



In Search of InnovAsian™

The Malaysian Innovation Climate Report 2010

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Alpha Catalyst Consulting

25th January 2010



This report is based on the Malaysian Innovation Climate Survey 2009, which was designed and managed by Alpha Catalyst Consulting in collaboration with Microsoft Innovation Center, Malaysia.

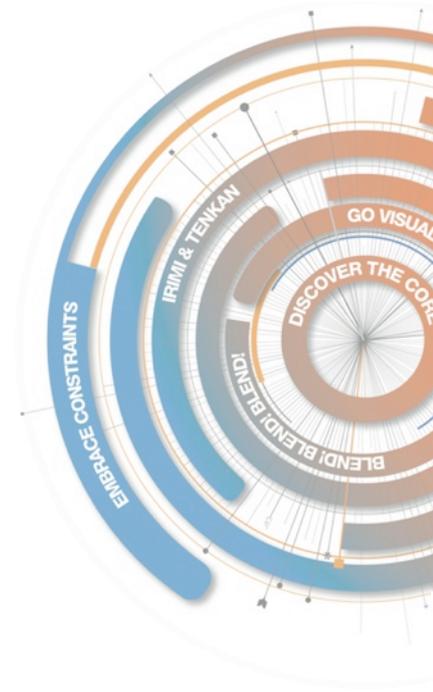


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Acknowledgments

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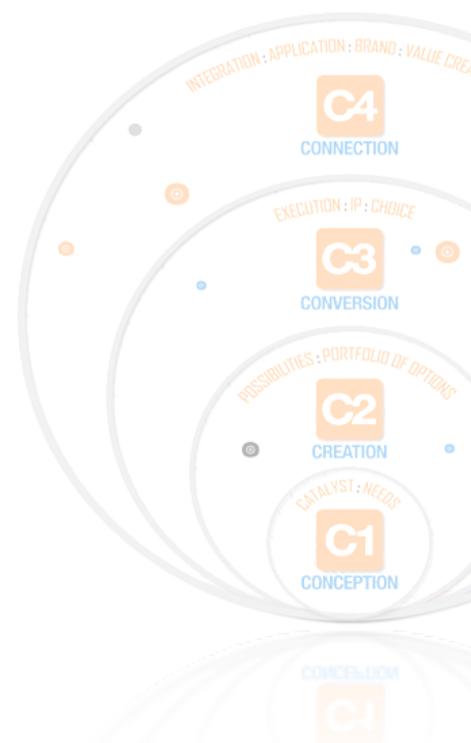
About Alpha Catalyst Consulting

Alpha Catalyst Consulting (ACC) is an Asian based Innovation Consulting company. It was founded in the year 2000. ACC's main focus is on helping organizations build the capability and capacity to innovate and renew itself, to be competitive in the market place.

Through extensive research and consulting experience in Asia, Alpha Catalyst has pioneered a simple and pragmatic Innovation Framework to help companies that are curious to embrace the innovation agenda. Our insights have helped Asian organizations explore new approaches and ideas to innovate the way they innovate, whilst widening perspectives and embracing innovation without fear of uncertainty.

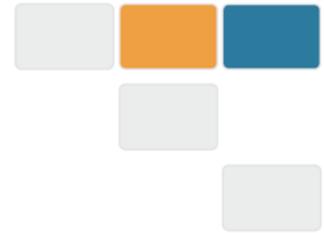
ACC, has done work in diverse industries ranging from banking sector, oil and gas right up to the telco industry. Apart from Malaysia, the ACC team has also worked in Singapore, Indonesia and in the Middle East.

We believe innovation is a **mindset and culture**, that is capable of conceiving the need for change and developing breakthrough ideas and solutions. It's the willingness to choose and execute **risky but promising** ideas. Lastly, it is about harnessing value when ideas are brought to the market. Hence, it's a convergence of **needs, great ideas**, execution and value creation



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Microsoft | Innovation Center



Microsoft is committed to helping foster strong local software economies in every country where it does business. The Microsoft Local Software Economy Initiative (LSE) takes a leading role in this effort through investments in ICT education and skills development, support of programs that encourages entrepreneurship and accelerates local technology commercialization, and initiatives that inspires innovation in the local economy.

Central to its efforts in developing the local software economy in Malaysia is its commitment to inspire innovation by providing access to its software and technologies to select groups such as startups and students via programs such as BizSpark, DreamSpark and WebsiteSpark; building the capability of local companies and professionals via training and advisory; and fostering a closer collaboration between industries and the government.

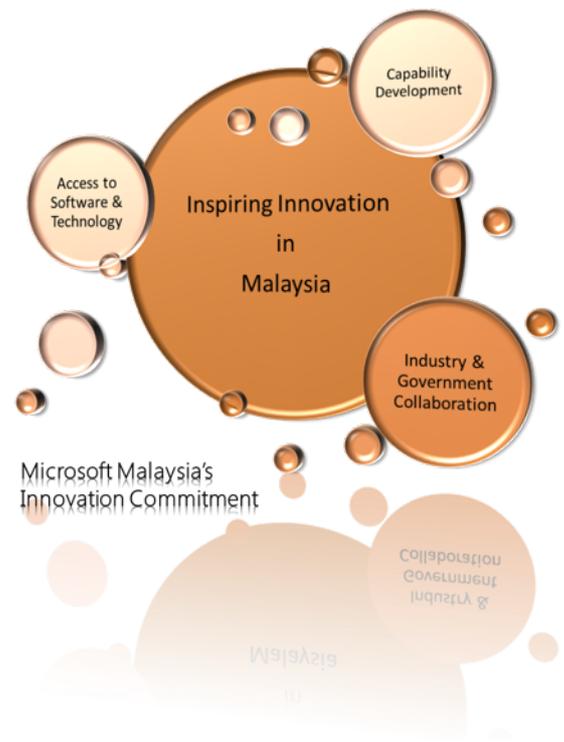
A cornerstone of the LSE is the Microsoft Innovation Centers (MICs) that create an environment to foster innovation. A network of 110 Microsoft Innovation Centers across 60 countries provides access to world-class resources for software developers, IT professionals, university students and faculty, and entrepreneurs. The MICs provide participants with opportunities to exchange ideas, collaborate on innovative solutions to shared challenges and help local communities translate those ideas into business success.

In Malaysia, we have established two MICs, the Microsoft Innovation Center @ Cyberjaya and the Microsoft Innovation Center @ MIMOS, collaborations with MSC Malaysia and MIMOS Berhad respectively. These MICs cater to a wide spectrum of organizations and audiences, from private to public sector, from startups to mature Independent Software Vendors and from students to professionals.

About Microsoft Malaysia

Microsoft (Malaysia) Sdn Bhd (www.microsoft.com/malaysia) is a subsidiary of Microsoft Corporation and was incorporated on July 8, 1992.

Founded in 1975, Microsoft is the worldwide leader in software, services and Internet technologies for personal and business computing. The company offers a wide range of products and services designed to empower people through great software – any time, any place and on any device.



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1.0 Introduction



A company may maintain a healthy profit margin and enjoy continued success without innovation, by maintaining status quo – focusing on quality, cutting costs and customer relationship. This is especially true if the company is unexposed or immune to competition, and more so if its customers demand little choice.

However, few companies operate in such a utopia. For the rest of the corporate and commercial world, there are several reasons companies should embrace innovation.

Malaysian based companies need to innovate as competition rises globally and our customers become more discerning. As the consumer's lifestyle evolve to reflect their level of affluence, they will demand better and more innovative products and services.

In addition to that, the current global financial crisis is sign of times when doing more of the same is not enough to generate adequate shareholder value.

The Malaysian economy has been slowly shifting away from agriculture and low-cost manufacturing, as local labour costs skyrocket at a far greater rate than in countries like China, Indonesia, Thailand and Vietnam. But Malaysia has, thankfully, moved up the value chain by investing heavily in the services and knowledge-based sectors such as the ICT industry, biotechnology, engineering and design services, hospitality, outsourcing and financial services. But within this realm, Malaysia has to face even greater

competition against Singapore, India, Philippines, Taiwan and Korea.

Thus, if a company's competitors does not drive it to innovate, its shareholders' demands for greater return on investment, certainly would. And increasingly, companies will feel the pressure of demands from its stakeholders – from its partners to suppliers – to advance into, if not catch up, with innovation.



Many new concepts on innovation have emerged in the past few years. This list includes open innovation, disruptive innovation, front-end innovation, blue ocean strategy, value innovation, business model innovation, design thinking, design for six sigma and many more.

We believe that innovation is still at its infancy stage in Malaysia. We are still lagging behind other Asian countries such as Singapore, Japan, Korea and Taiwan. Currently our focus has been on productivity and quality of our services and products. The time for change is here. How ready are Malaysian companies to innovate? Does the Malaysian/Asian culture support or hinder innovation? Can we adopt a developed countries' or Western models to innovate as how we emulated the Japanese culture in productivity? This curiosity lead us to embark on a journey in search of innovation in Malaysia.

