualified for the job; or the retired man who has the energy and the experience to contribute to the organisation. Such profiles get excluded because they don't fit into our straitjacket definition of what constitutes a qualified applicant.

The responsibility falls on the lap of the HR manager to reach out to these 'invisible' talent pools. A pharmaceutical company was trying to promote the hiring of women in its sales division. Typically women shied away from sales jobs as they were considered demanding and required a lot of travel. For similar reasons, the HR unit also, by and large, did not consider women for these positions. At that time, the company was trying to diversify its client base by selling its pharmaceutical products to hospitals. While doctors' clinics were dispersed across the city and could be located in small streets and alleys, hospitals were typically located in prominent, easy-to-access areas. Also, hospitals had separate procurement departments and procedures for purchasing drugs, with clear processes and personnel dedicated to the function—which was much less daunting for a sales representative than trying to access doctors in their busy clinics. Through discussion, we realised that women may be willing to take up a sales representative position if they had to work only with hospitals.

After further probing, it was found that the purchasing department of the hospital generally met with medical representatives either in the mornings or in the afternoons. This added a part-time (morning or afternoon) angle to the job description. Rather than tapping into a new applicant pool, the company decided to contact former female employees who had left on maternity grounds, and offered them this job category. Interestingly, the job category was named 'SHE' or 'special hospital executive'.

The results were exceptional. It immediately raised the percentage of women in the company's sales force and enabled it to reach out to a very different talent pool, i.e. young mothers. The company spent less on the part-time positions, training costs were lower because it hired former employees, and attrition was reduced because the women had chosen this category with full knowledge of what the job entailed. Finally, it resulted in greater loyalty and work efficiency as these women became strong ambassadors for the company. The company was able to serve its business interests and contribute towards a social cause at the same time.

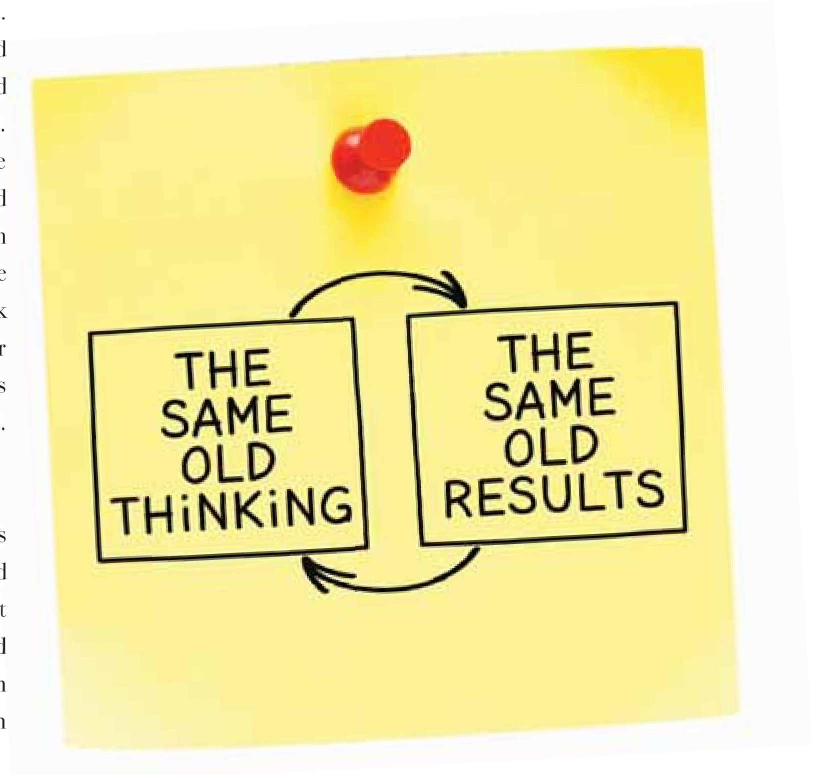
Taking a competency view

Warren Buffett once said, "If past history was all that is needed to play the game of money, the richest people would be librarians." This also applies to how we make talent decisions. We often confuse pedigree with performance and background with future potential. No one wants to bet on nascent talent within organisations. What is ironic though is that when it comes to pitching to investors and fundraising, bright youngsters from the very same backgrounds appear to be trusted and plead for greater tolerance for 'failure'—but when it comes to their turn as entrepreneurs, they have no patience with unproven talent.

The competency view becomes even more relevant in senior hiring, when companies are looking for work experience. Most HR departments prefer to hire applicants who have experience. For example, when hiring a professor, one can look for candidates who have been professors before. However, the belief that only a professor can be a professor is highly limiting. Instead, one can select the candidate on the basis of required competencies for the job, such as learning transfer, effective communication and classroom engagement, subject and industry knowledge, and research abilities. In the latter case, one is hiring on the basis of transferrable skills a candidate offers rather than on the basis of a rear-view mirror approach of having been a professor. So, does experience come first or does the job come first? The answer is neither—it is the competencies that come first. Competencies are transferable, experiences may not be.

Invest in people

We have held on too long to the 'resource' view of humans—something to be utilised and expended. Instead, we need to move quickly to the 'capital' view of people and understand that we must invest in people to make them more valuable over time. People can be grown (trained), expanded (developed) and harnessed (motivated) like no other capital—and yet we are stuck with a narrow 'accounting' view of people. Our answer to talent shortages will not come from wishing for a magical 'production' of talent from government-run skill factories. The answer instead lies within each company's leadership view of human capital. Identifying future skill needs, selecting raw talent, investing in proactive talent development and providing a level playing field are some of the things companies can do to address the alarming talent shortage.



> We often confuse pedigree with performance and background with future potential.

All this is not to say that we have an abundance of talent and it is easy to find the right talent. But we may not be lacking talent as much as we fear. What we lack is a talent for recognising talent. We need to redirect our attention to finding, honing and harnessing what we already have. A more inclusive approach to talent, accurately identifying job requirements and communicating it, and greater willingness to bet on nascent talent and tapping uncommon talent pools, can significantly mitigate the talent shortages for organisations the world over. This is the way to widen the global talent pool and win the war against shrinking or invisible talent.

Chandrasekhar Sripada
is the Practice Professor, Organisational Behaviour & Strategic Human Capital at the Indian School of Business

References
[1] ManpowerGroup, "2018 Talent Shortage Survey," June 2018.
[2] Global Diversity Practice, "What is Diversity & Inclusion?"

LEADERSHIP CAPABILITIES

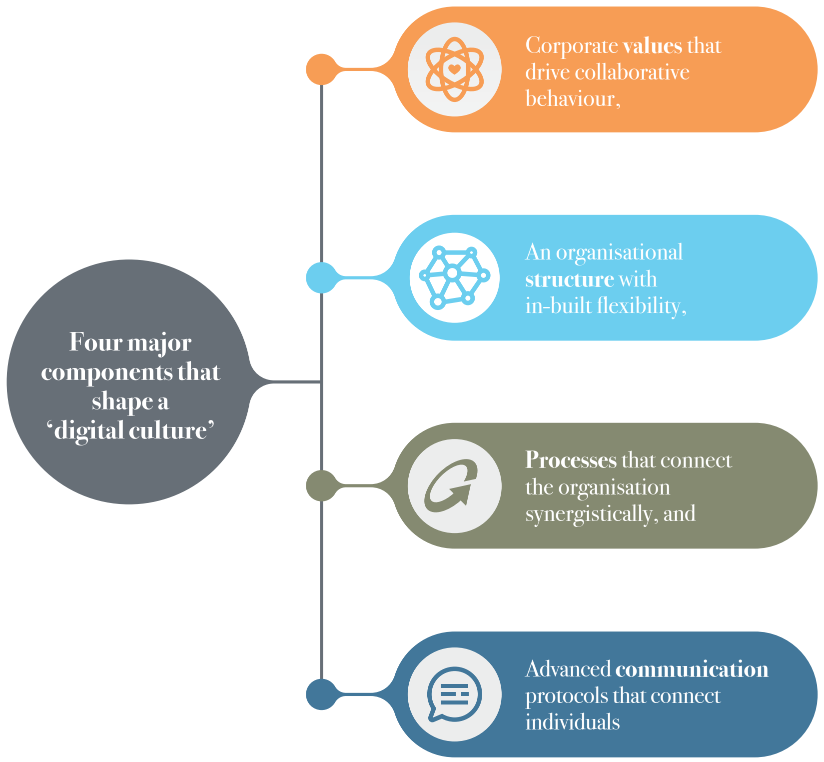
Transforming your organisation for the digital age.

By Katharina Lange, Flocy Joseph and Markus Karner

Transforming an organisation is never an easy task, especially when you are under massive or perceived time pressure to catch up with the competition. There always seems to be a faster, better, bolder, brighter business model emerging in the digital age. There are also asset-light and hyper-agile new businesses that attack incumbents and fight for market space and customer attention. While incumbents fear the 'Kodak moment' when their industry or business gets changed overnight because they could not see or act in time to respond to shifts in fundamental industry dynamics, they are eager to adopt innovative business models and digital offerings.[1] Obviously, this requires the right mindset and the right talent.

How can established companies transform their existing selves so that they not only survive but also thrive in the digital age? Established businesses have a lot of advantages that start-ups don't–brand loyalty, financial strength, disciplined and standardised business processes, and manufacturing expertise–but how can they create an 'agile' culture that embraces digital and use this transformation to stay ahead?

In 2018, we interviewed 40 C-suite leaders in Asia in conjunction with a survey of over 400 senior managers in the region, about how they perceived and shaped the cultural transformation in the 'digital age' in their organisations. An overwhelming majority (87 percent) of C-suite leaders surveyed agreed that culture creates greater barriers to digital transformation than the technology itself. An even greater majority (92 percent) believed that human intervention would continue to be important.[2] Interestingly, the managerial level just below the C-suite felt their organisation was better prepared and more ready for change than the C-suite itself.



> Successful learners have four qualities in common: aspiration, self-awareness, curiosity, and vulnerability.

Values that drive behaviour for the digital age

We found great consensus that modern organisations must continuously learn and develop a strong learning culture to thrive in the Digital Age. For the individual, learning agility is understood as making connections across seemingly unrelated experiences, seeking feedback non-defensively, reflecting systematically, and unlearning things when different solutions are required.[3]

Successful learners have four qualities in common: aspiration, self-awareness, curiosity, and vulnerability.[4] These learners will not get defensive when receiving feedback. They are willing to take risks, such as making a mistake or appearing nonexpert in public. Having an inquisitive mind keeps them ahead of the knowledge curve.[5] This inculcates "a culture of agility and learning, rather than protecting, and striving to create best results," says Peter Slagt, Partner at Bain & Company, Singapore.

At the same time, the necessity to speed up transformation to embrace digital was very prominent in the survey. Digitalisation brings speed and the firm needs to be faster at implementing its ideas and bringing them to market. The customer experience is also about instant fulfilment. This requires the leadership to be equipped with the ability to make rapid decisions. Commented Lee Yang Hong, Managing Director and Head of Group Human Resources at DBS Bank, "One of the most important things we had to do was to focus on changing the culture to a start-up culture by being agile."

The results echo Dutch business executive and business theorist Arie de Geus' statement that the ability to learn faster than the competitor may be the only sustainable competitive advantage in the future.[6] However, psychologists say that it is pain or the sense of urgency that motivates us to change and learn, but how can leaders keep up this continuous sense of pain and urgency without burning out the workforce? Says Peta Latimer, CEO of Mercer, Singapore, "Change is critically important for survival, but if you don't get a chance to 'refreeze', you may never know what worked or not." Mobile learning platforms make useful content more accessible on the fly, and there is an abundance of information available everywhere, anytime. The question remains how to process the immense amount of information and turn it into useful knowledge. Profound learning can only be accelerated so much as it benefits from reflection, and reflection requires a moment of calm, cognitive quiet, and silent introspection.[7]

To develop the mindset of an agile learner, recognising and changing routines is a very good start. Proactively seeking feedback for ideas or behaviours helps to calibrate one's position. And systematically reflecting on feedback and experiences deepens the learning curve.[8] A network of learning partners can help to build the many components of a learning culture–from structured training to gentle, daily reminders. To create a learning culture in the organisation, this behaviour must be role-modelled by the senior management team.

At the same time, incumbents want to cultivate the entrepreneurial spirit

> A network of learning partners can help to build the many components of a learning culture—from structured training to gentle, daily reminders.

associated with a start-up culture to drive innovation. Many organisations encourage small-scale experiments and prefer them to enterprise-wide approaches. A proven concept is to rapidly construct a hypothesis, build prototypes, test them, gather and analyse data, and refine. This data-driven decision-making culture has to be modelled at the top of the house to be successful. Atul Khosla, Senior Vice President and Global Head of Talent, Mondelez International, explains, "It is important to make the process digestible. Rather than a big digital shift, make it more as an enabler."

The question that follows then is, "How can we learn faster or more efficiently?" Or rather, "How can humans work together with machines in new ways?" Artificial Intelligence (AI) can amplify diversity and it is a great option to include AI in the thinking process and learn *with* machines, not against them. 'Multiplicity', a term coined by Ken Goldberg, describes how machines and humans collaborate to innovate and solve problems.[9] "AI has the potential to enhance collective intelligence and intellectual diversity, allowing human workers to do more diverse thinking, become more efficient, and undertake more creative, fulfilling labour."[10]

A fluid and flat organisational structure

The 'hardwired' structure of an organisation is critical for its digital readiness. While clear roles and responsibilities are required, having built-in flexibility is key. Teams form and disband quickly and continuously. New structures emerge and vanish out of and into ambiguity in response to customer and market trends. Roles become location-agnostic and hierarchies become less steep; they move 'from pyramid to pancake'. Fluid and flat becomes the new normal.

In a fluid organisational structure, the traditional hierarchical relationships will become less important, and the formal structure needs to reflect the distribution of accountability. At the same time, decentralised empowerment and localised responsibility require clear, central governance guidance as a counterbalance. "This is where the digital transformation and the culture challenge collide," says John Davison, CEO of Zuellig Pharma. Behavioural challenges and cultural barriers do not disappear during digital transformation; they need to be addressed and managed. A long list of customisations or cultural idiosyncrasies mean that the standard model just cannot build in all of that complexity. A neutral referee and a courageous decision-maker is required to establish and enforce norms, rules and standards. When it comes to operational standards such as data processing, a central and normed approach matters.

When managed well, digital transformation overcomes barriers. In our study, we found that digital transformation provides the opportunity to overcome existing cultural barriers or legacy rifts to create organisational alignment. In the Indian headquarters of a traditional Japanese company, the urgent need to digitally transform brought the workforce together. Independent of nationality and origin, teams worked together and developed solutions to win the digital race. The phenomenon where external market forces overrule internal discrepancies is not new; however, it has never been easier since the digital world is agnostic of location and country of origin, gender or age.

In a digital organisation, the distinction between business and technology functions becomes blurred. Digitally-savvy organisations continue to connect functions, working with cross-functional teams with no or flattened hierarchies. According to Antony Bartolo, Chief Product Officer, Tata Communications, "Digitalisation democratises decision-making." More often than not, technology departments become an intricate part of those teams. The emphasis on technology-supported solutions results in a prominent representation of IT in the entire organisation, and a more powerful position. Nevertheless, the power does not only shift towards IT professionals. The digital transformation shifts value and power to those who cannot be replaced by automation, and away from those whose capabilities can be replaced by digital solutions. Successful organisations thus create an effervescent ecosystem of ideas and experiments that leverage the different strengths/aspects and perspectives of the workforce.

Processes that connect the organisation synergistically

Given the temporary, emerging nature of the structure and 'backbone' of the organisation, leaders face a considerable challenge in defining processes. Those need not only be functional, but also ideally create synergies and build cross-functional bridges to capture the emerging trends in the market. The guiding question leaders must ask themselves is, "What is the problem we are trying to solve, and for whom?"

Ideally, these processes should be intuitive such that they reduce the complexity for internal and external customers. Digital tools can be enablers for the design of these processes; sharing and learning platforms can enhance collaboration. They create a first-level familiarity through virtual contact and tools that facilitate the face-to-face conversation later. In our survey, one of the most cited leadership capabilities was fast and data-based decision making in real time.

"Professionals who have embraced the power of new technologies will do much better than those who may be technically good but have not understood that the world is doing things fundamentally differently," says Jyoti Shukla, Director of The World Bank, Singapore. The culture hence moves away from a one-to-one relationship culture, which is slow and limiting, to platform(s) and communities that can respond fast, but are quite transactional and anonymous. However, leaders need to recognise that digitalisation could weaken the cultural fabric, and hence need to consciously address and manage the fear that comes with ambiguity and change. They need to transform ambiguity into clarity, unstructured events into an emerging and flexible structure, and be ready to change again.

Communication: the ultimate connection vehicle and lubricant

Transporting the organisation's purpose and strengthening the company's social fabric requires skillful communication. The mindful use of digital tools can amplify reach and serve to create a community. Our interviewees emphasised that it is important not to cut down on human interaction. They are aware of siloes that can be created by an overemphasis on technology.

For teams that are widely spread out and work mostly virtually, leaders need to create familiarity and psychological safety to achieve results. It has become good practice to visualise communication norms and protocols. For example, in any conference room at Mondelez, you will find the rules of communication hanging on the wall. Such efforts go towards creating a community and cultivating a sense of belonging in a virtual world. Leaders need to identify and provide a sense of purpose.

An openly shared and well-communicated purpose continues to have the strongest impact on culture. Why are we doing what we are doing? In particular, the younger workforce wants answers to this question, and senior management needs to provide credible answers. Leadership qualities in such a purpose-led organisation include the courage to challenge the *status quo*, and to say "No". Tri Pham, Chief Strategy Officer, Tata Communications adds, "It is important that we understand our weaknesses, take an honest approach to addressing those weaknesses and have an honest dialogue to push the changes required."

The great balancing act

Looking at the four components that build the digital culture, our modern leaders will have to strike a balance between each of the following pairs:

SPEED AND THOROUGHNESS

Despite the perceived 'need for speed', learning and experimentation will take time, may lead to mistakes, and will be productively 'unproductive'. Changes in customer-facing functions might require a higher speed, whereas safety-related processes may not. New value propositions need time to develop.[11] Leaders need the discipline to execute and deliver excellent results, and at the same time keep on experimenting at an even faster speed.

OLD AND YOUNG

Leaders need to include the wisdom of experienced executives and at the same time listen to the voice of the young. They need to crack the equation on how to keep young people engaged and ensure retention in the company. A potential solution is to create a shadow board of the young, a group of non-executive employees working with senior executives on strategic initiatives, thereby leveraging the younger groups' insights and at the same time diversifying the perspectives that executives are exposed to.[12]

CENTRALISED AND DECENTRALISED

A local structure for a customer-centric experience and contact is essential to get first-hand market information. At the same time, the organisation needs central structures and standards, not least for effective data processing. A potential solution is to install decentralised referees who are authorised decision-makers to ensure clarity.

HUMAN AND MACHINE

While automation does increase efficiency and speed, human touch is required for continued engagement and unpredictable cases. A potential solution is to use technology to amplify organisational capabilities, reach and productivity and, at the same time, be mindful of retaining the elements of human communication.

The underlying binary code of the digital age undoubtedly shapes the way humans and machines work together. Managing the interface of human-machine interaction becomes critical for future success in business. Ultimately, digital transformation is about the people involved, and their own cultural readiness and mindset transformation.

> Digital transformation is about the people involved, and their own cultural readiness and mindset transformation.

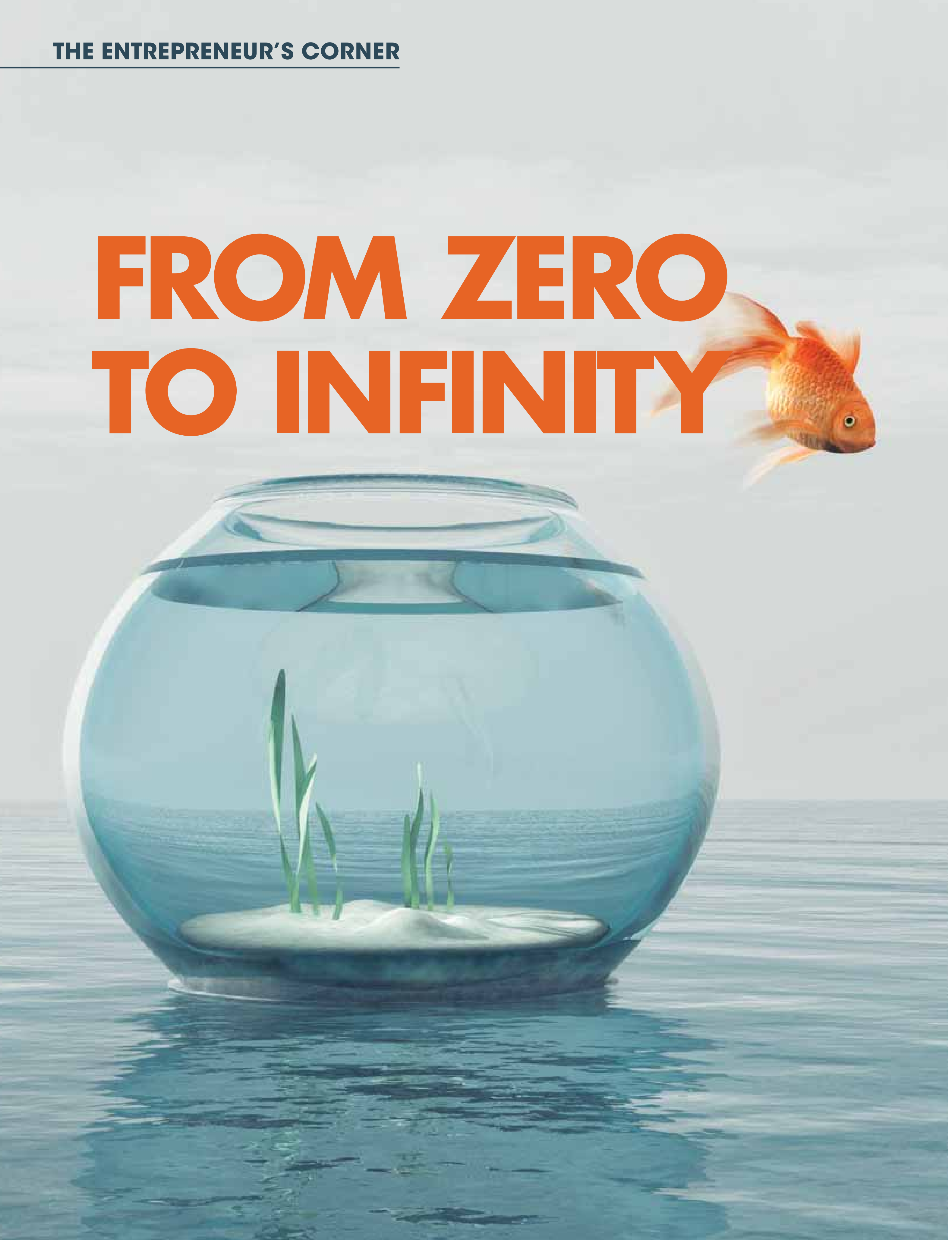
Dr Katharina Lange
is Affiliate Professor of Leadership at IMD, Lausanne, Switzerland

Dr Flocy Joseph
is Head, Strategic Partnerships and Programme Director, Executive Development, Singapore Management University

Dr Markus Karner
is Academic Director, Executive Development, Singapore Management University

References

1 Digital offerings are defined as "information enriched customer solutions wrapped in engaging customer experiences", as described in "Digital is about speed–but it takes a long time", Jeanne Ross, MIT Sloan Management Review, April 5, 2018.
2 Singapore Management University, "Cultural Transformation in a Digital World", 2018.
3 Monique Valcour, "4 Ways to Become a Better Learner", Harvard Business Review, December 31, 2015.
4 Erika Andersen, "Learning to Learn", Harvard Business Review, March 2016.
5 Tiziana Casciaro, Amy Edmondson, Sujin Jang, "Cross-silo Leadership", Harvard Business Review, May-June 2019.
6 Arie de Geus, "Planning as Learning", Harvard Business Review, March 1988.
7 Ulrich Boser, "Learning Is a Learned Behavior. Here's How to Get Better at It", Harvard Business Review, May 2, 2018.
8 Monique Valcour, "4 Ways to Become a Better Learner", Harvard Business Review, Dec 31, 2015.
9 Lisa Bauer, "Multiplicity Not Singularity: Ken Goldberg on the Future of Work, Blum Center", November 26, 2018.
10 Tata Communications, "Cognitive Diversity: AI and the Future of Work", September 2018.
11 Jeanne Ross, "Digital is about Speed–But it takes a Long Time", MIT Sloan Management Review, April 5, 2018.
12 Jenifer Jordan, Michael Sorrel, "Why you should create a 'shadow Board' of Younger Employees", Harvard Business Review, June 4, 2019.



FROM ZERO TO INFINITY

An interview with Charles Chen Yidan.

Charles Chen Yidan, Co-founder of Tencent, Founder and Honorary Chairman of Tencent Foundation, and Founder of Chen Yidan Foundation, the Yidan Prize Foundation and Wuhan College, talks about how positive education can unlock endless possibilities for economic growth and social advancement and development.

The transformative power of education is the fuel for technological innovation, social progress, the cultivation of right values, justice and equality.

Your entrepreneurial journey has led you to develop a passionate belief in the power of education. What does education mean to you?

Education begins with the individual, but its impact extends far beyond the individual. The teacher-student relationship may be personal, yet it carries a lineage of knowledge, skills, values and beliefs that is a crystallisation of the teacher's wisdom. And that relationship carries the hope of society–the hope that by collectively contributing to an outstanding education system, we are all investing in society's culture and growth. None of the major developments we see in our world today are being made possible by one or two people. Each member of our society, no matter how insignificant he or she may seem, holds the infinite potential for making the world a better place. The transformative power of education is the fuel for technological innovation, social progress, the cultivation of right values, justice and equality. Education is never just about one person; it is always about every single person. Education carries the hope of elevating entire communities of people.

Greek philosophers Socrates and Plato believed that one key objective of education is to attain knowledge, which is in the interest of both the individual and society, and as such, education was a virtue in itself. In the East, ancient Chinese wisdom–mainly rooted in Taoism, Confucianism and localised Buddhism–tells us that education is about knowing right from wrong. Education enlightens us on how society works and how to live a meaningful life. In Chinese culture, education means more than just acquiring knowledge. The Confucian classic, *The Great Learning*, says the purpose of education is "to illustrate bright virtue, enlighten the people, and rest in the supreme goodness".

When we look at the wide range of challenges we face in the world today, it is clear that the purpose of education has gone beyond simply teaching individual students to excel in attaining knowledge. The world relies on education to unlock the potential of turning the limited into unlimited. That is why I firmly believe that education is the fundamental driving force for social progress.

How can education facilitate innovation?

One of the biggest achievements of the modern world is increased literacy and a widening access to basic education. This solid foundation gives young people, especially those coming from disadvantaged backgrounds, the self-esteem, confidence and opportunity to connect with the fast-changing world and the potential to tap into the infinite possibilities of innovation.

Innovation requires an open mind, burning curiosity, and the resourcefulness to put ideas into action; a good education can instil these qualities in us. Research conducted by scholars from Ghent University and the University of Cambridge found that as individuals participate more in education, they develop a more open mindset, which in turn increases a country's potential for innovation.[1] Based on data collected from 96 countries, education increases the pool of talent equipped to promote innovation.

Innovation is not only the engine of economic growth in an increasingly knowledge-based global economy, but it will also lead us to solutions for the crises we face today. At an individual level, it is through learning that we are able to move beyond our personal boundaries. Teachers help, guide and empower young people to take risks by removing any real or perceived barriers, and develop in them an inquisitive mindset, the ability to cooperate and collaborate, to self-learn, to experiment, to experience failure, and to find the perseverance to try again.

Educators and policymakers play an important role by nurturing innovative human capital and increasing inventive skills through well-planned educational policies; interventions have the potential to spur a wide range of innovative outcomes. A study from Finland's Helsinki Center of Economic Research suggests that innovation can be encouraged through the right education policies, resulting in more inventions.[2] Investment in subjects such as engineering and science has a direct link to the number of patent registrations. A science, technology, engineering and mathematics (STEM) education increases the net gains of innovation and encourages more people to become inventors.

The important task facing policymakers, investors, researchers and educators lies in understanding how their work and decisions will shape the innovativeness of future generations. Today, in a world where many people's basic needs for survival have been met, I take the liberty to tweak the old adage "necessity is the mother of invention" to "education is the mother of innovation, and innovation is a modern-day necessity".

What does it take to develop an education ecosystem?

Innovation is never a solo endeavour. When we think about innovation, we have a mental picture of a single lightbulb moment. However, the truth is that innovation is a collaborative transformation of an industry or field that is never achieved by a single person or organisation. Great innovation does not take place within one field of expertise but is the product of cross partnerships among different domains.

That is why we need to think in terms of input and output. If education is to fulfil its role as the mother of innovation, educators and policymakers need a clear picture of what inputs are being fed to the education ecosystem. We need to create a pipeline of young people who are ready to take the lead in an increasingly interconnected world.

> Great innovation does not take place within one field of expertise but is the product of cross partnerships among different domains.

Innovative ecosystems in the education sector comprise evolving multi-party partnerships in which schools are able to tap into advanced tools and technologies from their partners for the benefit of their students. Education technology promotes student engagement and enables pedagogical innovation, which in turn creates a learning environment that fosters innovation. When innovative ideas are fed to the technology sector, a powerful, creative synergy is born.

The chemistry between Stanford University and Silicon Valley is a perfect example of how schools and the private sector thrive together and reinforce innovation in each other's DNA. Stanford has been described as the 'farm system' for Silicon Valley. Its Office of Technology Licensing has licensed 8,000 campus-inspired inventions. Some believe that as many as 5,000 companies can be somehow traced back to Stanford faculty and students, including household names such as Hewlett-Packard, Yahoo, Cisco Systems, Sun Microsystems, eBay, Netflix and LinkedIn. An entrepreneurial spirit allowed Stanford to forge a symbiotic loop with the tech-intensive Silicon Valley, nurturing a diverse body of students, encouraging learning for the sake of learning, risk-taking, trying new things, and discovering unknown terrains.

How is the Chen Yidan Foundation helping to develop such an education ecosystem?

The chemistry between Stanford University and Silicon Valley is only one success story. We need more of these innovative hubs for future generations to flourish. Small, wealthy, globally-connected economies like Finland, New Zealand and Singapore have shown themselves to be good examples, with their education ecosystems based on the principles of strong, comprehensive policies, well-trained teachers, and rigorous assessment frameworks to test for students' future skills. We also see educational innovation initiatives are gathering momentum in China and Israel. However, preparing the fertile soil for young people to blossom into innovative leaders of tomorrow requires many more questions to be answered.

In 2017, the Worldwide Educating for the Future Index (WEFFI) was founded by the Yidan Prize Foundation. The Economist Intelligence Unit was commissioned by the foundation to produce the index on an annual basis. This study seeks to facilitate an actionable way forward for a better, more equitable future—a future where young people are ready to tackle the evolving challenges of work and society. The theme for the 2018 index was 'Building tomorrow's global citizens' and covers 50 economies, representing nearly 93 percent of global GDP and 89 percent of the world's population.

The goal of the index is to provide a useful benchmark, comprehensive data and independent analysis for policymakers and educators around the world. The index measures three pillars of education systems—policy approaches, teaching conditions and broader gauges of societal openness. It remains the only major ranking to assess a wide range of inputs to education ecosystems, instead of putting a narrow focus on outputs such as examination results. The index is not designed to offer a ranking of education systems, but as a tool for assessing the complex functioning of the key ingredients that make up a future-proof education ecosystem. This is how the success of one country's work can benefit many.

It is also important to note that future-oriented education is not exclusive to wealthy economies. Based on the index results, Ghana leads among low-income economies; its education system is founded on the strength of its strategy to teach future skills and adoption by supportive assessment frameworks. On the other hand, the U.K. provides an example on the importance of investing in the continuing education of educators, as the quality of teacher training bears the brunt of low government expenditure on education.

The index reinforces the idea that in order for economies to adopt a more holistic approach to learning, the following factors are critical: strengthening assessment frameworks, regularising reviews of curriculum and improving teaching conditions. Looking at the results of the index, it is clear that there are gaps to fill in the provision of future-ready education for today's youth.

How have the Yidan Prize Laureates contributed to the field of education?

Founded in 2016, the Yidan Prize recognises those whose work is future-oriented, innovative, transformative and sustainable in education. While the Yidan Prize Laureates tackle challenges specific to their environment, they also offer potential solutions to the world addressing

> Future-oriented education is not exclusive to wealthy economies.

similar issues. The 2017 Laureate for the Yidan Prize for Education Development, Vicky Colbert of Colombia, is the founder and director of Fundación Escuela Nueva, whose innovative learning model, the 'New School', was born out of very challenging conditions in low-income villages in her country. Students across multiple levels were cramped into one classroom, without access to the Internet or other technological support. Over several decades, her model, which emphasised empowerment, interpersonal skills and student-centric learning, has become an inspiration in Colombia. It is highly successful and has been adopted in 19 countries worldwide. What arose out of necessity has become a blessing to many.

The 2018 Laureate for the Yidan Prize for Education Development, Professor Anant Agarwal, is the CEO and founder of edX, an open-source online platform that makes education accessible to people around the world. Professor Agarwal grew up in India, and at that time, school for him was a cramped, uninspiring place, where teachers sometimes hit students. What he endured as a student has now gone through a complete overhaul through his platform. Online learning becomes fun and creative—

something learners can enjoy whenever and wherever they want. His platform allows exponentially more students to have exposure to high-quality education without the limitations of prohibitively high cost or distance.