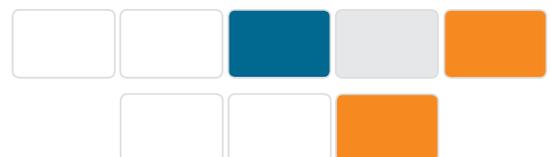
The Survey

We have come across many surveys in the past that look at innovation at a country level, industry level and even at a company level. We are also certain, that there are many academic researches conducted, to understand the state of innovation in Malaysia. However, we wanted something a little different. We wanted to look at the innovation scene from a **pragmatic bottom-up perspective**, to explore innovation at an operating level. To really bore down to the exact individuals who are supposed to be practicing innovation or those aspiring to do so, and discover their views of innovation; within their company and within the country, and what will make them tick or otherwise!

We are fully aware that there are so many approaches in innovation but with this survey we wanted a utilitarian view of innovation, not from a macro economic or policy point of view. Hence we **designed a survey to tap on the experience and reflections of employees from diverse industries and age group.**

The survey itself is largely based on our Catalyst for Change® Innovation framework along with inputs from various parties.

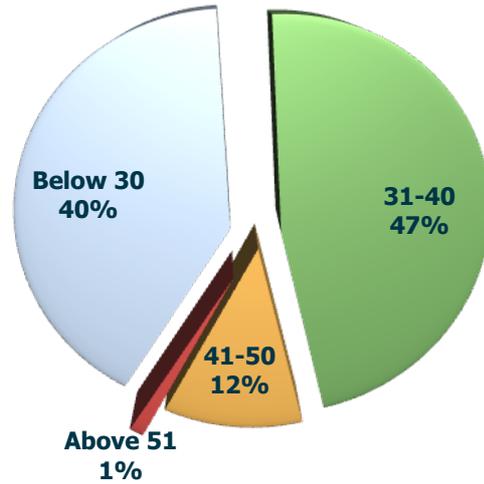
In **March 2009**, we launched the Malaysian Innovation Climate Survey 2009 in collaboration with **Microsoft Innovation Centre, Malaysia**. We ended the survey in **August 2009**.



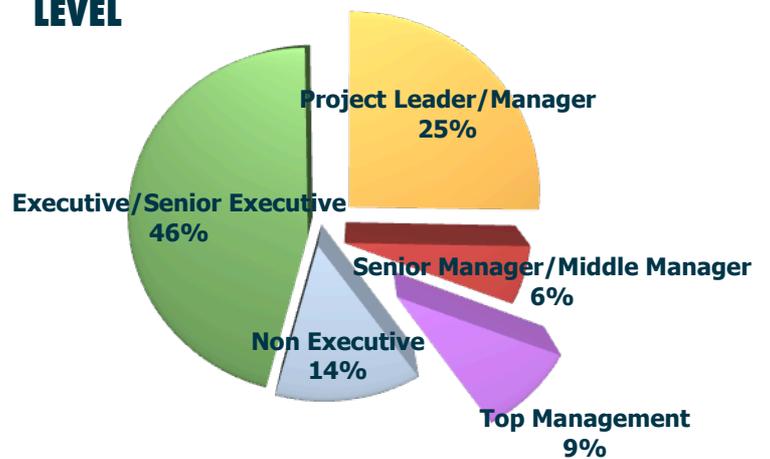
A total of **273 individuals** participated in the survey. On the average, each section had between 230-250 responses. We had opened the survey to the general public and decided not to define the demographics early on. Thus, we decided to report the survey based on the profile of people who have participated.

As expected a large percentage of the respondents, 40%, came from the IT industry, contributed by Microsoft Innovation Center's involvement. The demographics of the data is highly diverse and we saw many angles of analyzing and reporting the results. However, as we wanted this report to be very general and broad, we shall be reporting the survey based on industry (top five), company size, respondents age and from an overall perspective.

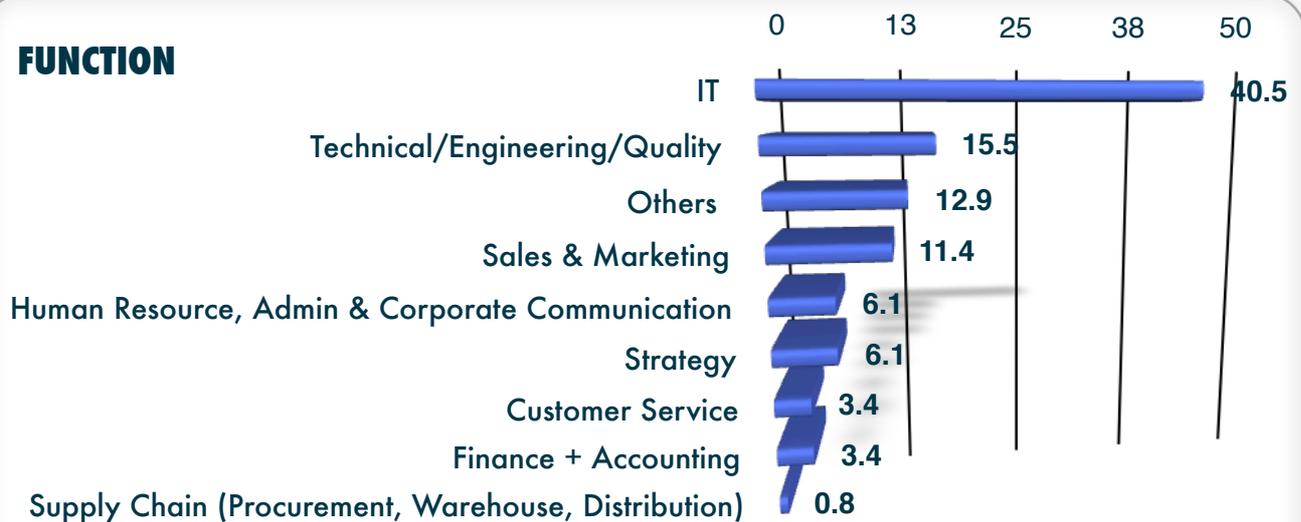
AGE



LEVEL

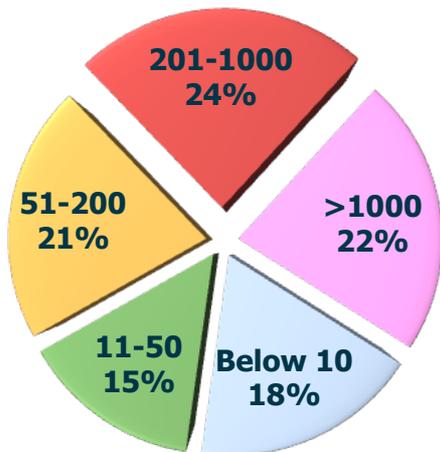


FUNCTION

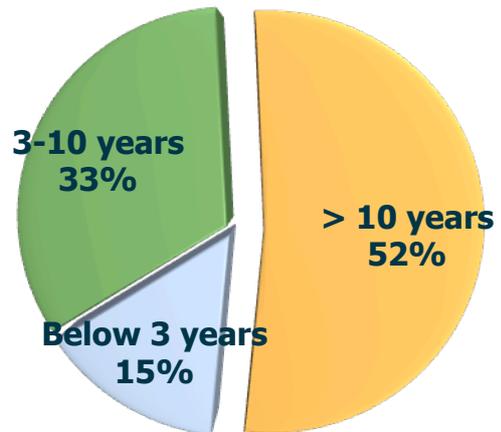


Others: real estate, teachers/lecturers, lawyer, editor, journalist, doctors etc.