Professor Larry Hedges, the 2018 Laureate for the Yidan Prize for Education Research, is the Chairman of the Department of Statistics at Northwestern University in Chicago. Professor Hedges developed statistical methods of meta-analysis before the idea of Big Data became a fashionable term. His work in educational policy allows policymakers, educators and the public to see the evidence of what works in the field of education. His work and leadership are sending ripples across the world, making it possible for educators to take a scientific approach to improving education.

The possibility for education to turn from zero to infinity can be summed up in the concept of 'the growth mindset', developed by another 2017 Laureate for the Yidan Prize for Education Research, Professor Carol Dweck from Stanford University. Professor Dweck's research has demonstrated that students' mindsets can be changed. Barriers can be broken when a fixed mindset is transformed into a growth mindset. The implications of her work are far-reaching; she has shown us not only the generative potential of education for students in schools, but also the limitless potential for humanity.

How can we prepare the next generation in terms of knowledge, skills and training?

The second industrial revolution did not bring in a significant change in the education system. But today we are in the midst of the fourth industrial revolution that is focused on information technology, and we need to prepare our graduates for this future. It is very heartening to see that business schools are taking the lead in bringing about the requisite change so that education and industry can serve each other. I believe we will have more multidisciplinary studies and project-based studies in the future. Business schools are focusing on project-based studies, and their innovations can be evaluated by their own clients or areas of applications to see if they are successful.

We also have to focus on the comprehensiveness of the training system. We want to pay attention to a person's qualities rather than their skills or professional knowledge. So many things cannot be taught in the classroom. It is about gaining experience and competence to face the future. The young generation needs to enhance their problem-solving capabilities and develop a mindset of lifelong learning. Every nation has its own strengths and opportunities. My advice to young entrepreneurs would be to think first about the local market because they know it best, and then consider developing a global product.

How can education instil a sense of optimism for future generations in an era of megatrends such as Artificial Intelligence and climate change? Whether we see the cup as half full or half empty is relative. Similarly, emerging new technologies and the demands of sustainability can be viewed as obstacles or opportunities. We need to understand the *status quo* to know where we are now, and then see how we can move forward from here. If a school believes in this value system, then the optimism can be passed on to its students and the teachers will feel the same aspiration as well. It is about having a positive attitude, and families and society can help. If we want to focus on people, we need to focus on a growth mindset and positive education. We need to learn to be more open-minded and to embrace future changes.

Looking ahead over the next five to 10 years, what do you think will be the future of education in Asia?

In Chinese, education consists of two characters–Jiao (教) and Yu (育)–which mean 'teaching' and 'cultivating'. In other words, education means more than merely knowledge transfer and skill-based training. People are at the heart of education. Education can come from family, school, community and society. We are also nurtured by our culture and religion.

Asia is where some of the fastest-growing economies in the world are. The talent pool here is mind-blowing. The entrepreneurial spirit, vitality, opportunities and creativity are contagious. Asia is also home to ancient civilisations that hold some of humanity's deepest wisdom and most important life-changing inventions. Innovation is in our blood, and ever present in our everyday life. Every time we have Asian cuisine, we are reminded of the wisdom behind one of the simplest tools ever invented–chopsticks. By solving problems with intelligent simplicity, practicality, flexibility and ingenuity, we have great potential to serve as a reference to the world.

Educators in Asia can leverage the best that the East and the West have to offer and realise education innovation across sectors. Technology will be key, helping to lower the cost of quality education and boosting outcomes, such as through Big Data applications, and using analytics to deliver an optimal learning environment. This may provide the next exciting stage in the growth of widespread open online courses.

Investment in education has had a fantastic impact on students around the world, through better technology in the classroom, higher funding for institutions, and scholarships for underprivileged students. The upcoming generations of philanthropists can extend this impact by embracing their role as champions of innovative approaches to one of our biggest challenges.

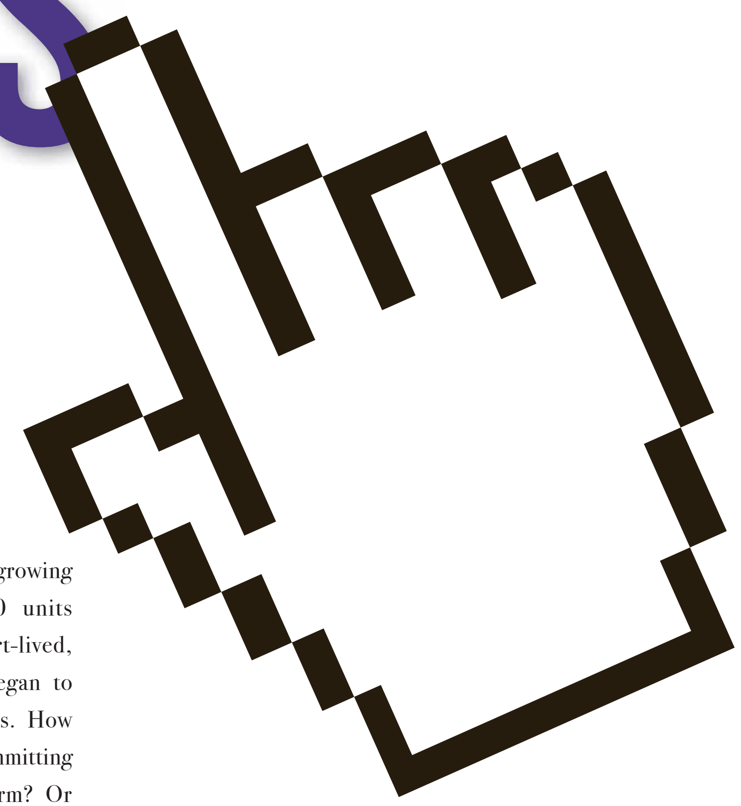
Traditional Taoism tells us that the Tao begets one, one begets two, two begets three, and three begets infinity. Tao starts from chaos and is the primitive order out of chaos. I believe that the journey of education is just like the progression of Tao, and it also goes from zero to infinity, so while the first step is critical, what really defines the spirit of education is the effort and growth after zero.

References

1 Alain Van Hiel et al, "Can education change the world? Education amplifies differences in liberalization values and innovation between developed and developing countries", 2018, PLOS ONE 13(6): e0199560.

2 Otto Toivanen and Lotta Väänänen, "Does education lead to more innovation?" July 21, 2013, VOX CEPR Policy Portal.

BRICKS WITH CLICKS



Defining an omni-channel strategy for Iuiga.

By Kapil Tuli, Sandeep R Chandukala & Sheetal Mittal

Iuiga is a Singapore-based e-commerce start-up that has eschewed the conventional e-retailing model by acquiring complete control over its value chain–from ownership of its retailed items to marketing, storage, logistics and distribution. Positioned as a lifestyle brand, the start-up targets quality-conscious customers and presents a curated range of high quality products at affordable prices. Iuiga launched its mobile app in May 2017, followed by its website two months later.

In 2015, Zang Hao, the CEO and founder of Iuiga, and his three partners, decided to adopt the original design manufacturers (ODM) business model for sourcing products. Iuiga contracted the manufacturers of big global brands known for their superior quality to manufacture the same products for them. The products, bereft of the premium brand tags that commanded hefty mark-ups, were then retailed directly by Iuiga under its own brand name at much lower and transparent prices on its website and mobile app.

Iuiga recorded a good start with monthly sales growing from 600 units in the second month to 3,000 units by the eighth month. The upward trend was short-lived, however, and by the ninth month, sales growth began to plateau. The e-commerce brand was at a crossroads. How could it sustain growth? Was it simply a matter of committing more resources and effort behind its online platform? Or did it need to adopt a radical strategy and go physical, which was the antithesis of its core business model?

The management team debated whether the company should enter into omni-channel retailing, and considered setting up pop-up stores. At a time when physical retailing was predicted to be on its last legs, and online retailing was being hailed as the rising star, would going physical be the right thing for Iuiga?

SINGAPORE'S E-COMMERCE MARKET

The e-commerce market in Southeast Asia was expanding fast, forecasted to grow at a CAGR of 14 percent between 2017 and 2024.[1] In the region, Singapore promised to be a leading market, given its high Internet penetration, urbanised population, wealthy consumers, and a mature transport and delivery network. While the country's online share of total retail sales was small at 5.4 percent, it was the highest in Southeast Asia, and poised to grow rapidly.[2] The largest consumer segment to shop online was those between 25 and 34 years old, followed by those aged 35 to 44 years old.[3]

In 2017, the number of active Internet users in the country stood at 4.47 million.[4] Over 90 percent of the population had access to the Internet and used it every day, spending an average of seven hours and nine minutes online per day, with 26 percent shopping online at least once a week, and 58 percent at least once a month.[5,6]

Iuiga's business model

The ODM model is based on manufacturers undertaking R&D and product development according to a buying firm's specifications, as well as manufacturing the final product. The buying firm selects the design and quality and places an order with the ODM. The ODM delivers the final product, which is then branded by the buying firm as its own and sold in the consumer market according to its pricing strategy.

The ODM model offers a win-win situation to both parties. With ODMs providing design and product development services at no extra cost to factory production, buying firms can focus all their resources on brand-building, marketing and distribution. Manufacturers, on the other hand, gain by having the copyrights for product and design, enabling them to sell to multiple clients and accrue operational efficiency, optimal capacity utilisation and lower costs of production. However, an ODM, unlike an Own Brand Manufacturer (OBM), does not own the brand under which the products are sold in the consumer market.

Adopting the ODM model, launching its own brand and integrating the supply chain allowed Iuiga to have control over costs incurred, pricing strategy and the value created (refer to Figure 1). Chinese ODMs were the logical choice for Iuiga on two counts: China offered high levels of innovation at the lowest costs of production worldwide, and the company founders had extensive knowledge, experience and a network in the local Chinese market.

However, the ODM model approach was uncharted territory for Hao and his partners, and resulted in the team spending close to two years in China to identify, select and negotiate with the manufacturers and get them on board. The entire process was painstakingly slow, riddled with numerous issues and rejections, and demanded considerable investment of resources. However, insights into China's macroeconomic environment and the challenges faced by the manufacturing industry in the country helped Iuiga present an opportunity to the ODMs to expand into new markets like Southeast Asia, hitherto inaccessible to them, and to curtail their over-dependence on certain global brands. By 2018, persistent effort and adaptability gradually led the company to win favourable contracts with close to 200 ODMs, who produced for global brands such as Muji, Samsonite, Sephora, Under Armour, L'Oréal, and Crate & Barrel.

Adopting the ODM model, launching its own brand and integrating the supply chain allowed Iuiga to have control over costs incurred, pricing strategy and the value created.

IUIGA'S VALUE CHAIN: VERTICAL E-COMMERCE

FIGURE 1

Source: Iuiga

CHOOSING A CATEGORY

After careful consideration of options, Iuiga decided to opt for the home and living essentials category. Electronics, a mass-market product category, was found to be unsuitable as it was highly competitive and saturated in terms of both brands and retailers. Market leaders like Lazada and Challenger pursued aggressive pricing strategies with limited scope for meaningful product differentiation. The product category of mother and baby offered low competition and attracted quality-conscious customers with high spending power. However, it was deemed unsuitable as it comprised a niche market with limited scope for growth and did not enable natural extension into other categories going forward.

Home and living–comprising furniture and homeware–did not have much competition in the Singapore market, and the category was broad enough to enable an umbrella approach and enable an introduction of subcategories within it. Within a year of its launch, Iuiga's product portfolio expanded to include nine other categories such as lifestyle products, kitchen accessories, furnishings, travel accessories, electronics, and mother and baby.

The true cost of quality

Iuiga uses age, generation, lifecycle stage, and lifestyle to define its target audience–millennials and Gen Y in the 25-45 years age group. They are active Internet users who are beginning to set up their own households with a proclivity towards better quality products and value for money. The brand offers these customers a 'same for less' value proposition by positioning itself at par with premium brands for its high quality, but selling at much lower prices.

What differentiates the company is its transparent pricing. Iuiga shares a detailed price breakdown for each item on its website and mobile app, including the mark-up it charges (refer to Figure 2). The transparent pricing breaks the assumption that price is a surrogate for quality, and is designed to reveal the huge premiums charged by established brands. Iuiga also differentiates itself from other e-tailers by offering a unique 'next day' home delivery service for orders exceeding US$65.

IUIGA'S TRANSPARENT PRICING EXAMPLE

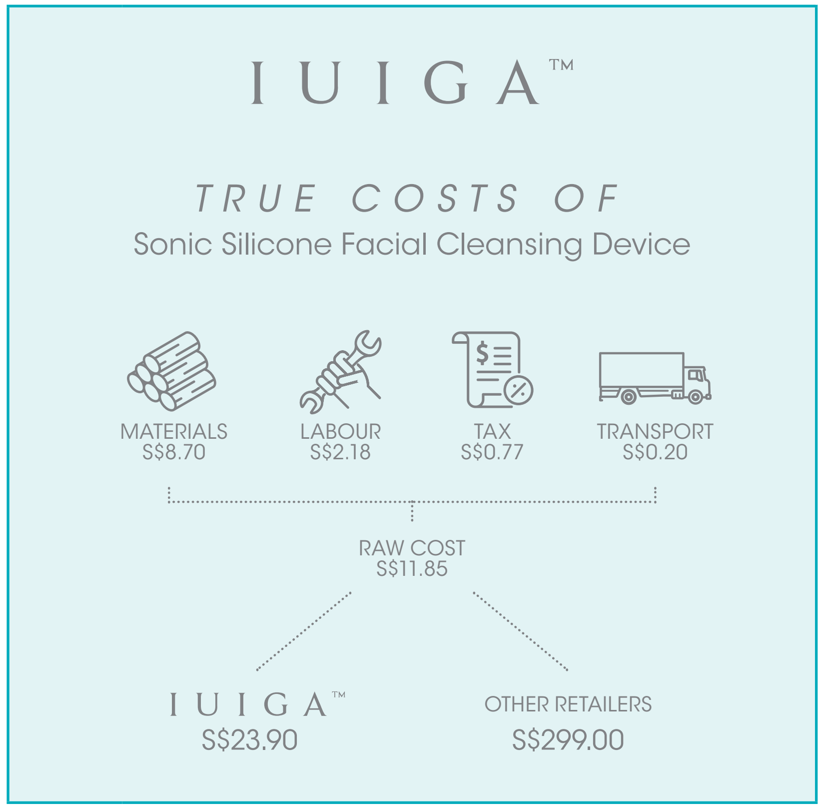


FIGURE 2

Source: Iuiga

Successful launch

Iuiga's mobile app and website launches during May-July 2017 were accompanied by offsite activation events at high-traffic points such as hawker centres and commercial centres during lunchtime. People were invited to download the app

Iuiga's business model was based on minimising overheads in order to pass on the savings to customers. Going physical meant more investments.

and visit the website, register and share feedback in exchange for free ice cream. The launch events triggered many conversations on topics such as legal rights versus ethical practices that were captured widely on social media platforms, leading to much-needed publicity for the e-commerce brand. The ensuing debates also provided the company an opportunity to address consumer concerns, quell rumours and share its value proposition effectively. The market response was encouraging with sales taking off at an average of 630 units for the first quarter, and growing to an average of 2,666 units by the third quarter, an increase of almost 320 percent.

The first mover advantage allowed Iuiga to erect high entry barriers for other start-ups in the Singapore market, as its heavy operational model, characterised by high cost of inventory and low margins, demands considerable capital investment and cash flow. Iuiga has since forged close relationships with ODMs of global brands, enabling the company to enjoy highly favourable and unparalleled terms such as a minimum order quantity of only 100 units compared to the industry standard of 2,000 to 3,000 units.

The way forward

The upward sales trend was short-lived and the monthly takeoff began to plateau from the ninth month. Limited brand awareness among Iuiga's target segment was identified as a key factor behind the slowdown as its presence was solely online in a market like Singapore, where e-commerce penetration was still low. Jaslyn Chan, head of marketing, suggested that Iuiga consider setting up a pop-up store, which could be an effective marketing channel in driving customer engagement. This would also target the large offline consumer market. However, the proposed physical store raised many concerns.

Iuiga's business model was based on minimising overheads in order to pass on the savings to customers. Going physical meant more investments: leasing retail space, hiring more people, providing training, and cultivating a different skill set, i.e., in-person service. The online medium allowed the company to pursue a low-overhead-cost model and offer attractive prices for high quality products to its customers–its unique selling proposition. Would not the omni-channel platform undermine the strength of Iuiga's core business model?

Moreover, the e-commerce start-up had an efficient but small team. The brick-and-mortar space was uncharted territory for them. They would struggle in managing both the online portal and the pop-up store. Although the CEO acknowledged the need to accelerate new customer acquisitions, he wondered if it would be possible to convert offline footfall to online traffic. What if the offline engagement did not subsequently translate into online purchases? Was Iuiga ready to bear the operational and financial risks involved?

Using detailed market research and industry experience, Chan listed many convincing arguments for going physical:

Brand building: The offline medium offers Iuiga an opportunity to enhance consumer engagement through tangible face-to-face interactions. The ability to touch and feel helps in minimising buyer dissonance, if any, by letting buyers assure themselves about the brand's characteristics that are not palpable digitally. Moreover, the retail space acts as the company's 'living billboard' and repeated exposure to it helps build awareness and positive brand associations.[7]

New customer acquisition: As offline medium commands about 95 percent of Singapore's retail sales, getting physical may help Iuiga attract a much wider group of its target audience. Customer acquisition for Iuiga online is also hindered by the minimum order size of US$65 for home delivery. First-time customers may not be comfortable with the idea of spending too much on a brand they have not experienced before. A pop-up store would allow them to buy as per their preference, and a satisfactory experience will embolden them to place bigger orders online.

As Iuiga makes it mandatory for all new customers at the pop-up store to first download and register on the

Iuiga app, the company can seamlessly transition these customers from offline to online and broaden its customer database for e-marketing.

Cost of brand building and customer acquisition: While the online channel is cheaper with no physical place to rent, no cost of merchandising, no salespeople to employ and no utilities bills to pay for, the e-platform has increasingly become highly competitive and saturated. To be able to differentiate and position itself uniquely, an e-brand has to invest considerably in social media platforms, focused marketing through e-mailers, and advertising on platforms such as Google. On the other hand, an offline store attracts considerable footfall in a country like Singapore where distances are short and people prefer to frequent shopping malls. More importantly, a pop-up store as a semi-permanent space costs only a fraction of a regular brick-and-mortar store. It is a temporary expense and thus should be treated as the cost of marketing rather than a channel for retail.

Invaluable consumer insights and feedback: As offline showrooming allows retailers and consumers to be physically present in the same environment, a retailer is able to assess, anticipate and respond to customer needs in real time. Observing customer behaviour provides meaningful data and opportunities for cross-selling.

Omni-channel customers: Consumers' paths to purchase have become increasingly non-linear, involving interaction with multiple touch points across both online and offline channels. A customer's decision-making process includes the following stages: need identification, information search, evaluation of alternatives, purchase decision and post-purchase dissonance. For each stage, customers today rely on different channels and expect these to be seamlessly integrated with one another. For Iuiga, opening a pop-up store would be its first step towards catering to the millennial customers in Singapore, who, despite being Internet-savvy with high mobile and digital penetration, prefer to make purchases offline.

Complementary services: A pop-up store can help Iuiga provide a number of customer services that it cannot provide as an e-commerce-only platform such as self-collect, return and exchange of products. With a growing product range, a physical store would also be a much-required additional inventory holding space. Furthermore, instead of stocking the latest designs and products at a warehouse where no one can see them, Iuiga would be able to stock and display new products at the pop-up store for customers to check out and even buy.

The brick-and-mortar option

After carefully weighing all the options, the management team decided to go ahead with the physical retail strategy and within two months, in May 2018, rolled out Iuiga's very first pop-up store. While there were incremental monthly costs such as rent, labour and utilities expenses, the initial results were encouraging with a healthy growth in the number of customers visiting the store. Total revenues and customers grew over the next four months, although the basket size per customer had decreased. The omni-channel approach seemed to have borne fruit, though there was more needed to be done. Complacency was not an option for Iuiga.

Kapil Tuli
is a Professor of Marketing and Director of the Retail Centre of Excellence at Singapore Management University

Sandeep R Chandukala
is an Associate Professor of Marketing at Singapore Management University

Sheetal Mittal
is a Senior Case Writer at Singapore Management University

References

1. Today, "Asia's Policy Makers Just Scored a New E-Commerce Growth Measure, Thanks to Singapore", April 16, 2018.
2. The Online Citizen, "Competition Racks Up in Singapore's E-Commerce Scene", August 16, 2018.
3. The Online Citizen, "A Crazy World of Singaporean Online Shoppers: Which One Are You?" October 4, 2017.
4. Statista, "Number of Internet Users in Singapore from 2015 to 2022 (in millions)".
5. Singapore Business Review, "4.83 Million Singaporeans are Now Online", January 30, 2018.
6. Go Globe, "Ecommerce in Singapore", January 19, 2016.
7. Ibid.

WHEN CHANGE HAPPENS...

Managing change is a complex and a simple undertaking.

By Lalit Jagtiani

Despite the buzz and a vast number of books and articles on change management, nothing quite prepares you to undertake that journey. Early in my professional career, I was tasked to lead a change management team to drive the transformation strategy that the organisation I worked for wished to implement. After a few days on the job, it slowly dawned on me that it is not as sequential and structured as it is made out to be in the many books I have read and training sessions I have attended.

Change management has an immediate impact on personal relationships. When you start to initiate change, you lose your friends in the organisation! You are now looked upon as an agent of the CEO. Your colleagues are uncertain of your mandate, making them apprehensive and suspicious of your role and the special relationship that you have with the leadership team.

Organisation transformation projects are complex, particularly if they are coupled with new business models or technology implementations. Unfortunately, the practice of change management has been much abused. Many have peddled a set of communication templates and turned the practice into a checklist of activities, the completion of which signifies a successful change programme.

The success of any intervention, however, is achieved by winning over the support of the employees and aligning team members who are driven by different professional agendas, varying levels of morale and motivation, personal agendas, and perhaps, political scheming. These agendas drive them to specific unconstructive behaviours that derail conceptually well laid-out plans.

Any communication targeted at employees will typically trigger a cautious response as they look for the hidden agenda, the underlying objective that is not explicitly stated. They often doubt the very purpose of the intervention. Ultimately, these uncertainties seed the beginnings of the resistance to change. While communication does play a critical role, town hall meetings, mass email communications, and posters plastered along office corridors do little to remove apprehension. These are top-line activities that 'project' that the change agent is doing some work and that the organisation is going through a transformation.

But it is not as if people just get up in the morning and say, "Today I will resist change." Instead, they are reacting to the unanswered questions: What is the leadership agenda? How will it impact me? Will I be successful in my new role? Will I need new skills? Will I be made redundant? These unanswered questions and unaddressed doubts manifest as mistrust and anxieties that eventually play out as resistance.

Burnt bridges, or...

The first task for any change manager, therefore, is to gain the trust of employees and colleagues. The change manager has to be seen to be on the same side of employees, and this shift is achieved when staff feel that the change manager is deserving of their trust. The change manager must revisit and rebuild bridges to create the bond of believability.

The change agent must be empathetic towards people and be able to naturally structure ambiguous inputs into a structured strategy or plan; someone who is willing to constantly re-evaluate strategy and be flexible to change. More importantly, the change manager should be a coach ensuring that teams win and get recognised for their success. Moreover, it is highly advisable that the team has several immediate victories to celebrate as a means to gain momentum.

To be successful in the corporate world, employees need to project themselves, stand out and be visibly seen as people who get things done, inspiring others to deliver actionable outcomes. But for a change agent, the reverse is true. The greater the spotlight on the change agents, the lower are their scores on credibility. Employees start seeing such change managers as those who are focusing on their personal agenda, driving their popularity, and projecting themselves, rather than being concerned about the employees and how they will survive the change.

There is no single prescriptive formula for bringing about change in an organisation because each individual is different, and we all behave differently in different groups. Besides, the cultural group dynamics in every organisation are also special. Change management therefore is not a practice where one size fits all. It needs to be adapted, improvised and then fitted to the needs and demands of the organisation. Change programmes almost never follow a linear path. The teams that manage change have to constantly modify their approach and manage processes to ensure that change is aligned to the expected outcomes. For this, it is key to understand the underlying dynamics that come into play.

Employees start seeing change managers as those who are focusing on their personal agenda, driving their popularity, and projecting themselves, rather than being concerned about the employees and how they will survive the change.

Working up the levels

In the context of change, the primary focus for the organisation is not its businesses, profits, products, services or brands—but its people. And people are driven to organisational change when it is aligned with their personal and professional aspirations. Therefore, before evaluating the impact of change on business, change must first be made relevant across all levels of employees in the organisation. Employees must be provided clarity on how the change will impact their current roles, and consequently how they will be supported to succeed in their new roles, or else resistance becomes the natural outcome. If this happens, the change investment will naturally spiral downward.

The change process may result in new responsibilities and accountabilities, and even redundancies. Added to this, employee fears include loss of power, loss of control, and loss of reporting relationships. This differs according to the different levels of hierarchy that exist in an organisation. At the ground level, the issues surrounding change are largely about being made redundant or acquiring new skills. These concerns can be easily addressed and hence effectively catered to.

As we move to middle management, complexities arise. Managers, by definition, are ambitious people. They are in a position to drive agendas for their own teams and for their own professional growth. The position that a change manager should take here is to project that he/she is supporting middle management for their success. The change taking place needs to be aligned to the agendas of teams in middle management, not his/her own.

The senior leadership band has a very different perspective of this change. Most organisations at the leadership level are inherently political. Typically, senior leadership teams have deeper and more significant ties with a larger circle of power they wish to protect, and change here is far more unsettling.

The change agent must work nimbly and strategically on the change manifesto when dealing with the senior leadership teams. To do this, he/she requires a good understanding of power equations, be sensitive to personal dynamics, and develop insights into the interplay of team mechanics while operating in the landscape of change. The capability and muscle to manage dissonance without compromising the campaign is a behavioural sensitivity that the change agent must rise to.

In addition to understanding and working with each level of the organisation, the change agent also needs to be aware of any conflict that might exist among the hierarchical levels. Middle management plays an important role here. To look good in front of their bosses, middle managers typically attempt to camouflage the weaknesses of their teams. The task of the change agent is to identify the most critical barriers that are impacting the ability of the teams to deliver the desired outcome or make the required change, and then design ways to overcome these obstacles.

The change maker

A change strategy is employed for progress and for the larger good. But not every organisation is able to execute strategy to achieve success. The change agent is not just a communicator or deliverer of change but is responsible for diagnosing the challenges and implementing changes to overcome those challenges.

Therefore, the change agent is a mixed bag of professionals rolled into one. Sometimes a guiding mentor, at other times a supportive coach, and then, a resourceful and knowledgeable management consultant. Along with these characteristic abilities, and sometimes, cultivable traits, the change agent must have the necessary mandate and backing of the leadership to manage escalation and establish authority to deliver a transformed organisation.

GETTING THE BUY-IN: CAN YOU FIND SOMETHING IN YOUR CHANGE THAT MOTIVATES?

If you want to communicate a change or conduct a change management workshop, most managers will say that they don't have time for it. But if you say you want to talk about how they can increase sales by a certain percentage, they will be much more open to the discussion because it impacts their business directly. They will then look at the change agent as a collaborator and an enabler to achieve the desired outcome.

Once the discussions start, the team, as a group, will face organisational challenges related to skills, resources, structure, relationships—and those are the hostilities that one needs to tackle to bring about change. Team-building activities and workshops have their place, but that is not the main role of the change agent. It is not the job of a change agent to create a feel-good environment, but rather to get into the actual nitty-gritty of each business and to work on improvement. Once the actions and outcomes are identified, they need to be raised to the leadership.

PRESSURE TO PERFORM: QUICK WINS GAIN SUPPORT, SUPPORT CREATES THE MOMENTUM TO PUSH THROUGH

The change agent works through a tangle of complexities that come in the form of people and processes. While there is an outcome in mind, does it test the patience of the organisation? Is there pressure to show results, or at least show some intermediate results? It is very difficult to show that everything has fallen into place; every change will have mixed results. But it is also necessary to have some quick wins. Instead of focusing on the change, one needs to focus on what is hindering the success of the organisation and then take steps to remedy that. Change will happen automatically.

ACCOUNTABILITY: PUTTING NAMES IN THE ORGANISATION BOXES DOES NOT ENSURE THINGS ARE GETTING DONE!

When we create an organisation, we logically put together a set of tasks and then assign a group of people to perform those tasks. And when we replace person A with person B to perform a task, we assume that the task will be performed in the same way with the same level of efficiency. But individuals are not all structured the same way. Each brings a different level of skills and strengths to a task. So, trying to force people to take up specific tasks or activities creates the classic dilemma of fitting a square peg into a round hole. On the other hand, no organisation can afford to become so free-flowing as to let every employee choose work based on what they like, instead of what they are good at. But it is feasible to achieve something in between. While all employees will have an assigned role to deliver as their primary job function, there could be some free-flowing tasks that can be taken up according to their innate strengths and interests.

This dual role that an employee plays ensures a two-fold benefit for the employee and for the organisation. First, it creates excitement and motivation because the person is assigned a task, which he/she enjoys as it is compatible with his/her skills and strengths. At the same time, he/she continues to enjoy the security of the existing job. By leveraging on the employee's natural strengths, morale flourishes and motivation is at its peak, allowing for employees to deliver stretch goals; they are willing to go the extra mile because they are energised by doing what they are intrinsically good at. In this way, they can explore their interest and passions within the safety of their existing jobs. In this positive environment, employees start accepting and even adopting change because they see a benefit in the change for themselves.

NOURISHING AND SUSTAINING CHANGE: IT'S A CONSTANT

Lastly, change is not finite; it is a continuous process of improvement and new successes. The moment we treat change as a one-time activity that has an end date, we stop giving it priority and tend to revert to the old ways of doing things. So sustaining change is very important to keep the momentum going. If there are some good things that have been brought about—tangible, positive change—then it is important to keep those alive. Business as usual should not be an option. It is easier to maintain existing momentum than to restart a change process. Keeping the good things that work provides the fuel and energy for the next big thing the organisation is aiming for.

MAKING IT REAL

In the organisation I worked with, there was a person in an operations role, designated as the Warehouse Manager. His job scope involved managing supplies in a warehouse. While he managed his job diligently, his sedentary job of sitting in the warehouse doing routine work had long lost its shine. During the diagnostic interviews, the change agent, wearing the dual hat of a mentor and a coach, was able to find that this employee harboured secret aspirations of interacting with people and desired a more client-facing role.

This Warehouse Manager, in addition to managing his seemingly humdrum job, was given the opportunity of taking up a sales role within the company. He was able to find inspiration in his new role, and constructive energy was unleashed. This energy translated into enhanced performance in other areas as well.

This example of employee deployment is a lighthouse case that can serve as a model for other similar projects, where the impact of a change intervention goes deeper than just employee engagement. It demonstrates that if executed well, change management gives flight to personal aspiration and long-term personal growth.

Six key learnings for driving successful change management

There are some key guiding principles that change agents must believe in if they are to be successful in driving change.

Given the variability and complexity of organisations, it is unsurprising that change agents often simplify the engagement into a series of structured tasks and hold themselves accountable to accomplishing them instead of focusing on the desired outcomes of change. This is a key reason why, despite all the literature and content on change management, very few succeed in reaching the goals that an organisation sets out to achieve.

Lalit Jagtiani
is a Business Transformation Specialist and a Thought Leader in Digital Strategy at SAP, Singapore. He is also an author of the book, "When Change Happens: A Story of Organizational Change"

How to compete globally.

By Martin Roll

Geographical boundaries are no longer a barrier as companies across the globe compete with one another. For the greater part, companies from the West were entering Asian markets. The reverse process has already begun with Chinese and South Korean businesses gaining a firm foothold in lucrative Western markets in the same way that Japanese businesses had done before them. When these global business wars have been fought, there will emerge one crucial factor that would differentiate winning businesses from the others: the equity of a strong brand. In fact, the fast-changing business landscape has made branding a key success factor even for companies competing in their respective local markets.

The orientation of brand management has undergone substantial changes over the last decades to become an integrated and visible part of corporate strategy. Branding has evolved from being just an addendum to advertising campaigns, fancy ideas of the marketing department, or an optional function of the elite few, to being recognised as a boardroom discipline, which contributes to the top and bottom line of the company. It also aids in enhancing shareholder value by contributing to the market capitalisation of the company.

Research has shown that a large part of the market capitalisation of companies listed on the global stock exchanges is made up of intangibles, of which brand equity is the important element.[1] Another study examined the casual linkage between branding and creating shareholder value. By evaluating the risk factor of a portfolio of strong brands against the benchmark portfolio, the study concluded that the strong brand portfolio is much less risky than the benchmark portfolio.[2] This proves branding's contribution to a company's financial health and performance.

Brand management is now recognised as a boardroom discipline, which contributes to the top and bottom line of the company.

Luxury brands such as Rolex are built on heritage, style, class, and energy. Rolex has been around for over a century and has maintained its high-end brand identity and attractiveness. Such longevity comes from constantly working on the brand and creating unique value that customers want. Equally, we have brand bubbles like Nokia that were highly successful but did not survive the test of time. Nokia's leadership in the mobile phone industry was displaced by Apple's iPhone; the key difference being the smart phone technology that Nokia had, but did not prioritise effectively. Despite its smart engineers and proactive marketers, why didn't Nokia figure this out? Why did the company miss the writing on the wall? The need to follow market trends closely and be open and amenable to change cannot be overestimated. Often, arrogance and complacency become the lethal enemies of strong brands.