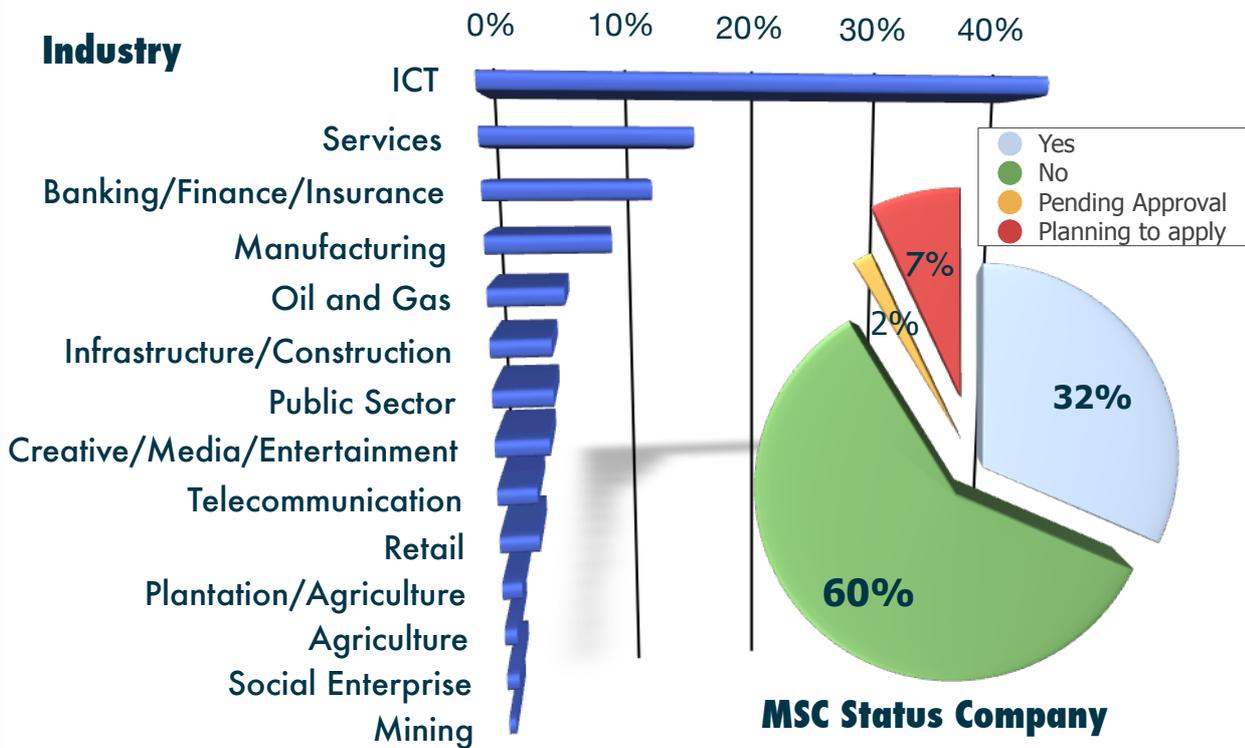
Number of employees



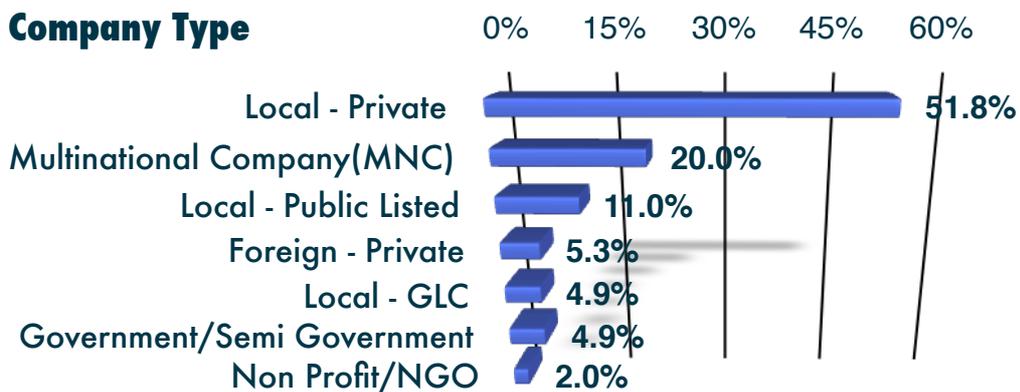
Company age



Industry



Company Type



The Report

This report is **not a fully scientific endeavor** that would meet the vigorous statistical scrutiny and analysis that is fit for a management journal but more of our view of the innovation climate in Malaysia. It is based on a **combination** of the **survey data**, our **interviews and conversations** with various individuals, **consulting experience** with our clients, **our innovation framework and philosophy**; and finally the current reports, research and publications on innovation.

The report has seven main sections. The first one is on the survey design and demographics. The second part looks at the definition of innovation and this is followed by the third section, Innovation in Malaysia, at a broad perspective. The fourth section explores the innovation priority, where we analyzed the company's desire to innovate. The fifth section looks at the readiness of Malaysian companies to innovate. We believe that there is a big difference between having the desire and having the capacity and capability to innovate.

In the subsequent section we go deep and expose the barriers to innovation from the various perspectives. The seventh section shifts the focus from the company towards the individuals and looks at the critical elements for the individuals to innovate.

In the final section, we shall be sharing our take of the overall results and the optimum environment for innovation to happen within Malaysian companies. We believe that this report can be used as a starting point for innovation; to build on and expand on what is already there. We want this report to provide a common language for innovation so that companies and individuals alike can start having a deeper and more meaningful conversation with your teams about innovation.

USING THE REPORT

For **the individual**, we hope that this report will help you understand where you fit, in the innovation equation.

For **the innovators** we hope this report will help you understand your challenges better as well as provide some clues of how to overcome them.

For **the leaders**, we hope it will guide you to lead your team to be more innovative and create a culture where innovation will thrive.

For **the strategist**, we hope this report will help you be more strategic when it comes to innovation and be more effective at managing your portfolio of innovation investments and projects.

For the **academician**, we hope this report will help you explore new territories to conduct new experiments and research; with higher commercialization rate.

Finally, for **the policy makers**, we hope that this report will help you create policies and develop initiatives to build Malaysia's long term capability and capacity to innovate.

2.0 What is Innovation?

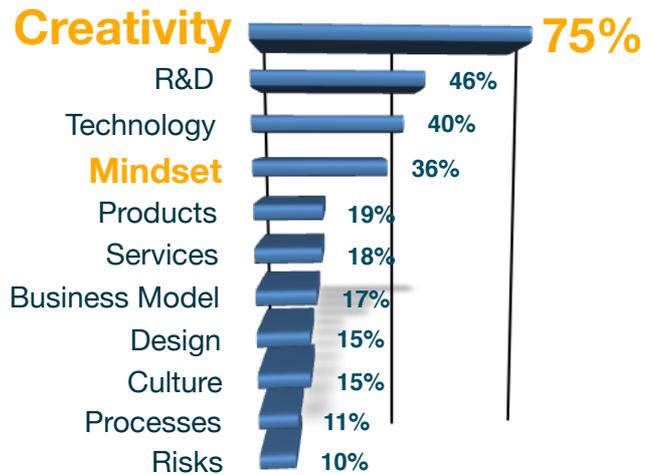
First and foremost, the word innovation comes from the Latin root 'nova' meaning 'new'. Many associate innovation with **creativity** (75%), as reflected in our survey. Other typical responses includes **R&D** (46%) and of course **technology** (40%).

Some have also associated it with patents and invention. As we go down the list, we saw something surprising as 36% of the respondents associate innovation with **mindset**; something that is intangible and unexpected, leading significantly ahead of **products, services** and **business models**. Is there a revolution brewing in the world of innovation, ready to be unleashed?

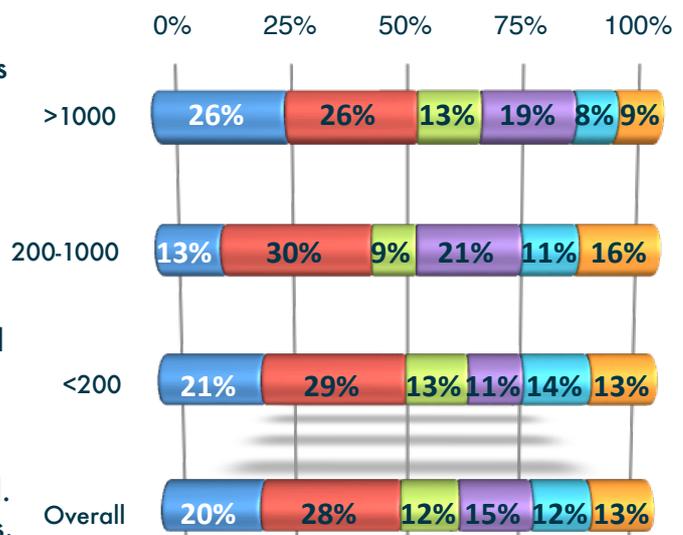
What came out the lowest was **risk**, where only 10% linked it to innovation. This is rather intriguing, as embarking on something new is usually risky! Does this reflect the Malaysian approach to 'safe' changes? Does it mean that we are hungry for innovation as long as its not too risky? How then do we expect a major turnaround? We feel this deserves a bigger share in terms of association.

According to our respondents, their companies largely practice **service**(28%) and **product** (20%) innovation. In larger companies, with more than 200 employees, process/operational innovation (19-21%) appears to have a stronger presence as well. Based on our conversations and observations, this is largely tied to quality, continuous improvement and six sigma based projects.

What we did not capture in our survey was the level of innovation; whether it was simple/incremental or something that was radical or breakthrough. Even though the change may be small it doesn't mean that it does not create value. We believe that in the end, innovation happens when significant value has been created regardless whether it is a financial or an intangible value such as brand building and loyalty.



Innovation happens when significant value has been created



Types of Innovation based on company size

- Products (Physical)
- Services
- Design
- Internal Process (Operational Innovation)
- Sales & Marketing
- Business Model

Innovation 3.0

The Most Innovative company in Malaysia

One of the questions we asked in our survey was 'What is the most innovative company that is operating in Malaysia?'. IKEA came out as the top choice and there was a tie between DiGi and AirAsia. The rationale behind the selection included great design, price, understanding of customer's needs, branding, creativity and freshness.