Principles of successful branding in Asia

Experience, skills, and resources have been the key success drivers for Western brands maintaining their value and operating globally, especially when they expanded into uncharted Asia. Some of the key principles for their success are:

Culture: Strong brands like McDonald's, Carrefour, and Walmart have learnt to see Asia as a mosaic of markets and cultures (as opposed to a homogenous market) and have worked towards becoming culturally knowledgeable and culturally sensitive. McDonald's does not sell beef burgers in India and ensures that it offers menu items that appeal to local tastes, while also strongly holding on to its brand entity. In China and South Korea, Walmart worked around attracting customers who were used to buying daily groceries from traditional wet markets. These companies took the time to understand the culture, history, spending and buying habits, and tastes and preferences of consumers in each market.

Consumers: Nike acknowledges the differences in consumer mindsets between Asia and the West, though one would find it hard to understand why this would be so for a category like sportswear. In China, faced with fierce resistance from local player Li-Ning, Nike fought back by getting into the minds of consumers to best cater to their needs. Nike started out in China by getting close to rural areas with a grassroots strategy that eventually allowed them to gain traction and brand awareness in larger cities. It learned about Chinese consumers by observing them in soccer fields, baseball pitches, and local playing fields. HSBC is another example of a firm that has had similar success in Asia by being the local bank that understood local cultures, habits, and preferences from customers in diverse Asian markets. HSBC's roots in Hong Kong worked to its advantage.

TEN CHARACTERISTICS OF A STRONG BRAND

01 Drives shareholder value

02 Led by the boardroom and managed by brand marketers

03 A fully integrated part of the organisation, aligned around multiple touchpoints

04 Valued in financial terms and treated as an asset in the balance sheet

05 Used as collateral for financial loans and bought and sold as an asset

06 Customers are willing to pay a substantial and consistent price premium for the brand

07 Customers associate themselves strongly with the brand, its attributes, values and personality

08 Customers fully buy into the concept, often characterised by emotional and intangible relationships

09 Customers are loyal to the brand and would actively seek and buy it, despite cheaper options

10 Owns a trademark and marquee (logo, shape, etc.) which is fiercely and proactively protected by the company

Brand positioning: While localisation is important, many retail brands in the West have successfully established themselves in Asian markets by staying true to their brand's core values. Sometimes, it works just being yourself, and brands like Louis Vuitton and Ikea have proven this to be true. Similarly, Coca-Cola, a company that represents the American culture and free spirit that becomes an aspiration for consumers' the world over, views its Western origin as a competitive advantage.

Market: An attractive product offering and a unique brand positioning must be accompanied by a strong and robust distribution model. Taking into account the different levels of urbanisation and the difficult-to-access consumers in remote areas, Procter & Gamble has developed an enviable distribution network that relies on local partners. The same strategy was used by Volkswagen when it entered China by creating a local partnership.

> Often, arrogance and complacency become the lethal enemies of strong brands.

Delivering on customer centricity

Looking at the successes of these global brands, two questions naturally comes to mind: How can a company create a client-centric brand? What does it mean for a brand to be successful globally?

STRATEGIC INTENT

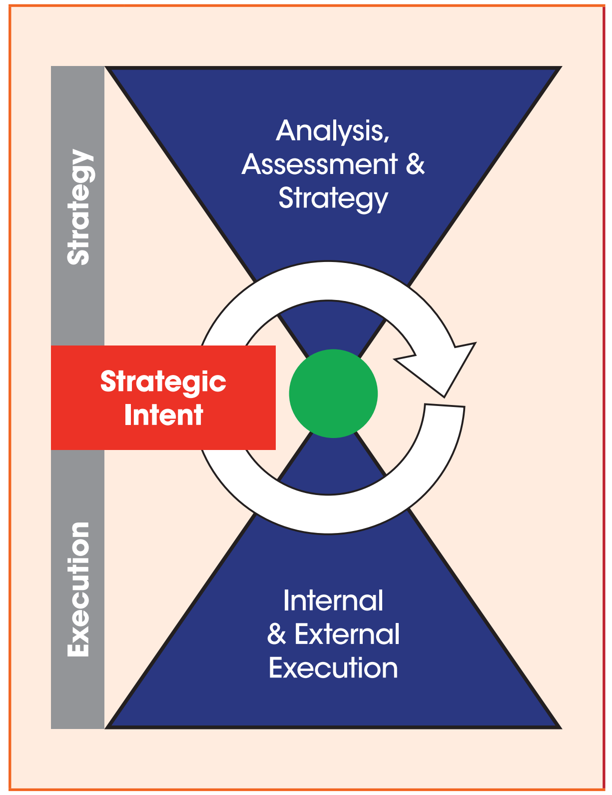
Before a company can identify the drivers of enhanced customer experiences, it needs to define its strategy, brand, and target customer. A distinct, strong, and differentiated strategic intent will include knowing:

- Who your customers are
- What they want
- What you will give them
- What you communicate to them
- How you will service them
- How you will make money

Once all parameters of strategy have been identified, the board's role is to plan the internal and external execution of the strategy. This requires striking a balance between the company's internal and external focus; among people, time, and resources; and between risk and rewards. It is easier to strategise on expanding markets, geographies, and product lines and solutions, but it is harder to make tough decisions on what lines to drop and what geographies to exit from. As Professor Michael Porter said, "The essence of strategy is choosing what not to do."

A brand must be built on authenticity and must be able to tell a convincing story that target consumers can relate to. The Jim Thompson Company from Thailand is a well-known Asian brand with great potential to become a strong international lifestyle brand. The brand is primarily built on three pillars. The first is the legend surrounding the founder Jim Thompson, an American soldier who settled in Thailand and his eventual mysterious disappearance. The second is the unique blend of Eastern tradition and heritage with Western contemporary designs based on traditional Thai symbols and patterns. And the third is the elevation of the brand from a cottage industry product to a fashion and lifestyle concept. By developing the brand on these three pillars, Jim Thompson has been able to maintain its differentiation and build a strong brand. The brand is perceived to be highly authentic, and of high quality and a strong heritage.

STRATEGIC INTENT



COMMUNICATING THE BRAND MESSAGE

Having a strong brand message must go hand in hand with the ability to consistently communicate and live up to that message. Since 1973, Singapore Airlines' primary message, 'A Great Way to Fly', has been consistently conveyed in exclusive print media and also in selected TV commercials of very high production value to underline the quality aspects of the brand. All communication messages are conveyed through the iconic Singapore Girl in different themes and settings.

When Singapore Airlines launched its comfortable SpaceBed seats in business class, it ran a 60-second commercial of a highly emotional and mythical character to underline the aspiration of the brand and the Singapore Girl, and to set the airline brand apart from the competition. Singapore Airlines chose to focus on one aspect of the experiential brand strategy—in-flight hospitality and warmth featured by the Singapore Girl—rather than communicate all the brand benefits through its messages: a dangerous trap that many brands often fall into in their efforts to communicate all at once. This has led to a focused and consistent message for Singapore Airlines for almost half a century, a great achievement for any brand.

LEARNING FROM CUSTOMERS

Developing a customer-centric brand requires learning how customers feel about your company and brand. In an effort to inspire and design more personalised, human-oriented vehicles, the now Chinese-owned car brand, Volvo, created a Facebook app called 'You Inside', which asked drivers to share how they used the space inside their cars. By uploading images of items inside their cars, describing how they were organised, and sharing profile information about their lifestyle, the app inspired a number of subtle innovations for later Volvo models and, more importantly, resulted in a notable boost in customer appreciation and overall brand affinity.

Lindsay Owen-Jones spent over 30 years with L'Oreal as its CEO and chairman of the board. He was notoriously obsessed with customer insights and spent a significant proportion of his executive time on the road visiting, interviewing and observing global L'Oreal consumers in their natural environments. These insights, along with Owen-Jones' visionary leadership, were the two main drivers of his success, and the secret behind the global rise of L'Oreal.

When the Fullerton Hotel opened in Singapore, the cleaning lady observed than one particular customer, an elderly lady from Hong Kong, had telephone books stacked up in front of her bed. She patiently put them back during the customer's stay every month. She wondered why that was so and notified the manager. They realised it was because the hotel beds were very high. The hotel then made steps out of Indonesian wood, put it by the bed for the customer's next stay, and put up a sign that read 'Welcome back'. Such small efforts have huge impact and create total loyalty.

INNOVATION

Complacency is not an option for even the strongest of brands. Innovation, be it in its products, processes, or experiences, is the hallmark of all leading companies. Consumers the world over are constantly looking for something new and are willing to pay a premium for it. A prime example of this is when LG Household & Health Care introduced Frostine, the luxury chilled cosmetic, in South Korea. Since the ingredients required cold storage, LG also introduced a specialised cosmetics fridge called an Icemetic Cellar, which was the first of its kind. Despite the exorbitant price tag, LG's overall cosmetic sales recorded a 300 percent growth in a single month after its launch. Similarly, when Sulwhasoo's Dahamsul Cream, a super-premium anti-ager with caviar ingredients, debuted on the home shopping channel, it sold more than 2,000 sets within 40 minutes and was frequently sold out for six consecutive months following its launch.

As a competitive necessity, Amorepacific, the Korean cosmetics company, invested heavily in research and development while staying true to its roots with an ongoing focus on natural ingredients. In 1966, it was the first company to use ginseng, a common ingredient in Asian traditional medicine, as a base for cosmetic products. In 1979, it was the first in the industry to cultivate a tea garden, an initiative that later spearheaded the world's first skincare line based entirely on green tea.

ADAPTABILITY AND AGILITY

To create a globally competitive customer-centric brand, adaptability and agility are two key factors. Nespresso built a global brand by reinterpreting how consumers connect to and consume coffee. It created an entire new category, as the brand adapted to the home environment and brought a professional feel to coffee consumed at home.

Greater customer centricity needed in Asia

There are very few Asian brands on the global stage. This is partly because a large part of Asia's economic development, until now, has been attributed to low-cost advantages and outsourced manufacturing. While Asia's cost advantages have enabled home-grown Asian companies to gain market share, low cost alone no longer provides a significant long-term advantage. The intense cut-throat competition in global industries has resulted in tremendous pressure on margins, forcing companies to look for additional measures to survive and grow their businesses.

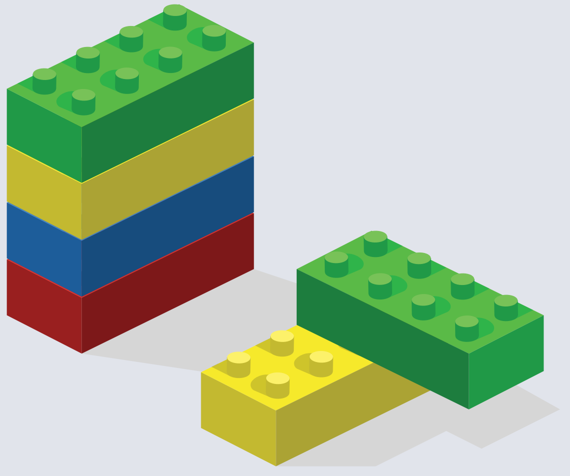
THE TURNAROUND OF LEGO: CONSUMER INSIGHTS FOLLOWED BY INNOVATION

Through the late 1990s and early 2000s, Lego's attempts to combat the rise of video games by becoming a lifestyle brand led the Danish company to become over-diversified and nearly bankrupt. The Lego company is fully owned by the original founder family, and the chairman of Lego, Kjeld Kirk Kristiansen, decided to change its course significantly. Kristiansen brought in global management consulting firm McKinsey & Company to help facilitate a new successful business strategy for Lego. The McKinsey team comprised a young Danish consultant, Jørgen Vig Knudstorp. He quickly caught the watchful eye of the ambitious chairman and the board, and Knudstorp was hired into the internal strategy team of Lego along with other McKinsey colleagues.

When Knudstorp was appointed CEO of Lego in 2004, he pledged to get closer to Lego consumers who had lost their connection with the once-famous brand. Knudstorp realised that Lego needed to better understand the phenomenon of play and creativity among both adults and children, as the art and skill of play and creativity are the core competencies of Lego. The new CEO dispatched 'anthro-teams' (teams of anthropologists) across Germany and the U.S. to observe customers in the comfort of their own homes, shop with them, and listen to their stories.

Lego researchers found that their consumers were very different from what was previously understood from focus groups. Having been invited to participate in controlled playtime or to test prototype products, focus group participants were not playing the way they would at home, but were drawn to the newer systems they thought they should be playing with, thereby giving Lego false positive results. Previous research results and insights were highly biased.

The most vital insight from Lego's embedded anthropologists was what made Lego so beloved. Users play with Lego bricks not only for the freedom to experiment but also to achieve mastery of their building skills. Lego is a medium rather than a toy. From a pile of simple, interlocking, coloured Lego bricks, any exciting adventure could easily be created. Thus began Lego's return to making Lego bricks for people who loved them for what the Lego brand stood for. By going 'back to the brick', refocusing on core Lego products, and divesting the business units that are not essential to their customers' core values, the Lego company began its return to profitability and valuable brand equity.



High-quality service and innovation are by far the bigger sources of competitive advantage compared to low-cost operations.

To break out of this shell and see the emergence of strong Asian brands globally, customer centricity must become the core of Asian brand strategy. Three aspects of branding are clear. The first is that the role of branding has grown beyond the narrow definitions of marketing. The second is that, for a company to fully realise the potential of a brand, it must create an environment and support system that would enable the brand to fulfil its multiple roles. The Asian boardroom and executives need to step up to the challenge and let marketing take centre-stage in their companies. And finally, understanding consumers is the key to future strategy, improved design processes, marketing effectiveness, and financial profitability. A constant dialogue with customers and paying attention to their needs is the next frontier for Asian companies that will enable them to compete globally, sustain competitiveness, and command customer loyalty.

> To break out of this shell and see the emergence of strong Asian brands globally, customer centricity must become the core of Asian brand strategy.

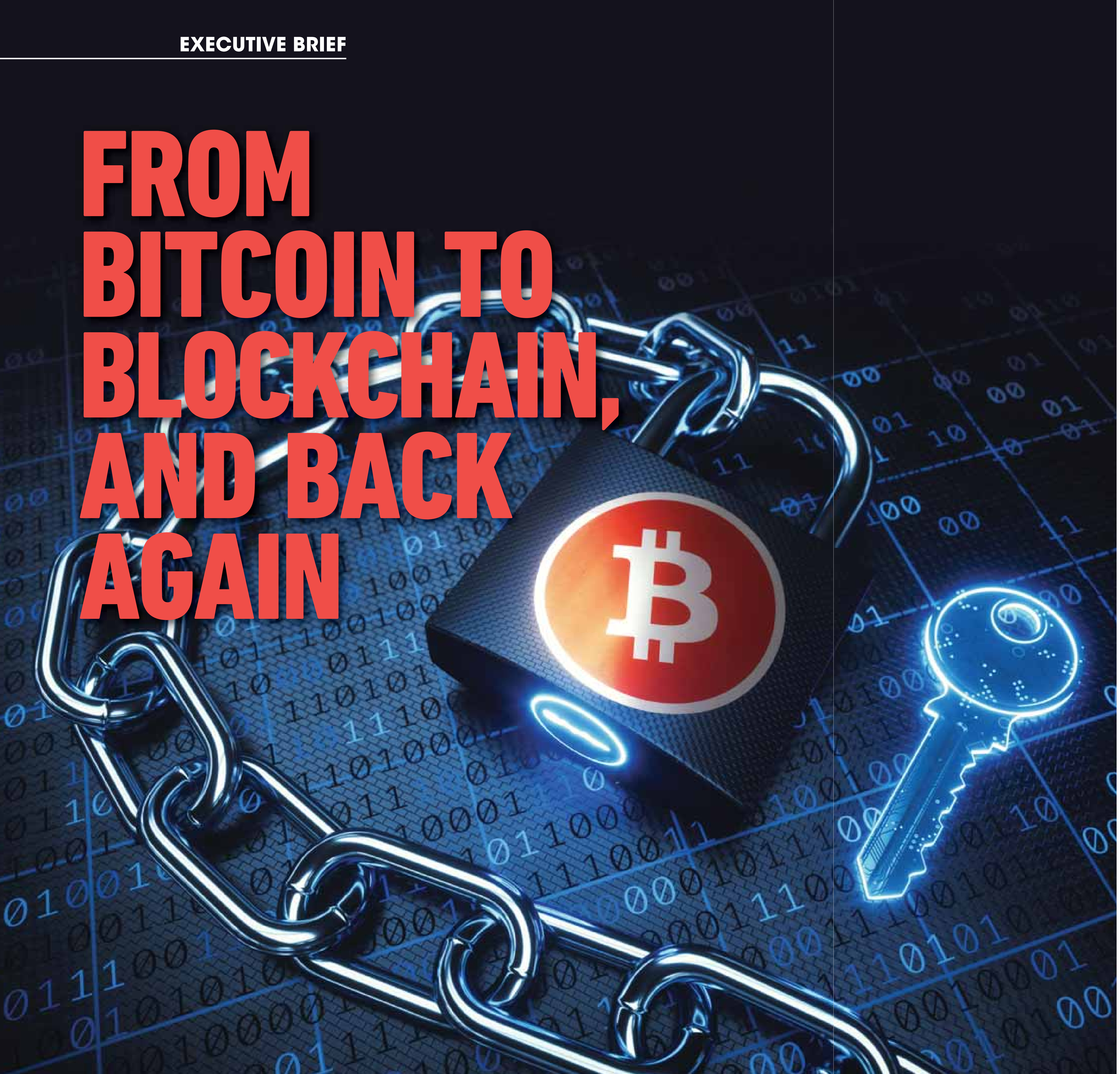
The branding implications are very strategic and influence the very nature of business. Such a function cannot be left to middle-level marketing executives who would not understand the holistic perspective and appreciate the greater role branding plays in the larger scheme of things. The CEO, in consultation with his senior management team, should provide consistent teeth to the branding function. Only then would the corporate board have the necessary information to decide on such strategic issues.