All the three companies are not high technology companies, in the sense that they do not create new technology but instead are focused on design, creativity, business model, branding and customer experience. We are certain that there are other innovative companies in Malaysia which have not captured the attention of our respondents.

We believe that the practice of innovation is also changing. The traditional view of innovation or as we call it, **Innovation 1.0** is about **invention of new products**. Something that is tangible, for instance, yet another mouse trap that people don't need. Innovation 1.0 is normally practiced by an individual or a small team that have really limited resources, just like the Wright Brother inventing the airplane or Leonardo Da Vinci who designed or conceptualized many inventions such as the parachute, tank and various weapons. The practice of Innovation 1.0 is still critical as this is where an array of new products and technologies may emerge.

The second type of innovation is **Innovation 2.0**. This is resource heavy, focusing on predominantly **developing new technologies** as well as exploring basic sciences. This is mainly practiced by large companies, research centers and academic institutions (as they have large budgets and teams). The key focus here is in obtaining patents and publications for research. The pressure to commercialize is not very intense and the time frame for some of these innovations are more than 5-10 years.

The third type, an emerging trend in innovation is **Innovation 3.0**. The key characteristic of Innovation 3.0 is that it is **constraint driven**, be it cash, technology, time and many others. The time frame from conception of ideas to implementation is normally short. Co-creation and collaboration with a network of partners and customers forms part of the foundation. The driving force of this type of innovation is the right culture and mindset. It is not about creation of technology but application of different and new technologies, usage of web 2.0 and open sourcing. The focus is of creating value with fresh services or new management and business models. Examples of companies practicing this type of innovation include AirAsia X, Tune Hotel, Pulse Group, DiGi and Bank Rakyat.

Innovation 1.0

- Invention + Products
- Solo + Low Resources

Innovation 2.0

- Technology + R&D + IP
- High Budget + Big Team
- Long Term

Innovation 3.0

- Mindset + Culture + Web 2.0
- Constraint Driven + Open
- Market Driven + Co-Creation

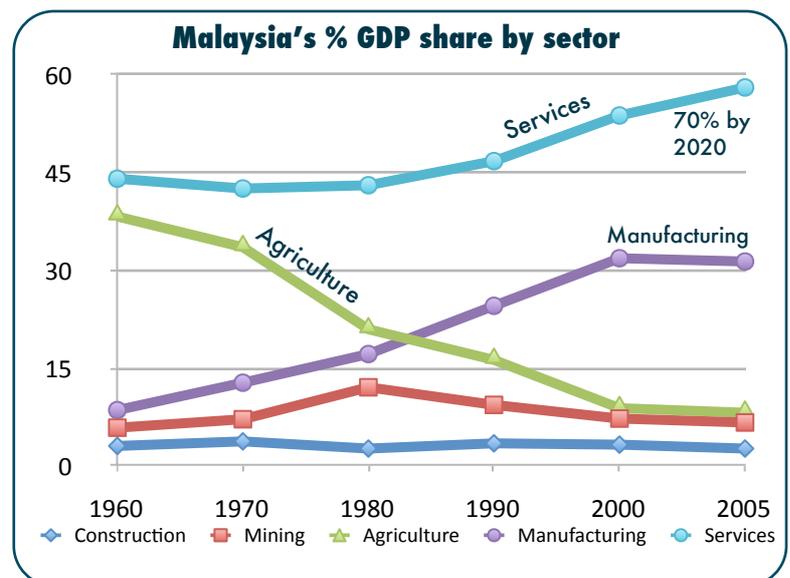
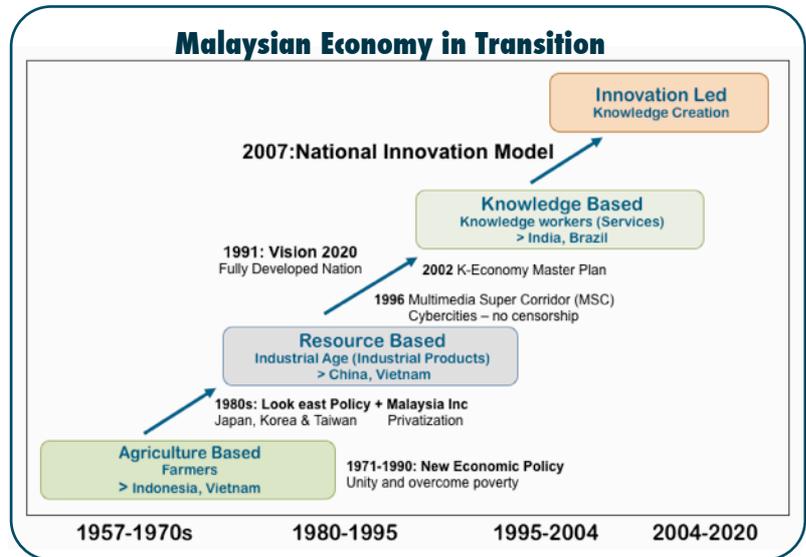
3.0 Innovation in Malaysia

Over the past five hundred years our country has been a melting pot for culture, trade, technology and ideology. We were famous as a bustling trade hub of the east. It began with the line of Sultanate of Melaka in 1401, then beginning 1511 the Portuguese, the Dutch and then the English conquered what was then known as Malaya.

In 1957, we achieved independence, and then in 1963, Malaysia was formed and we became a nation full of diversity, talents and natural resources. Since then we have seen tremendous changes in our economy. In the 50s right up to the 70s, we were strong in the **agricultural** sector. By the 80s we shifted to the **industrial** age through our look east policy. In the 90s we had a vision of being a developed nation by 2020 and began investing in **knowledge based** industry with our K-economy master plan.

As globalization descended upon the world we did not sit still. The flattening of the world provided us the opportunity to make a shift as well as pressured us to change. Beginning in 1990, we saw a sharp rise of the services sector share of our GDP and by 2020, it is projected that 70% of our GDP will be from this sector. With clear competition from China, India, Vietnam and many other countries, Malaysia will need to continue being resilient as in the past and move into the next stage of our economy.

The time has come for us to embrace the Innovation Economy. Agriculture, manufacturing and the other sectors are still relevant; what is critical is that we need to innovate in the way we compete and operate our businesses.



*Time has come for us
to embrace the
innovation economy*

The responsibility to innovate lies with many parties; the government, corporate sector, academic institutions and of course the society at large.

The burning question lies on how does the corporate sector move into this new era as we have prepared our people to operate in the industrial and knowledge age?

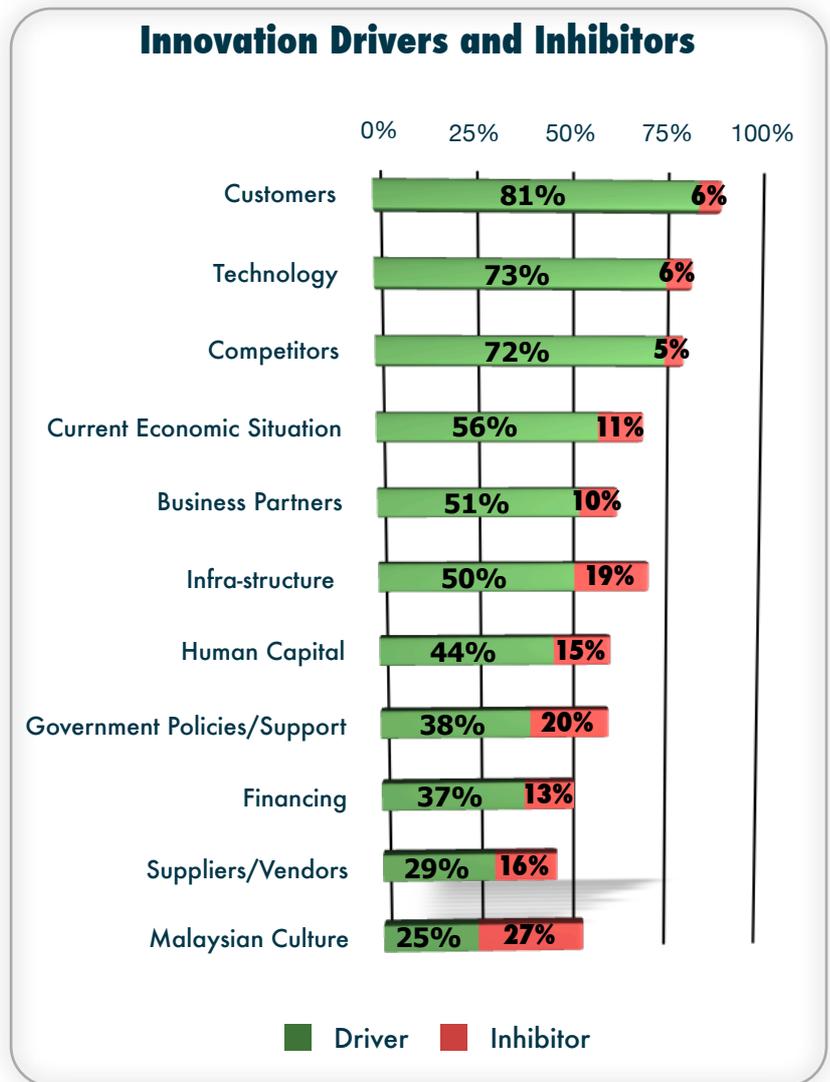
- Do we have the suitable culture and mindset to innovate?
- Do we have the appropriate expertise and knowledge to innovate?
- Do we have the necessary technology and tools to innovate?
- Do we have sufficient cash to innovate?