Samsung, Hyundai, Amorepacific, and Singapore Airlines are prime examples of Asian brands that are customer-centric and brand-driven, but many more Asian companies need to follow. It would be the strong initiatives from CEOs and corporate boards that would anchor and sustain brands in the highly competitive global market.

Martin Roll
is the founder and CEO of Martin Roll Company which consults on strategy, business development, branding and marketing. He is an advisor to several global boards, a Distinguished Fellow at INSEAD Business School and Former Senior Advisor to McKinsey & Company

References
1 Martin Roll, "Asian Brand Strategy", 2015, Palgrave Macmillan.
2 Ibid.

FROM BITCOIN TO BLOCKCHAIN, AND BACK AGAIN



Is the genie out of the innovation lab?

By Danielle Szetho and Rene Michau

The subject of innovation, as it pertains to strategy and change management, has long been a staple for discussions in business management. We are familiar with the story of Kodak failing to capitalise on its digital photography patents, or Fuji's successful diversification from the photo film industry, and the perfect storm of technologies that have since disrupted it. But where do we stand on banking and finance? Is it another industry on the brink?

Many believe the industry's disruption began in earnest well over a decade ago in the form of the Financial Technology (FinTech) revolution, driven by the same underlying catalysts that underpinned disruption in other industries. The proliferation of ubiquitous high-speed Internet and cheap, smart personal devices have eliminated much of the time and friction involved in transferring data securely to one or many. The convergence of these technologies has disrupted various parts of the industry as evidenced by the steady increase in the number of peer-to-peer business models. In addition, a foundational shift in the instruments, mechanisms and technologies that underpin global trade has driven the cost of making small individual transactions down towards zero. Even the most challenging area of payments–cross-border remittances–has seen a steady decline in cost, from almost 11 percent commission on the transmitted amount in 2008 to under 7 percent in 2019.[1] Of course, this assumes you are sending money on traditional financial rails; the transaction cost of a cross-border wallet-to-wallet payment in a cryptocurrency such as Bitcoin or Ether is almost nil.[2]

The rapid rise of e-commerce has also pressured traditional banks to scale up their capability to support the very steep growth in economic activity, presenting a significant challenge to incumbents as they work to respond to technological disruption.[3] The companies and innovations driving this growth don't always play by the same rules and are not constrained by legacy technology, organisational structures and the bank branch-based culture of working to end-of-day, end-of-month and end-of-year balances. Incumbent organisations seeking to stay relevant, and provide structured and stable financial services to this new, dynamic market must undertake a complete rethink of their business models in order to deliver effectively.

Banking is already highly regulated and financial regulators have struggled as much as incumbents to identify, understand and regulate these new technologies as they rapidly change the industry. Since the launch of the first Regulatory Sandbox by the U.K.'s Financial Conduct Authority in November 2015, there are now almost 30 other Regulatory Sandboxes (live or proposed) in other markets, including Australia, Singapore, Russia and even Sierra Leone.[4] These Sandboxes have been effective in allowing regulators, industry and innovators to experiment and learn about new technologies together while carefully balancing the requisite need for consumer protection. However, though it is easy to design experiments to see how new technology can improve a compliance process or customer experience, it is far less simple to explore wholly new and disruptive technology-driven business models. Blockchains and digital or cryptographic assets (crypto-assets) present this exact challenge, particularly as they disrupt core banking business models and are rapidly reaching scale with customers.

The early days

In October 2008, the pseudonymous Satoshi Nakamoto published the now-infamous paper describing 'a peer-to-peer electronic cash system' that gave birth to Bitcoin and its underlying Blockchain ledger. It was originally intended to create a means of online payment that bypassed the need for traditional financial institutions by using technology to solve the double-spending problem.[5] Bundles of Bitcoin transaction information (blocks) were cryptographically secured and appended to a public ledger (Blockchain), and distributed across a peer-to-peer network. It had incentive mechanisms (consensus algorithms showing proof-of-work) designed to shift transaction and ledger validation to peers (nodes) in the network of a trusted central third party—the role traditionally played by a central bank or commercial bank. Removing the need for the trusted financial intermediary meant Bitcoin could proliferate as an alternative payment method and store of value for several years outside of the traditional finance industry's purview, largely in the domain of cypher-punks, hackers and other technologists. Bitcoin's relative anonymity also made it popular in the Darknet, earning it early associations with drug trafficking and cyber-crime that made it impossible for traditional banks to work with.[6]

Over time, a near-Cambrian explosion of other Blockchain protocols and distributed ledger projects, as well as the testing of different consensus incentive models such as proof-of-stake (Ethereum) or proof-of-importance (NEM) produced variants of the original Bitcoin concept. There were also countermoves away from some of the anti-establishment, anarchic concepts behind many public Blockchains toward centralised models. Between 2013 and 2015, a new wave of 'private' or 'permissioned' Blockchain-based platforms evolved, including Ripple, R3 and Digital Asset Holdings, with designs that were less reliant on cryptocurrencies but focused on the creation and transfer of digitised traditional financial assets. Data related to the transfer of these digital assets was validated by a consortium of approved institutions providing consensus instead of cryptographic proofs, with clear rules governing who could join and who had permission to do what.

These permissioned networks proved more palatable amongst traditional financial institutions and regulators, offering a contained, collegiate and seemingly more controllable experience than their open, public counterparts. Some public Blockchains struggled to manage technical upgrades or governance disputes in their communities, such as the Bitcoin code-base split or 'fork' in August 2017.[7] From late 2014, various banks globally examined various Blockchain and Distributed Ledger Technology (DLT) use-cases, particularly in cross-border and inter-bank payments with platforms built by Ripple and R3.[8] The Australian Securities Exchange (ASX) and NASDAQ explored DLT to replace their ageing back-end systems, with the ASX eventually announcing that Digital Asset's DLT platform would replace its CHESS settlement network.[9] Even the Monetary Authority of Singapore (MAS) launched the first of several proof-of-concept phases exploring Central Bank Digital Currencies (CBDC) and the use of DLT for Central Bank settlements, codenamed Project Ubin.[10]

As the Bitcoin price rose exponentially and finally peaked in December 2017, financial regulators, incumbents and FinTech innovators came to appreciate the disruptive threat that Bitcoin and other cryptocurrencies posed to the existing financial system, as the masses became alive to the speculative opportunity they represented and piled in. Regulators around the world began implementing or updating digital currency laws to bring cryptocurrencies back into their regulatory purview, in view of risks arising particularly from money laundering, terrorist financing, and tax evasion perspectives. Some jurisdictions like India, South Korea and China even imposed outright bans on cryptocurrency trading, fearing consumer losses, capital flight or loss of monetary control. Even so, the financial industry's slow but

steady experimentation with DLT had shown the potential for efficiency gains through a reduction in manual, human-error-prone back-office processes. Even in China, limited testing was permitted by the People's Bank of China (PBOC) to explore how Blockchain could be used within regulated markets like trade finance. The mantra "it's all about Blockchain, not Bitcoin!" was touted by all but the true believers as a 'safe' way to experiment in the risk-conscious banking culture.

Yet even as some markets banned consumer trading in speculative and often fraudulent Initial Coin Offering (ICO) tokens, others such as the U.K., Japan, Singapore, and Australia cautiously embraced the use of digital currencies and crypto-assets by consumers as they judiciously established and clarified their regulatory guardrails. The use of cryptocurrencies for everyday payments slowly spread in Japan, the U.K. and Australia after each implemented regulatory clarifications on the use of digital currency as money, and its subsequent tax treatment. Central bank consideration of CBDCs became widespread after MAS' Project Ubin, culminating in a report by the Bank of International Settlements examining the implications of CBDCs on financial stability and monetary policy.[11] The PBOC went one step further, launching a Blockchain Trade Finance platform with China's commercial banks in late 2018, which it plans to connect to the Hong Kong Monetary Authority's counterpart platform, ETrade Connect.[12] The active involvement of regulators in CBDCs also served to legitimise industry experimentation in this space.

Eventually, the Blockchain industry shifted its focus from ICOs to Security Tokens, a type of digital asset representing other traditional assets, similar to securitisation, which could be managed and traded with smart contracts on a

Distributed Ledger. As regulatory clarity emerged, clever banks and asset managers began to see these digital assets as an opportunity to diversify their source of funds and their investments, reduce costs, and increase returns during a period of stagnating global growth. In late 2018, the World Bank successfully raised A$110 million (US$79 million) from government and institutional investors with the world's first global Blockchain bond, almost entirely managed using DLT.[13] By early 2019, over 20 percent of U.S. institutional investors had exposure to digital assets,[14] and hundreds of millions worth of institutional money went into crypto funds and investment products each month. These were run by the likes of Andreessen Horowitz, Fidelity and Grayscale, whose assets under management stretched into billions.[15] Banks that had cautiously gained experience with these technologies are now seizing the opportunity to custody digital assets for these fund managers and investors, given their preference to custody with trusted regulated institutions.[16]

At the frontier: Stablecoins

Certain types of digital assets still remained well outside the risk appetite of traditional custodial banks, despite the increasingly sizeable baskets of traditional fiat currencies they represented. One example is Stablecoins, a type of cryptocurrency the Blockchain industry has become increasingly reliant on, which is designed to minimise price volatility and used as a store of value within public Blockchain networks. Whilst some smaller Stablecoins are non-backed and algorithmically driven through control of supply and demand, the most successful have been those backed by traditional fiat currencies, such as Tether, Gemini Dollar and USD Coin, all in turn backed by the US Dollar. By early 2019, the market value of all Stablecoins was estimated to be over US$3 billion, or 1.5 percent of the total cryptocurrency market (generally seen as all the crypto-assets associated with public Blockchains), with Tether alone representing over 80 percent of that value.[17] Yet Stablecoins have been plagued with transparency issues due to the lack of an appropriate and consistent audit framework. A recent scandal found Tether's coins were not backed one-to-one by the US Dollar as claimed but were in fact a mix of US Dollar and "other assets and receivables", including a significant and controversial loan to its sister company, Bitfinex.[18]

This scenario is likely to change as technology companies, and particularly regulators, accelerate the pace of their experimentation, bringing the industry deeper into the world of DLT and digital assets. The recent announcement by Facebook about its intentions to launch a new type of Stablecoin for retail consumer payments called Libra has catalysed a global race in digital assets, and pushed banks and regulators to quickly decide whether to align themselves with the ambitious project, or accelerate work on competing initiatives of their own.[19] Facebook proposed that Libra be a global digital currency backed by a basket of traditional fiat currencies and government bonds, managed by an independent consortium called the Libra Association. Its intent for Libra from the outset is to be a "global currency and financial infrastructure that empowers billions of people", particularly those who are currently unable to access the traditional banking system.[20] In essence, the Libra project is envisioned as a digital corporate currency that can be used anywhere by anyone in place of sovereign fiat currencies.

Responding to Facebook's Libra in August 2019, the PBOC announced plans for the forthcoming launch of its own crypto-currency-inspired sovereign digital currency or CBDC, to be rolled out via China's commercial banks and technology giants as a digital alternative to the country's M0 or cash money in circulation.[21] Like Libra, it aims to improve access to financial services in a transparent, compliant manner. In contrast, the specific objective of the PBOC's CBDC is to "restrain the public's demands for crypto-assets and strengthen the country's sovereign currency."[22] The Bank for International Settlements also echoed some of these points in what seemed to be an about-face in its position on CBDCs, indicating that "many central banks are working on it; we are working on it, supporting them", which suggests that market conditions may drive a need for it sooner than initially thought.[23]

CBDC adoption will continue to accelerate as various jurisdictions seek to protect and preserve the strength of their own national currencies against an increasingly assertive China, and the lofty aspirations of Facebook and other technology giants. Experimentation by incumbent banks is also driving digital asset adoption toward mainstream; a collective of 14 banks including UBS, Lloyds and MUFG announced further funding for Fnality International (formerly USC) to launch its own set of commercial bank Stablecoins, representing digital versions of the US Dollar, British Pound, Euro, Canadian Dollar, and Japanese Yen.[24] Together, these developments create a watershed moment for commercial banks as digitised fiat currencies and their associated technologies challenge the fundamental viability of the commercial banking business model. Are incumbent organisations truly ready to respond to these challenges?

> Banks and asset managers began to see digital assets as an opportunity to diversify their source of funds and their investments, reduce costs, and increase returns during a period of stagnating global growth.

It may be argued that the largely uniform organisational structure of commercial banks today is a product of management consulting engagements since the 1960s. These set out to organise banks along product and segment lines instead of the traditional bank-branch organisational structure, centralising control under the CEO and executive teams. This also saw technology teams evolve largely separately from product and sales. It sets the basis for siloed technology investment in larger organisations, resulting in the commercial banks we see today, and the centralised processes underlying many domestic payments infrastructures and the Society for the Worldwide Interbank Financial Telecommunication (SWIFT) network in 1979. This business model and organisational design has remained largely unchanged, driving significant growth in resourcing for internal IT, operations and compliance. Despite over US$1 trillion being invested by banks globally on digital transformation, the industry continues to lag behind well-funded start-ups with highly agile workforces in innovation.[25]

The mindset transformation

So what can industry leaders do to address this? True digital transformation is as much about changing the mindset and behaviour of the most senior leaders as their operational teams. It is not just a matter of improving user experience to create smooth apps; it is about deep transformation of the business models that underpin the delivery of value to customers and shareholders. This can only be done by fostering a mindset that focuses on technology adoption and gaining a deep understanding of how technology is changing data flows, and how digital

assets and DLT impact data and service delivery. It requires a clear signal from the C-Suite that it is no longer acceptable to leave technology to the technologists. Understanding technical and financial tools is as much a part of the new economy as using a ride-sharing app, and the CEO and senior leaders of a bank are responsible for understanding and demonstrating this.

This also leads to the siloed talent question. Banks traditionally hire employees with over 10 years' of experience in the role's specific domain, and it is rare to see employees crossing organisational silos. To re-engineer the organisation to deal with digital currencies, banks need employees with a broad skillset and learning agility who understand the technology. They can effectively be employed in serving customers across different market segments and affect different parts of the overall banking business model.[26] Attracting and retaining talent are both challenging and critical for banks looking for opportunities in a world where corporate or sovereign digital currencies are the norm. There is plenty of untapped crypto talent available to banks, but currently the industry lacks the wherewithal and suitable organisational structures to create an attractive environment for this talent to thrive amid the development of new product and system capabilities.

Whilst it is unrealistic to think that every employee should or could be reskilled for the digital economy, it is critical that the learning agenda is completely aligned with the organisation's digital objectives and the learning programmes are relevant and engaging. Too often, learning is considered a luxury add-on or only essential for technical or regulated roles, when in reality having space to learn is one of the most fundamental strategic assets banks have.[27] Not only should all staff be competent in the basic technologies used to run a financial institution today, each employee should fundamentally understand how the organisation creates value for customers and shareholders. This can only happen when training is made part of employees' regular routine.

Organisational structure and execution ability are inextricably linked to competitive advantage for organisations that are intent on winning in the new economy. The management consultant matrix/silo structure of today's banks hampers innovation rather than assists it, with far too many disconnected projects taking place in lieu of a unified approach to rapidly test new business opportunities that could lead to a re-designed operating model. In order to keep pace with today's fundamental shifts, it is critical to break down organisational silos and empower the right cross-functional team to invest sparingly and take action rapidly in a transparent manner against agreed directional goals and hypotheses. This team should report to the senior executives responsible for driving change, who should be led by the CEO, and they should together aim to holistically solve the challenges faced by the organisation as it strives to serve its customers.[28] Some organisations, such as J.P. Morgan's JPM Coin[29] or the Fnality consortia mentioned previously, are already making a visible start. However, organisational and talent challenges often hinder the scaling of successful experiments in response to initiatives by Facebook, PBOC and MAS. It is imperative that leaders and practitioners act to drive the needed change.

In less than a decade, the banking industry has gone full circle as it has first carefully explored Blockchain and DLT, then rushed to defend itself against the rising tide of crypto- and digital-assets that, in the hands of competitors or even regulators or technology players, now seemingly threaten aspects of the very existence of banks. Yet, like the cautionary tale of Kodak and Fuji, whilst many in the industry have accumulated a wealth of knowledge about these new technologies and business models, it remains to be seen how effectively and efficiently they can apply this knowledge, drive the change, and embrace the new economy to avoid disintermediation, and seize the new opportunities being created in the vast and fast-paced world of digital and crypto-assets.

Understanding technical and financial tools is as much a part of the new economy as using a ride-sharing app, and the CEO and senior leaders of a bank are responsible for understanding and demonstrating this.

Whilst it is unrealistic to think that every employee should or could be reskilled for the digital economy, it is critical that the learning agenda is completely aligned with the organisation's digital objectives and the learning programmes are relevant and engaging.

Rene Michau
is Head of FinTech Advisory at Standard Chartered Bank

Danielle Szetho
is Greater China and North Asia Region Lead, FinTech Advisory at Standard Chartered Bank, and Chair of the Advisory Board at the Emerging Payments Association of Asia

References

1 The World Bank, "Remittances Prices Worldwide", June 2019.
2 On average, less than US$4 per transaction for Bitcoin or a few cents per transaction for Ether, based on the data for the last three months on coinmetrics.io. Excludes wallet, exchange and energy costs, which vary for each cryptocurrency.
3 eMarketer, "Global Ecommerce 2019", June 2019.
4 W. Eggers, M. Turley, P. Kishnani, "The Future of Regulation", Deloitte, June 2018.
5 S. Nakamoto, "Bitcoin: A Peer-to-Peer Electronic Cash System", October 2008.
6 The Guardian, "FBI claims largest Bitcoin seizure after arrest of alleged Silk Road founder", October 2013.
7 A. Hertig, "Bitcoin Cash: Why it's Forking the Blockchain and What That Means", Coindesk, July 2017.
8 "R3 trials interbank Cross-Border payments with Ripple's digital asset XRP", Ripple Labs, October 2016.
9 J. Eyers, "ASX to upgrade to Blythe Masters' blockchain Digital Asset Holdings Technology", The Australian Financial Review, December 2017.
10 Monetary Authority of Singapore, "Project Ubin: Central Bank Digital Money using Distributed Ledger Technology", November 2016.
11 The Bank of International Settlements, "Central Bank Digital Currencies", March 2018.
12 21st Century Business Herald, "Foreign exchange + tax + bank on the central bank blockchain trade finance can be paid in real time", July 8, 2019.
13 The World Bank, "World Bank Prices First Global Blockchain Bond, Raising A$110 million", August 23, 2018.
14 Fidelity Investments, "Fidelity Investments Research Report", May 2019.
15 A. Alexandre, "Grayscale Investments Report Assets under Management of $2.7B", July 2019.
16 Fidelity Investments, "Fidelity Investments Research Report", May 2019.
17 Blockchain.com, "The State of Stablecoins Report", February 2019.
18 M. Levine, "Things got weird for stablecoin Tether", Bloomberg, April 2019.
19 R. Armstrong, N. Megaw, S. Morris and L. Noonan, "Banks in no rush to join Facebook's crypto project", Financial Times, July 2019.
20 The Libra Association, "The Official Libra White Paper", June 2019.
21 J. Chen, "New Digital Currency to launch in near future", China Daily, August 2019.
22 Xinhuanet, "Central Bank Mu Changchun: Digital currency will adopt a two-tier operating system", August 13, 2019.
23 C. Jones, "Central Bank plans to create digital currencies receive backing", June 2019.
24 I. Allison, "14 Banks, 5 Tokens: Inside Fnality's Expansive vision for Interbank blockchains", Coindesk.com, June 2019.
25 A. McIntyre, J. Skan, "Caterpillars, Butterflies and Unicorns: Does Digital Leadership in banking really matter?" Accenture, June 2019.
26 Ernst & Young, "The future of talent in banking: workforce evolution in the digital era - Bank Governance Leadership Network", April 2018.
27 The Financial Brand, "Banking's Digital Talent Crisis: Who Will Fill the Tech Void?", January 2019.
28 Cognizant,"Digital Banking: Time to Rebuild Your Organization (Part III of III)", February 2015.
29 L. Mearian, "J.P. Morgan to launch a U.S. dollar-backed Cryptocurrency", Computerworld, February 2019.

INFRASTRUCTURE: THE REALITY, THE CHALLENGE, THE OPPORTUNITY

To have and to have not.

By Philip Zerrillo

In my travels across Southeast Asia, I notice the stark differences in the levels of infrastructure across nations–from the seamless connectivity in Singapore to the traffic deadlock in Jakarta, Indonesia. During my recent visit to Manila, after an extended period of time negotiating customs and immigration at the airport, we took the Skyway to Makati. Despite it being a toll road, it took us one hour and forty minutes to travel the 11 kilometres distance! My meeting host commented, “This is like Armageddon every day.” Along the way, he also said that the average office worker in Manila now spends over four hours a day commuting to work.

The experience set me thinking about the impact of infrastructure development on motivation, productivity, work-life balance, family structure and, of course, the environment.

Access and efficiency

Unsurprisingly, infrastructure development varies greatly across Asia. The region as a whole, with the exception of some pockets, suffers from chronic underinvestment in critical infrastructure. Country-to-country, port-to-port, city-to-city–the differences are stark and the gap, in many ways, is widening between the haves and the have-nots.

Meanwhile, the challenges are different for the developed and the developing nations in the region. Many of the developing nations remain largely rural, and are confronted with the problem of infrastructure deficit, hindering efficient and effective connectivity between markets, land masses and international neighbours. Limited road networks result in some of the worst traffic jams globally. Unreliable power supply prevents rural populations from benefitting from technological advances. While the world is touting the benefits of 5G, many regional pockets are still stuck in 0G, with limited or no Internet access. Water supply and sanitation facilities have yet to reach all; the inadequate construction of schools and hospitals excludes chunks of the population from a better quality of life and there is severe paucity of resources for the elderly.

The consequence of a lack of diverse transportation infrastructure can be startling, especially to Western visitors. Last year, I visited a logistics company in Yangon, Myanmar and they explained the variability in their supply chain due to the seasonal unpredictability of truck transport from the Thai border to Yangon, a distance of about 480 kilometres. During the dry season, a truck takes about a day to travel the distance, but when it is raining, it can take up to five days! Similarly, in the absence of railways and a navigable river in Laos, the rural route between Pakse and Vientiane, the nation’s two largest cities, is traversed at an average speed of below 30 miles per hour. Hence, farming and manufacturing alike remain fragmented and inefficient.

Efficiency seems a distant goal when the primary question for many developing countries is whether they even have access to dependable infrastructure. In 2016, the farmers at Dà Lạt, the capital of Lâm Dồng province in Vietnam, had a bumper crop of tomatoes. The oversupply in the home market was so extreme that the price fell to 2.5 cents per kilogram while prices in Ho Chi Minh, just over 300 kilometres away, were roughly 35 times as high. Even the attraction of such high profit margins could not overcome the lack of structured connectivity to either Ho Chi Minh City or international markets, leading farmers to dump their harvest on the streets.

Infrastructural challenges also impact the delivery of social services. At a recent conference, I listened to an expert from Singapore speak about how telemedicine could enhance scheduling efficiencies and consumer experience, and optimise the deployment and use of heavy assets needed to deliver healthcare. The next speaker, who was from the Philippines, focused on the ability of telemedicine to provide access to treatment for remote populations in distant, sparsely populated and poorly connected provinces to make up for a lack of doctors.

The rush to the cities

Most nations in Asia have experienced rapid urbanisation in the last half-century. What took 60 years to happen in the U.S. and Europe has been happening much more quickly in Asia. For instance, from the early 1960s to the late 1980s, South Korea transformed from a developing country with a 75 percent rural population to a newly industrialised country with an urban population of more than 75 percent, with over 15 million people living in Seoul-Incheon. Rural-urban migration in India, Vietnam and Thailand is also happening at an alarming pace, putting even more pressure on their governments to provide infrastructure in the form of power, roads, sanitation, education and medical services–and to do it quickly.

Unfortunately, fragile national and local budgets in these countries make a rapid and comprehensive response to the migration impossible. Infrastructure spending requires long-term planning and is usually a lower priority than other immediate needs, and the decision to invest in it keeps getting put off. Lack of political stability, lack of political will, corruption and neglect often result in the failure of even the best-planned projects.

Is outside help really helpful?

While the urgency to build and improve infrastructure is always imminent, investing in it is a high-stakes game for emerging countries. It is essential that the investments these countries make are well-prioritised to maximise the economic winds that fill their sails. Unfortunately, large infrastructure projects tend to be among the most difficult to execute as they are often dependent on funding from international donors or tripartite arrangements, and these typically involve multiple stakeholders with their respective agendas. Possibly of greatest concern is that the terms for many of the projects are dictated by external, supposedly well-meaning collaborators who pay scant attention to national interests. While such projects provide a short-term economic stimulus for the host nation, the longer-term pay-offs are more questionable and can lead to disjointed infrastructure ecosystems characterised by low yields.

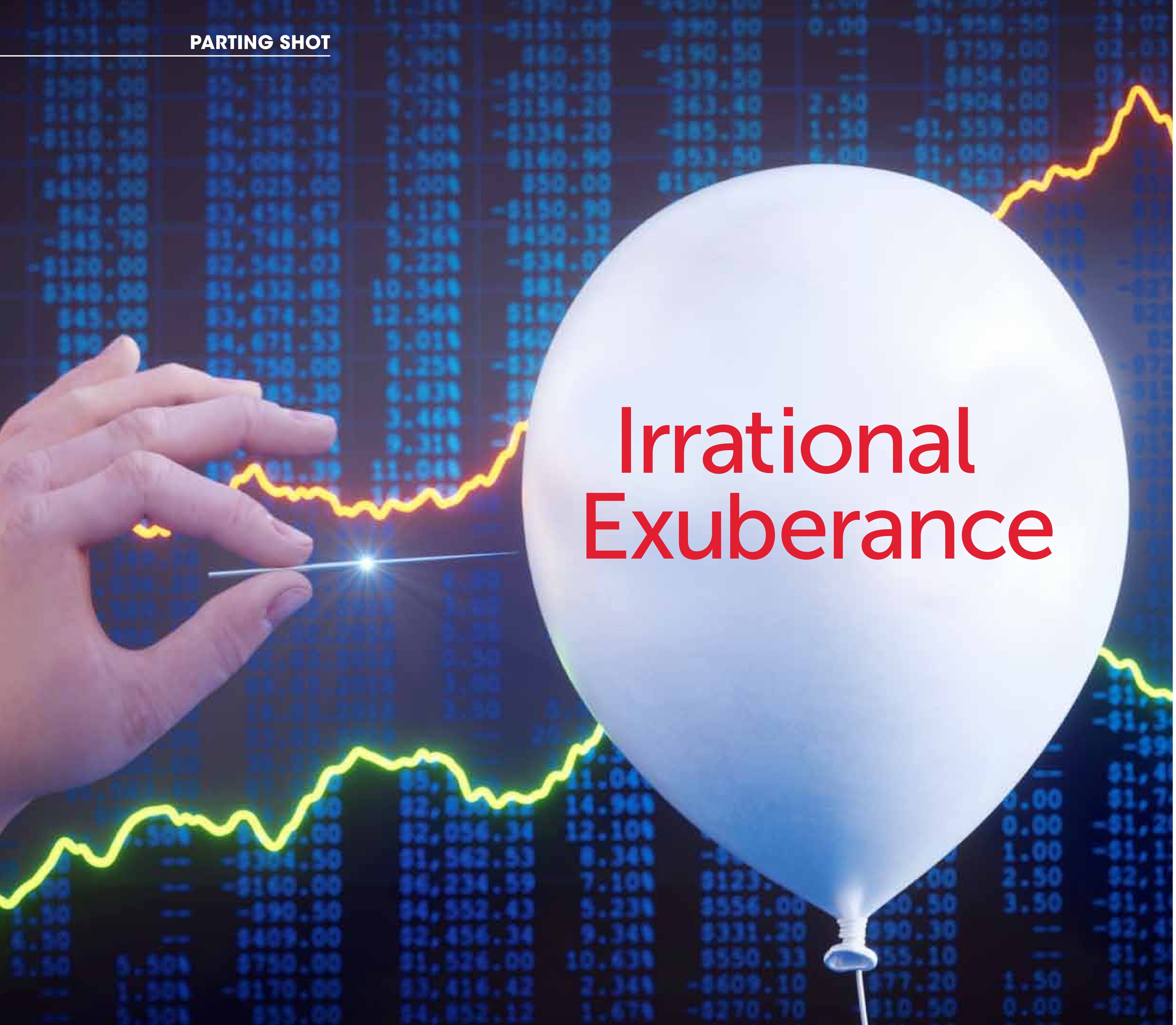
The ‘Belt and Road Initiative’, along with other infrastructure investment funds and public-private partnership models that are sweeping through Asia, are seemingly beneficial as they help build new structures.

It is essential that the investments these countries make are well-prioritised to maximise the economic winds that fill their sails.

However, the bureaucrats involved are usually new to such opportunities and are at a disadvantage when conducting negotiations as they have few choices at hand. Wanting to take advantage of the investment opportunity, they jump at the chance. However, the tough questions will arise when these need to be paid for. The impact of these infrastructure projects on emerging economies can be extreme as most of these economies are hyper-cyclical. They also have limited tax-collecting capabilities and the resulting debt can create a crowding-out effect that strangles strategic initiatives for a long time to come. Such periods can seem endless in the life of a developing economy as they try to put their domestic businesses and population on an even footing with their new trading partners and funders.

Infrastructure is an essential building block and accelerator for a healthy economy, and a happy society. It is a critical factor that supports competitive advantage in trade. It creates greater access to markets for businesses and customers by enhancing efficiency and reducing costs of transaction and delivery. Infrastructure provides the basic fabric of social and economic welfare upon which basic needs and wants are accessed and fulfilled. While governments need to prioritise these investments, the scale, budget and efficiency requirements make it challenging for emerging economies to keep up with the demand. That said, my travel experiences in the region will continue to provide a good ice-breaker for my meetings!

Dr Philip Zerrillo
is the Deputy Dean of the Indian School of Business, Hyderabad



Irrational Exuberance

Panic rooms and flutters in financial markets.

By Vijay Fafat

It's been more than a decade since Nietzsche's Abyss stared right back at us. The pebbles of financial crisis dislodged in mid-2007 led to an avalanche that peaked in December 2008. But for many, the surrealism of that fourth quarter has faded. The sentiment Irving Fisher expressed two weeks before the 1929 stock market crash appears to be back in vogue: "Stock prices have reached what looks like a permanently high plateau." The new bulls have thundered on with a Midas touch to their hooves, swatting aside every obstacle that would have seemed momentous and perilous in any other age—including Brexit and the subsequent fumblings of the British government; the Great Trade War between the U.S. and China; North Korean missile launches over Japan; the Chinese foreign exchange reserve crisis and the fear of another Asian contagion; the structural weaknesses in emerging markets; and the multiple incidents of terrorism.

There have been warning dips along the way, but in retrospect, they look more like the pauses of drink breaks in a marathon run. So the questions arise: Is the stock market overvalued? Are there clouds heralding a crash just over our short-sighted horizon?

"Hypothesis non fingo," Sir Issac Newton had said when he didn't know better. I frame no hypotheses either, for that directional view is not the purpose of this article. I only offer a few cautionary thoughts here on why we overshoot in our optimism and why even genius comes to grief in the face of capricious, mercurial capital markets. There are aspects here that investors can evaluate, and facets that they can control, most notably with the flow of their money and their proxy votes. Institutions, on the other hand, certainly have more power to manage these risks as part of their cultural fabric if they look beyond their next earnings quarter, and their independent directors remain truly independent.

The factors mentioned below apply against the juggernaut today just as much as they did a decade ago. How we deal with them collectively will determine whether we land softly in the next trough or face a hard landing with rippling effects.

Greed

'Anything in excess is poison'—these are words of great knowledge. Greed is good—it drives capitalism in part. But unbridled avarice saddled with power and ambition has brought many an empire to ruin. 'If it is good with a grain, it is better with a bushel' is a thought that may work in some instances of economies of scale, with pooled mutual funds and good-sized nations—but beyond a limit, there are negative returns. Size matters, but recall that even Soviet Russia and the British Empire collapsed when they became too big to govern.

Leveraged portfolios, like leveraged homes, must be within your wherewithal. Ask if a 30-50 percent wipe-out of your portfolio will give you a heart attack. Reach only as far as your purse strings will safely allow. A very telling statistic comes from the 1929 crash. At one point, the stock market was down 50 percent from its highs. It must have seemed like a dream opportunity to buy on the large dip. Those who went in at that point lost 80 percent of their investment subsequently.

Of course, this by no means implies that you shouldn't buy when opportunity presents itself. It does caution, though, that no matter how good an opportunity looks, the greed in grasping at it must stay tempered. A falling knife is still a knife when you're trying to catch it mid-flight.

Hubris

We all suffer to varying degrees from what is known as 'illusory superiority'. This is the phenomenon where we significantly overestimate our own abilities while magnifying the perceived shortcomings in others to create our own version of reality: an enlarged feeling of infallibility. This is particularly true for investments in more esoteric or illiquid securities. After a while, an AA tranche of a collateralised debt obligation (CDO) looks the same as an AA corporate bond, not because portfolio managers do not understand the difference, but because they think they understand their own CDO better. They rely on their own correlation analysis based on selective research that reinforces their positive bias and remain convinced that any downturn or spike in credit defaults is a short-term course correction that will be shrugged off by the market bulls.