Our survey revealed that the **top three driving forces of innovation** in Malaysia are the **customers, competitors** and **technology**. The survey outcome got us thinking; if there is little competition and customers don't have a choice would a company or organization still innovate?

Further down the list we see that only 29% viewed the suppliers/vendors as a driver for innovation. Why is this figure so low? Are the suppliers not partnering with these companies to innovate?. Are they merely traders of products/services with little capability to innovate? Finally right at the bottom; 27% of the respondents viewed the Malaysian culture as an inhibitor to innovation while 25% viewed it as a driver.

Why is this so?

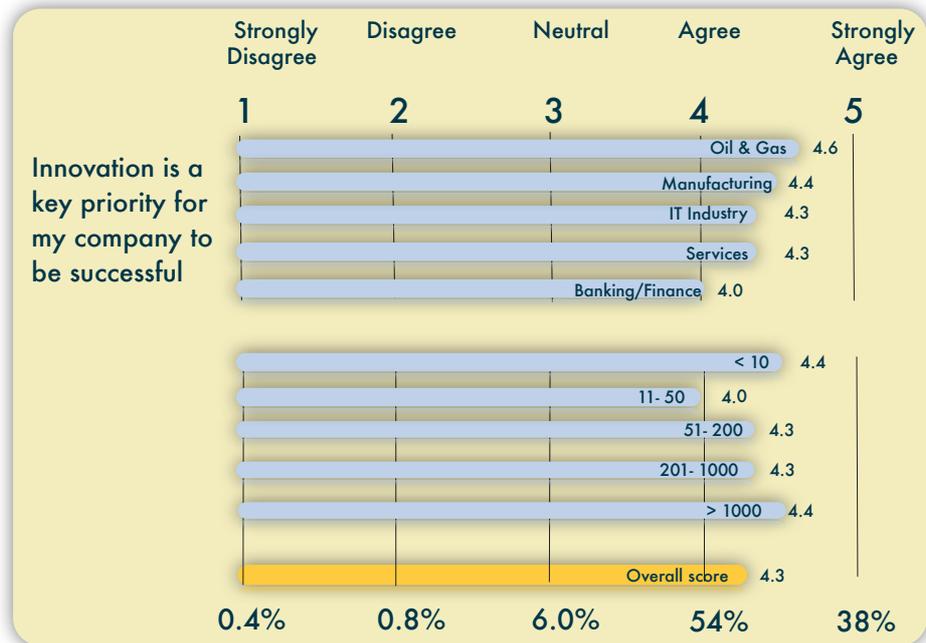
Which part of our culture drives innovation and which part inhibits innovation?



25% of the respondents viewed the Malaysian Culture as a **driver** for innovation while another **27%** viewed it as an **inhibitor** of Innovation.

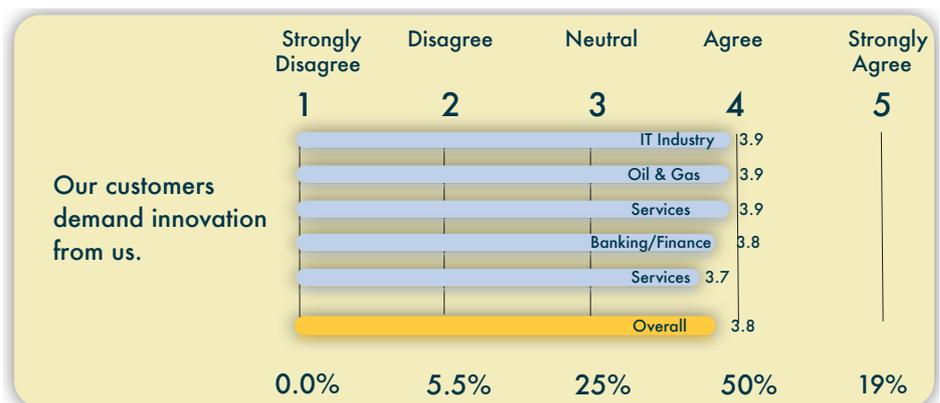
4.0 Do we really need to innovate?

Based on the current economic situation, we should not be questioning whether we should innovate or not. It is just like asking the question whether your services and products needs to be safe and have a high quality. Instead we should be questioning how much emphasis should be put into innovation. We realize that doing more of the same isn't enough anymore.



Our survey reveals that more than 90% of the respondents viewed innovation as a key priority for their company to be successful, especially in the Oil and Gas sector (4.6). This is also reflected across all other industries. Even the traditionally conservative sectors; the Banking/Finance sector, scored a 4.0. When we look at companies of different sizes, there is a very clear message across the board, innovation is critical with most of them scoring between 4.0 to 4.4.

How about the customers, do they want innovation? Looking at the results, 69% of the respondents viewed that their customers demand innovation from them. How many organizations are tapping on their customers for fresh ideas? Where do customers give feedback on what they want? What seems a little ironic is that the lowest scores are from the service sector, which presumably has one of the higher customer interactions.



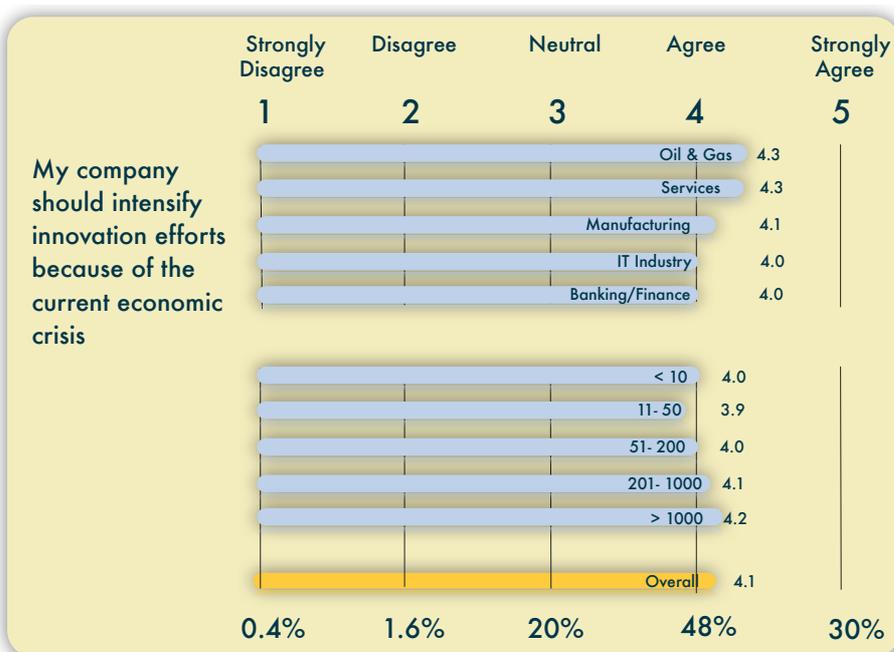
90% of the respondents viewed innovation as a key priority for their company to be successful

When we launched the survey in Q1 2009, Malaysia was still deep in the midst of the global financial crisis. Still, 78% of the respondents felt that their company should intensify innovation efforts despite the hovering economic crisis (scores ranged between 3.9 to 4.3).

Based on these results, we can clearly conclude that employees feel that **innovation is critical** even with the economic crisis.

Scrutinizing the data, this perception is especially felt by those in the Oil & Gas and Service sectors and also most significantly by those in large organizations (more than 1000 employees).

The innovation priority is clear for many. In fact it may seem to be a paradox, with the financial crisis, the natural response is to cut cost, scale down to conserve resources but instead many felt that their company should be investing into innovation.



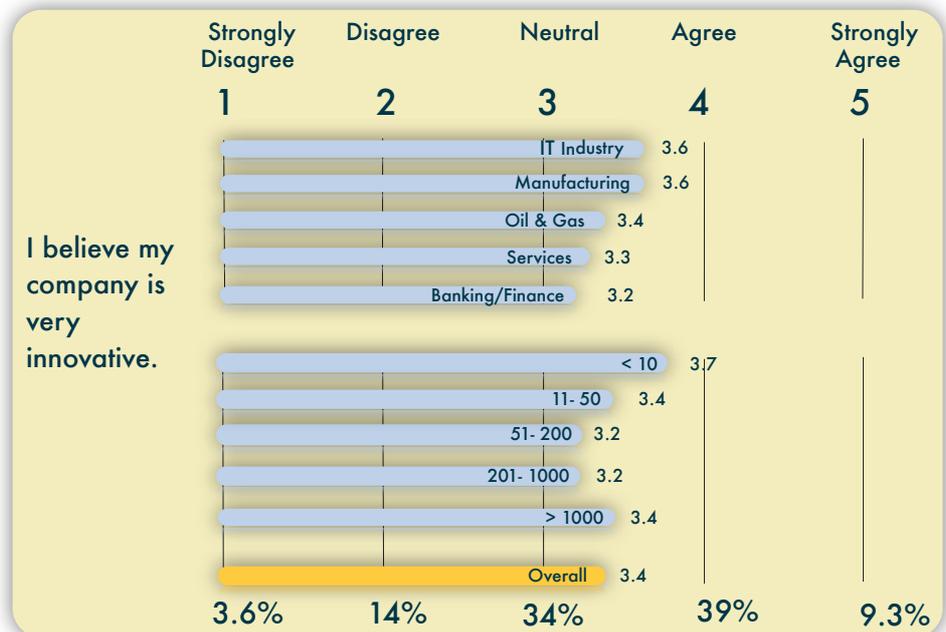
innovation is critical even with the economic crisis.

5.0 Innovation: Rhetoric or Reality

In the previous section, we concluded that innovation is critical. The question now is how innovative are the companies in Malaysia and are they practicing things that will lead to innovation?

Our survey reveals that only 9.3% of the respondents strongly believe that their organization is very innovative. The overall score for this question dipped to 3.4 compared to the score of 4.3 for 'I believe that innovation is a key priority for my company to be successful'. What this means is that even though the majority (90%) saw the importance of innovation, only 50% believed that their company is innovative.

Leading the list is the IT and Manufacturing industry, with a score of 3.6. At the other end of the spectrum is the Banking/Finance industry with a score of 3.2. As for company size, those with less than 10 employees scored higher than the rest, at 3.7. Overall, the scores that we obtained in this research are alarmingly low. Where will Malaysian companies rank in the face of fierce global competition?



Our next endeavor was to explore the innovation climate in the respondent's company. Will the practices in the respondent's companies lead to innovation or will it hinder innovation?

ACC's **Catalyst for Change® Innovation Process** served as guide for the purpose. Each phase needs a unique set of competency and it would be unfitting to expect an individual to be exceptional at every phase.

The process looks at four key areas:

C1 - CONCEPTION

- What are the catalysts for innovation? How do companies get inspired to innovate? Is there a clear direction to innovate?

C2: CREATION

- What is sparking the generation of new ideas and possibilities? Is there a system to capture the ideas? Who are the people involved in idea generation?

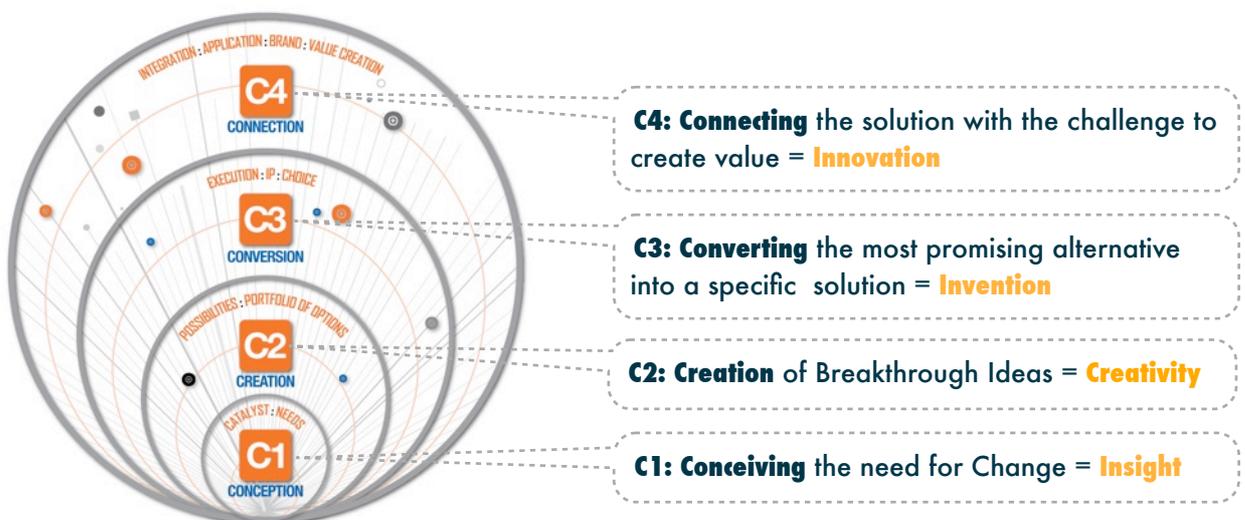
C3: CONVERSION

- Is there a process for converting the ideas into a tangible solution? Are there resources available? Are the leaders willing to take risk?

C4: CONNECTION

- Have the solutions generated value? How do companies connect the solutions to their customer?

“Innovation cannot be taught, but it can be learnt. I can't teach you to be innovative, but can provide you with the process and it is up to you to discover what's your style when it comes to being innovative.”



Catalyst for Change®
Innovation Process

C1

Conception

We believe that market driven innovation begins with the needs of customers. One of the indicators of an innovative organization is the presence of a **strategic direction to innovate**. Without a clear direction to innovate, employees would be lost in terms of what is expected out of them. Which market to focus on and what sort of technology should it focus on. These attributes are apparent in world class innovators, which are very focused in their industry and market of choice.

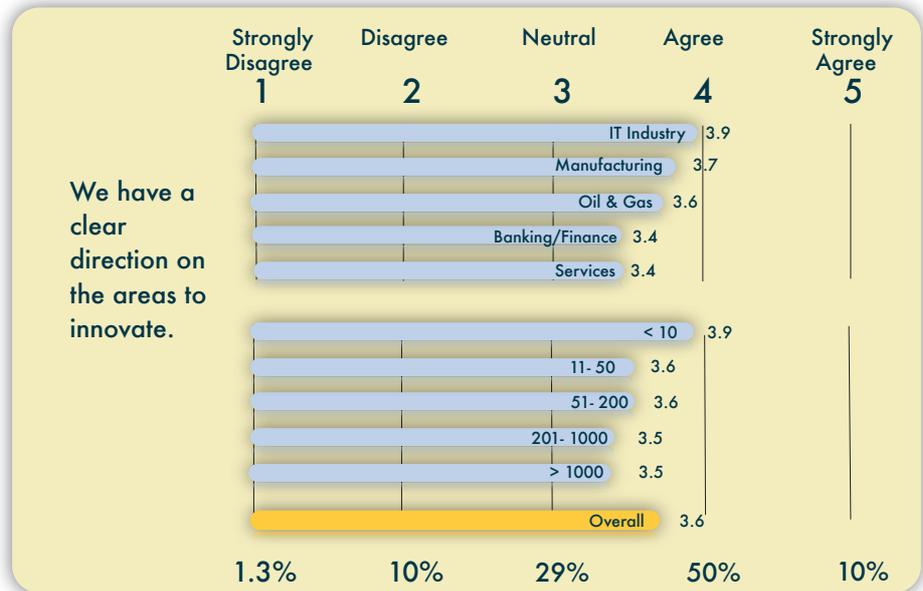
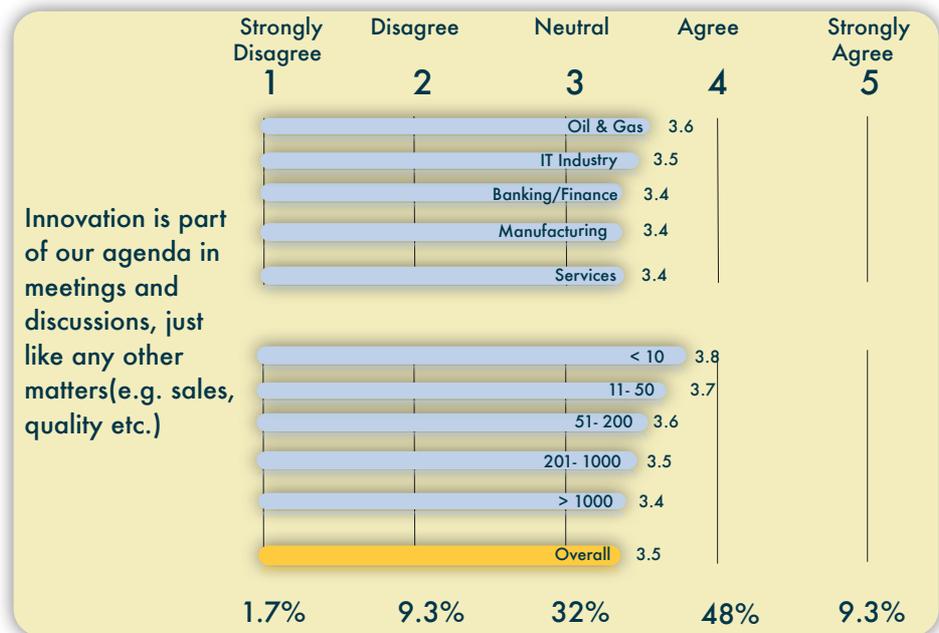


Illustration of this is seen in AirAsiaX and Tune Hotel, which is very focused in innovating the way they reduce their operational cost. Our survey reveals that the IT industry is slightly ahead when it comes to having a clear direction to innovate. However, on the whole we see that only 10% of the respondents strongly agree that their company has a clear direction to innovate. Innovating is not about having great ideas alone, without proper focus the great idea would be lost.