One week before Bear Stearns went down, TV pundits were proudly proclaiming it to be a "strong buy", completely disregarding its liquidity problems.[1] Mortgage-backed securities could not be snapped up fast enough in early 2007, regardless of composition and tranching, because of the firm conviction that housing prices could never fall. Leveraged and synthetic CDOs were touted as the newest financial technology to transform the financing world, with no regard to the terrible risks involved. These are just a few specific paths along which the investment managers were misguided right before the 2008 crisis. We don't have to go back to the Long-Term Capital Management episode of the 1990s to highlight what hubris can do to an investment strategy.

To be sure, many portfolio managers do succeed in obtaining spectacular returns. Then again, there will always be the one lucky or unscrupulous risk-taker who will come out ahead in a barrel of a hundred playing at the gambling table. Hubris may pay off for a few, but many will fall on their faces.

Moral hazard

There are often vices in our affairs because people feel a need to negotiate with what may have once been sacrosanct principles. The degree of compromise is determined by circumstances such as incentive schemes, opportunities, personal ethics and credo, role models, delegated authority, and the implicit and explicit controls in place. Where there is much money and power, the temptation of moral hazard can be hard to resist.

While some may merely cut corners, others will saw off the entire bend to achieve their objectives. These include acts of self-interest—insider trading, outright fraud and cooking the books. When the piper stops playing the tune, we all pay with our coins for the show through government bailouts. Recall the uncritical, nonsensical ratings the supposedly independent and analytical rating agencies handed out to exotic instruments simply to maintain market share and ill-gotten rating fees—Madoff's fraudulent funds and Enron were just two of thousands of capital markets scams which had brought investors chasing easy returns to grief. Even a prestigious firm like Arthur Andersen was brought down due to its complicity in such fraudulent activity.

> No matter how good an opportunity looks, the greed in grasping at it must stay tempered. A falling knife is still a knife when you're trying to catch it mid-flight.

> Humans have a habit of overestimating their prospects in a given wager while underestimating its adversity when they are in a state of equilibrium and the sun is shining.

Confidence and subjective probabilities

Humans have a habit of overestimating their prospects in a given wager while underestimating its adversity when they are in a state of equilibrium and the sun is shining. The illusory rainbow extends over the horizon and the potential tiger behind the bush is forgotten. This should be a little surprising because our risk-averse utility functions are actually poised in the opposite direction. Normally, we apply a significantly stronger negative factor to adverse outcomes compared to the positive premium we attach to happy occurrences.

These contradictory directives are conveniently ensconced in our world-view, even though we are quite aware of their opposing natures. They colour our approach to opportunities and pitfalls. Likely, this happens not because we set aside our risk aversion but because we end up significantly misestimating the probabilities involved, giving easier reins to our natural fears. Such unseen mistakes become dogma in decision-making, for it is in our nature to fortify our errors against informed correction. Can a mountain of circumstantial evidence of dubious reliability be ignored in one's gut, when hope and greed lurk?

Myopic exuberance

We may remember the pain of the Asian and Russian crises, the tech bubble, the liquidity crisis of 2007-08, but we have this remarkable ability to convince ourselves that *this time* will be different. *This time*, the markets are rising rationally. *This time*, the investors are more prudent. *This time*, the pull of the lever really is the one favouring the brave.

This is not hubris. It is the persistent, short-sighted, irrational belief that the world of dice is non-Markovian, that a string of bad throws will be followed by that of good ones, and good fortune will persistently follow good fortune. In the long run, risk is rewarded, but we forget that this does not apply to individual outcomes and indeed, a downturn can outlast one's solvency.

Circular rumour and resonance

The herd effect of instinctive sheep following the shepherd remains a large factor in market bubbles. We feel ebullient when others display a confident charge into the raging waters. Once a small herd follows a leader on little more than rumour or reputation, this 'second- and third-party confidence' provides a reassuring validation to the original perpetrators, fuelling further leaps of daring. By their own petards are such castles sometimes hauled upward, with little capital in their foundation. And that works in reverse as well. In today's hyper-connected environment where social media can fan a spark into a forest fire, and where fake news from malicious bots can catch on as gospel truth, the risk of a snowballing market crash is all too real.

We all like to think that we can analyse markets well and not fall victim to the temporary momentum effects. But repeatedly, we buy into our own hype—a case of falling for circular rumour. Before the 2008 crisis, how many stalwart banks with their armies of Ph.D. quants loaded up their own balance sheets with garbage securities (which do have a place in the world—but for high-yield speculators, not staid banks) or non-performing assets? Take a look at any large bank's balance sheet from 2006 for proof. It has taken many of these banks a decade to offload those toxic assets they had built up on their balance sheets. For example, Deutsche Bank has made not one, but two separate attempts at hiving off those toxic assets in its 'bad bank', with book value exceeding US$100 billion.

Is this happening currently? Perhaps we should look at all the non-performing loans loaded up on the balance sheets of Chinese and Indian banks...

Simulacra or experience

We forget that models are mere representations and approximations of what are incredibly complex processes. In the process, we forget simple aphorisms. We get enamoured by models, and models are high maintenance, especially when they misbehave.

In the utopian world where we have convinced one another that the Gaussian distribution rules, black swans never come back to their lake to roost, and home prices never fall (as the U.S. rating agencies assumed prior to the 2008 crisis). Fat-tail events have again faded from view. Do our models really represent the world in which we live or are we just inventing Ptolemaic models of epicycles within epicycles instead of creating fundamental value?

One cannot become a pundit by proxy. Knowledge obtained cheaply is not respected. On a similar note, practical knowledge never obtained also matters! Take securitisation as an example. There are tranches, and then there are tranches. You cannot expect to have a third party label them AA or BB and rest complacently. But we did, and we do. The error is in the act of losing sight of the fact that such instruments remain radioactive even when locked up and forgotten inside wooden drawers. For people who have not been burnt before, and even for many who have been, such lessons are hard to understand before the fact.

We all like to think that we can analyse markets well and not fall victim to the temporary momentum effects. But repeatedly, we buy into our own hype.

Panic rooms and flutters

When the compass points South, the ones who get out first escape and set off the avalanche. When panic rooms are activated, the pendulum of our subjective probabilities swings to the other side, utility functions curve significantly, and we create our own self-fulfilling prophecies. That is just the nature of all chaotic systems—there is a critical threshold beyond which the system breaks out of a stable attractor and escapes the basin uncontrollably. A butterfly flutters in Florida's housing market and the resulting hurricane savages the Pacific Rim.

A Ponzi scheme, or a financial system dissociated from real economy, survives only as long as there is a steady supply of gullibility. Bitcoin and tulip bulbs come to mind.

In the end, we must look back at ourselves before we look at others. We all have visions of control in our lives. There is nothing wrong in strong convictions and beliefs, but temper them with a modest amount of doubt and caution. Today may seem very different from a decade or two ago, and it is. It is much riskier. We have newer instruments to play with, like cryptocurrencies and tokens, and better technologies, like Artificial Intelligence and Blockchain, whose implications we do not fully comprehend. The increase in financial inclusiveness from a myriad of Fintechs is also enabling more people to be able to play with fire—fire with which they have not been singed directly in the past.

The myopia of control replays itself at all levels, in every aspect of our lives. As Dr Ian Malcolm reflected ruefully in the movie *Jurassic Park*, "You never had control, that's the illusion! I was overwhelmed by the power of this place. But I made a mistake, too, I didn't have enough respect for that power and it's out now."[2]

While investing, discount everything you think you understand, and keep your fear of missing out in check.

Even Aristotle was felled. Taste your hemlock with care.

Vijay Fafat
is the Head of Global Markets Transformation, APAC at BNP Paribas

References

1 Hedgeye, "Dear Jim Cramer, Remember this Beauty?", September 12, 2018.
2 Jurassic Park, Film directed by Steven Spielberg, 1993.

Yidan Prize 一 丹 獎

YIDAN PRIZE SUMMIT 2019

GLOBAL IDEAS FOR LOCAL IMPACT

2 DECEMBER 2019

ROSEWOOD HONG KONG

The Yidan Prize Summit, now in its third year, brings together global thought leaders in the field of education to highlight among the most innovative strategies, ideas and practices that can benefit schools and institutions of higher learning, and to encourage a more equitable access pathway to high-quality education.

Learn more at summit.yidanprize.org

SPEAKER HIGHLIGHTS

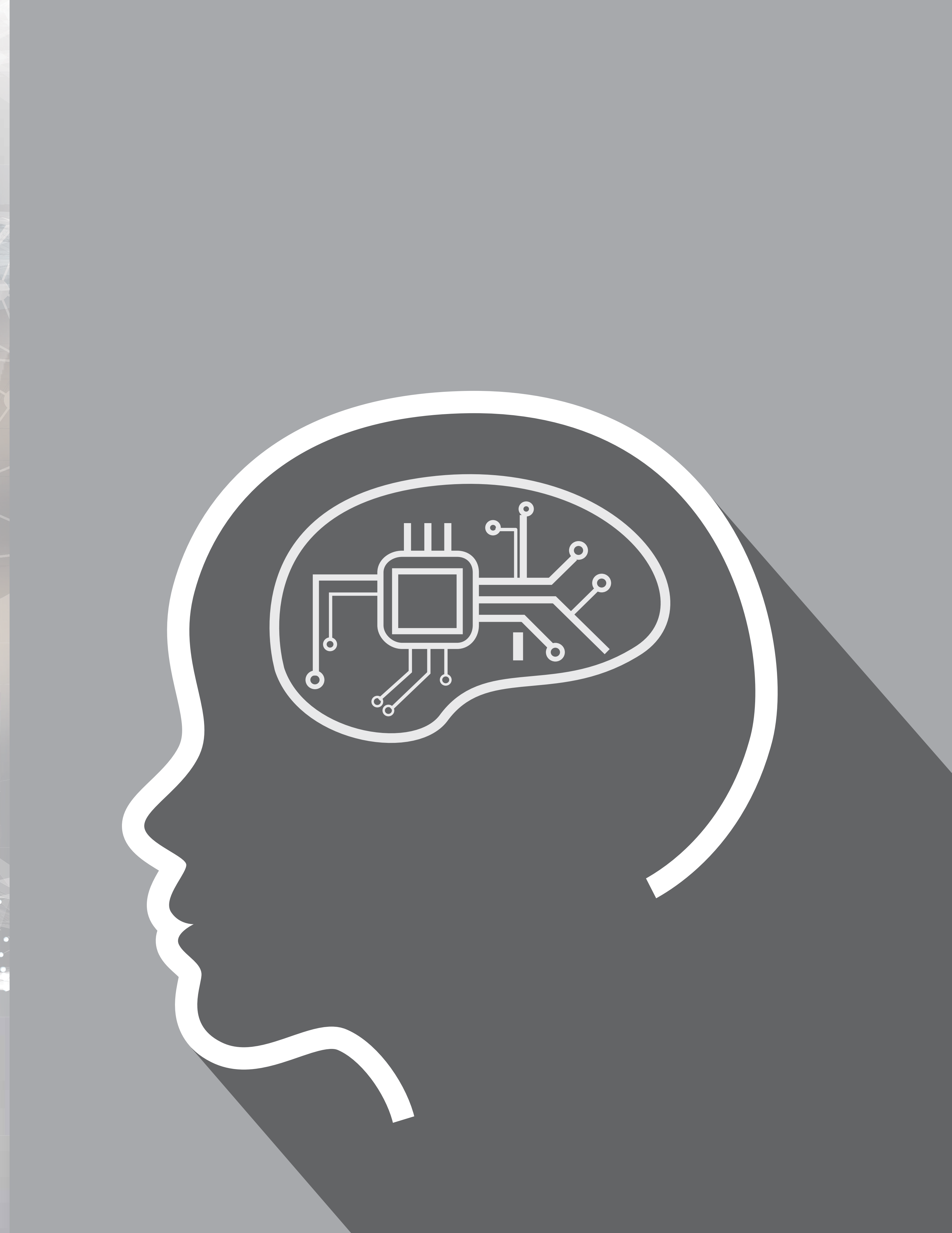
Dr Charles CHEN Yidan
Founder,
the Yidan Prize

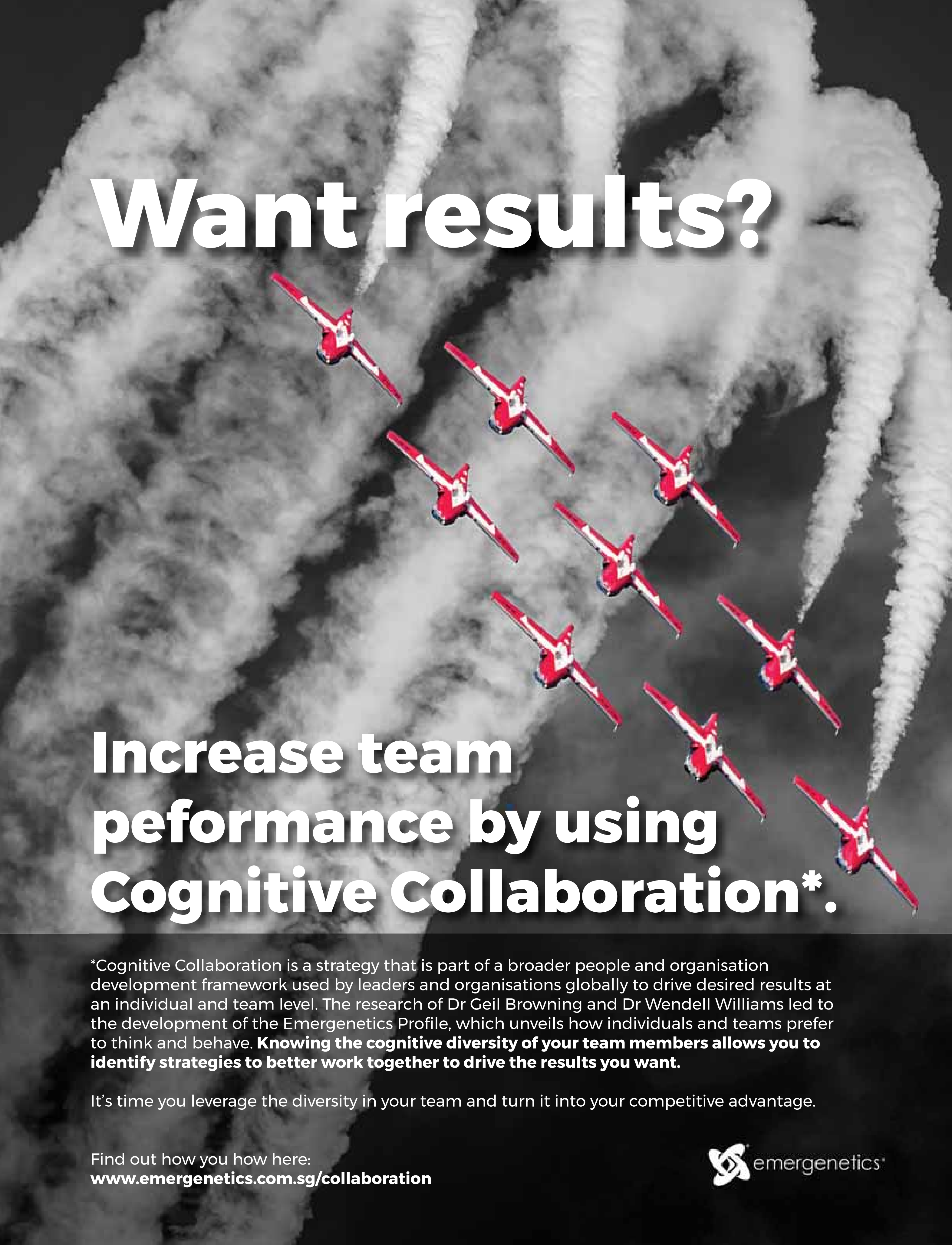
Mr Salman KHAN
Founder,
Khan Academy

Professor Larry HEDGES
Yidan Prize for
Education Research
Laureate 2018

Ms Vicky COLBERT
Yidan Prize for
Education Development
Laureate 2017

Summit Website | @Yidan Prize | @TheYidanPrize | @Yidan Prize | @theyidanprize | Yidan Prize | @ 一丹奖




Want results?
Increase team peformance by using Cognitive Collaboration*.
*Cognitive Collaboration is a strategy that is part of a broader people and organisation development framework used by leaders and organisations globally to drive desired results at an individual and team level. The research of Dr Geil Browning and Dr Wendell Williams led to the development of the Emergenetics Profile, which unveils how individuals and teams prefer to think and behave. **Knowing the cognitive diversity of your team members allows you to identify strategies to better work together to drive the results you want.**
It's time you leverage the diversity in your team and turn it into your competitive advantage.
Find out how you how here:
www.emergenetics.com.sg/collaboration
emergenetics