Strategy/intent and execution are two separate things. Just like the new year resolution that is never executed. Good intention but poor follow through! One of the indicators of seriousness of an initiative in companies is the **management attention**. Our research showed that the score for innovation as being part of the agenda in meetings and discussions, is a disappointing 3.5 out of 5. Even though 48% agreed with the statement, only 9.3% strongly agreed. It is interesting to note that the highest score (3.8) in this section is from companies with less than 10 people. Is the innovation agenda stronger in these companies? If so, why is that?

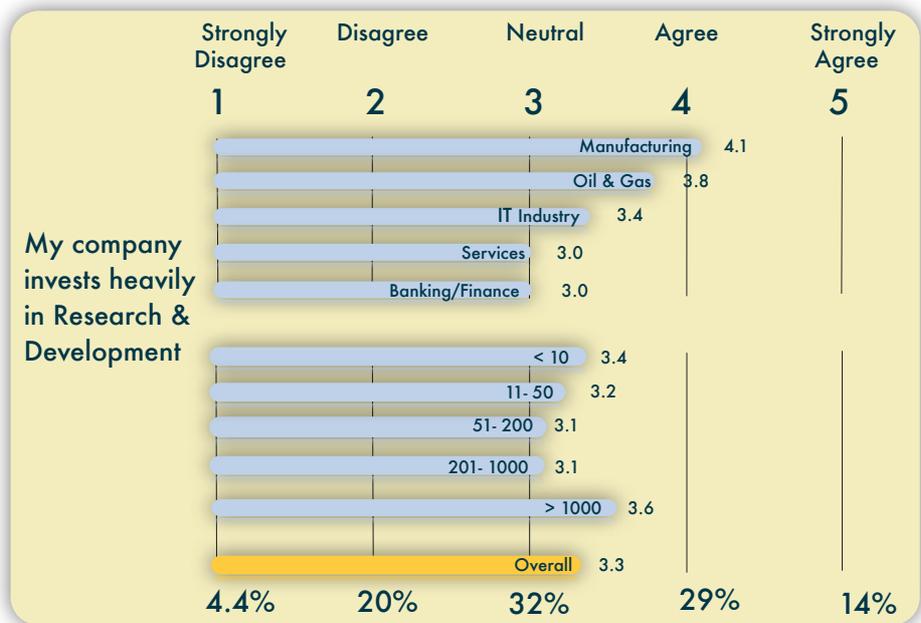


Our conversations with various executives also substantiate this data, whereby innovation is not regularly discussed in meetings in contrast to other topics such as sales figures, safety issues and operational efficiency.

How much emphasis has your company put into innovation in this perspective? Will there come a time when innovation is discussed with the same vigor as safety is emphasized in the Oil and Gas sector?

Is innovation part of the agenda in meetings and discussion?

A final indicator on the seriousness of innovation of a company is its **R&D budget**. Some may argue that an R&D budget does not reflect the innovativeness of a company. However if there is no investment on exploring new possibilities and developing new solutions, it would be highly challenging for a company to innovate.

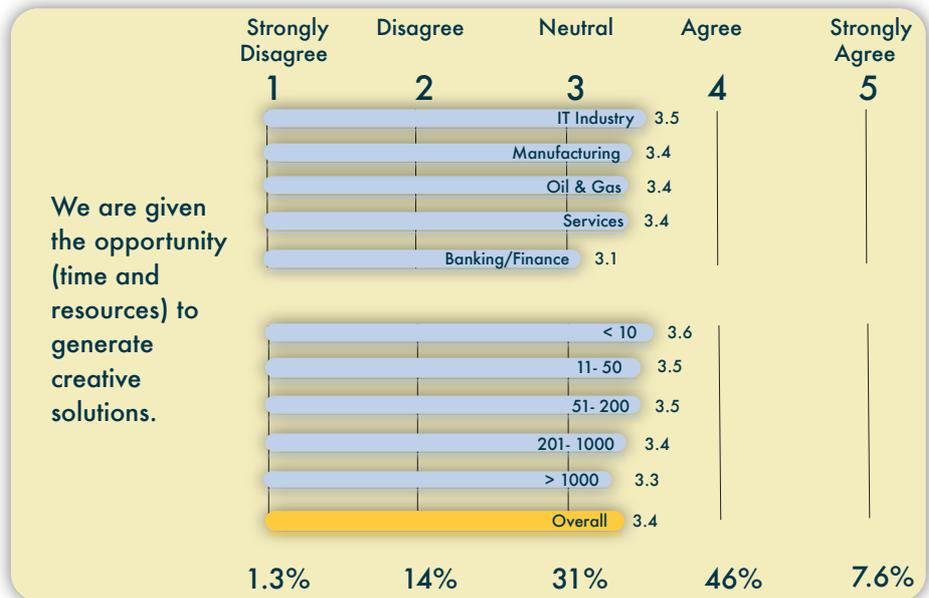


Slightly more than 40% of the respondents indicated that their company invests heavily in innovation. If we were to compare industries, the manufacturing and Oil & Gas sector leads the pack. This is followed by the IT sector and then Services and Banking/Finance.

When we analyzed based on company size, its companies with more than 1000 employees that seem to be investing on R&D. The smaller companies, and this would probably reflect the group comprising predominantly SMEs, appear to be venturing an alarmingly low amount into R&D (scoring 3.1).

C2 Creation

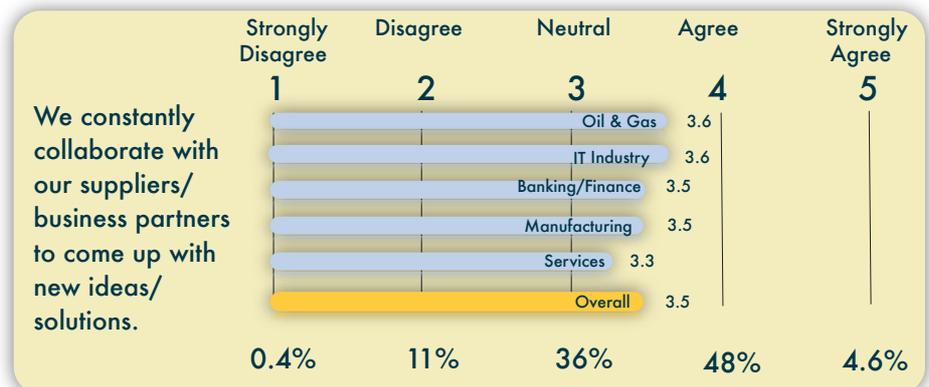
There's no magic when it comes to innovation. You need to spend time and resources to innovate. Our survey reveals that 54% of the respondents are given the **opportunity to generate creative solutions**. However, out of the 54%, only 7.6% strongly agrees with the statement. 3M for instance, allows their employees to spend 15% of their time on their own projects and innovation. The scenario in Malaysia is rather different, where many are too bogged down with routine work and fire-fighting.



One of the emerging trends in innovation is **open innovation**, whereby companies co-create innovative solutions with their suppliers, business partners and customers. The survey results reveal a score of 3.5 in this area; which is on the lower side of the spectrum. If we look back at the earlier part of the survey, suppliers are not seen as a strong driver of innovation.

Does the challenge lie with the company or is it with suppliers?

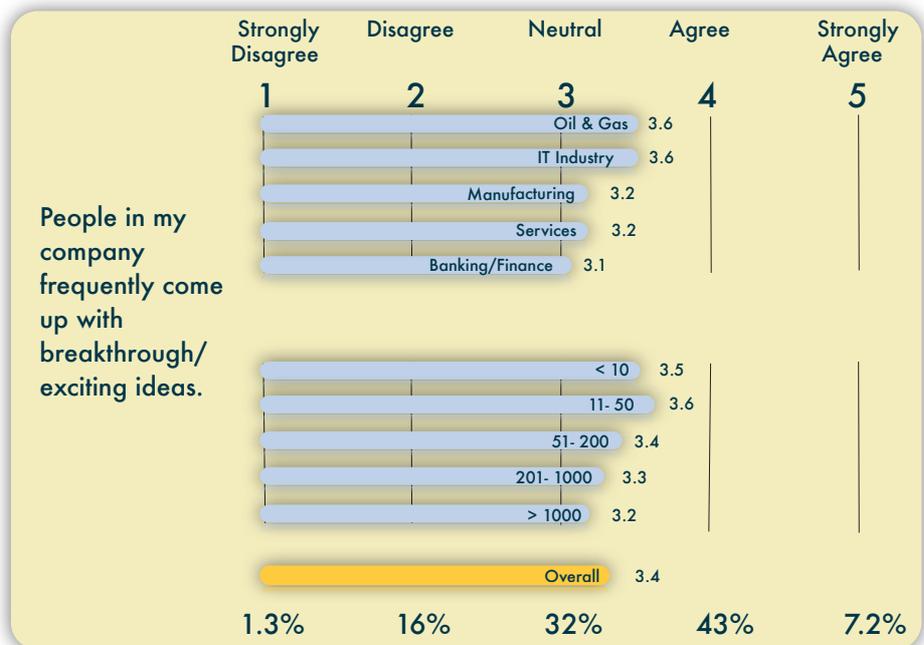
Are these companies ready to co-create with their partners, or are they just focused on getting big discounts or great bargains from them? A McKinsey survey showed that companies who have embarked on open innovation find an average increase of at least 20% in their level of innovations.



Another challenge that is common in Malaysia, is that smaller companies have difficulty to penetrate large organizations probably due to their branding and positioning in the market. Therefore, although they may be very innovative, the chances of collaboration with a large organization, under the umbrella of open innovation, is slim.

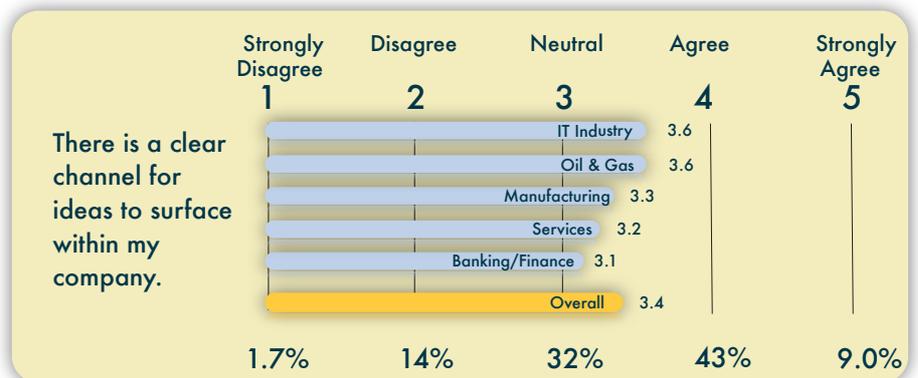
One of the key ingredients for innovation is **breakthrough ideas** that can transform a business or industry and propel it to an entirely new playing field.

In our survey, the overall score in this section is 3.4 only. Oil & Gas, IT sector and the smaller companies seem to be leading in this area. The Manufacturing, Services and Banking/Finance sectors show a perturbing score of 3.2 and 3.1.



Does this truly reflect the capability of our people that are not able to consistently generate breakthrough ideas or is it that they **don't have the courage or channel to express their ideas** or is it that they simply **don't have the time to think?**

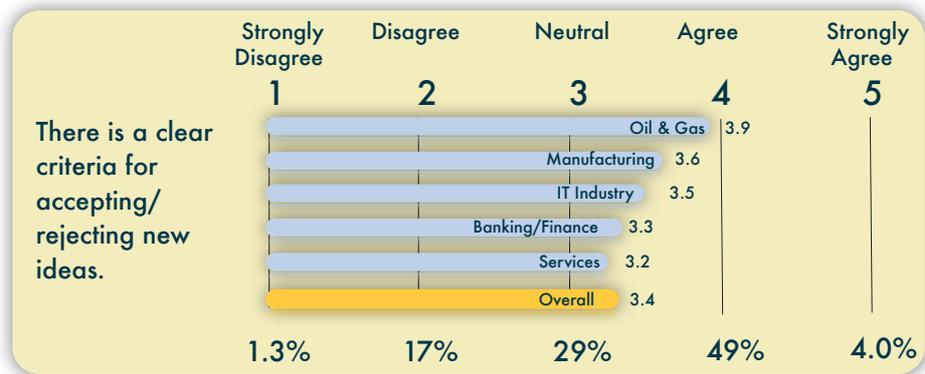
The final part of the C2 (Creation) process explores whether there's a **clear channel for ideas to surface** within an organization. This may seem trivial, however we have come across many idea snipers within organizations, that ideas don't have a chance of getting through the gate, to be heard. Channels for ideas can be as simple as web forums or intranet. Some of these are already practiced within organizations, with success. The overall score here is again a low 3.4. Clear leaders in terms of having a proper channel are the Oil & Gas and IT Industry.



"To have a great idea, have a lot of them."

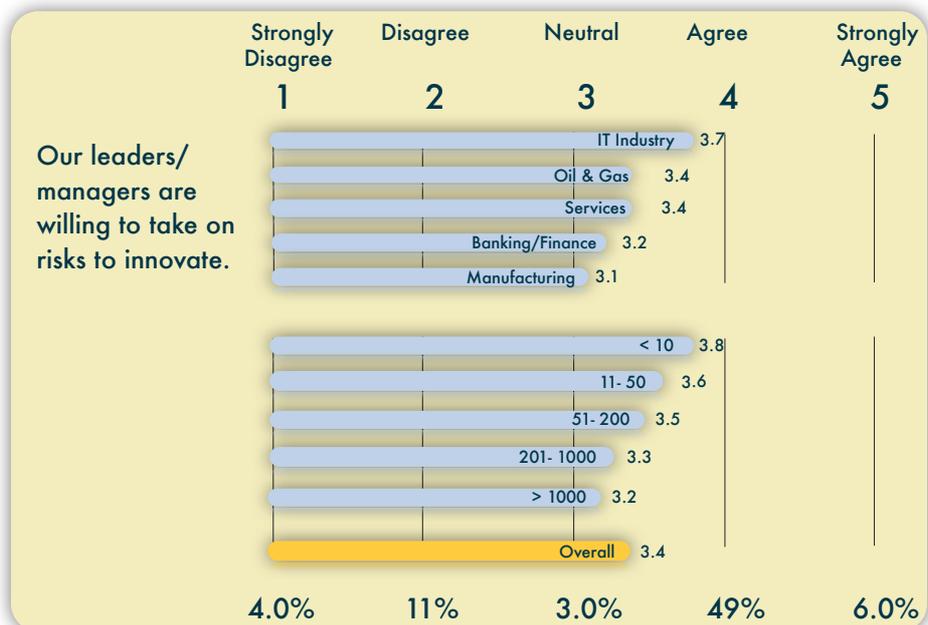
- Thomas Edison

Once the idea has surfaced what happens to it? If nothing is done it will die a premature death. In this stage we explore the percentage of companies that have a process of sorting the ideas and then allocating resources to execute the idea.



About half of the respondents pointed out that there is a **clear criteria for accepting/rejecting ideas**. The Oil & Gas sector again dominates in this category followed by the Manufacturing sector. One point to note is that having a clear screening criteria is essential, however if those criteria are too stringent it will result in only low risk projects being approved and if they are too loose, it can result in wasted resources. Do companies allow the conventional thinking and tight budgets to rule decisions?

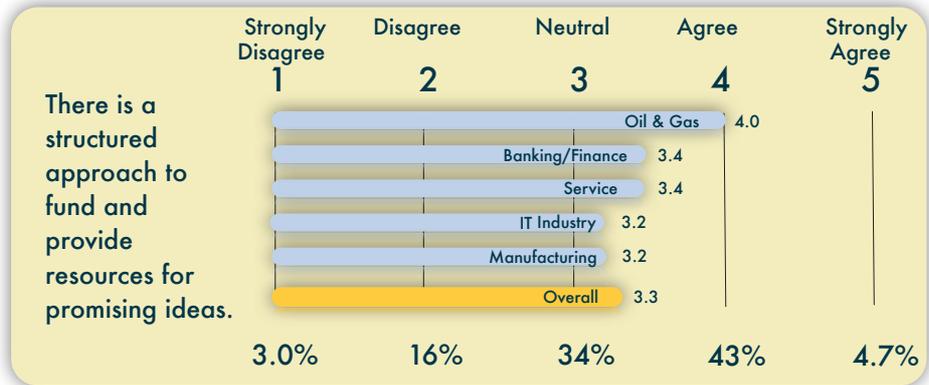
Here is where it is connected to **how much risk are the managers/leaders willing to take** when it comes to innovation? Again we see the IT industry (3.9) and the smaller companies leading the pack. Why are managers in the IT industry more willing to take risks compared to other industries?



What is interesting to note is that the score for Banking/Finance, Manufacturing and also larger companies (more than 1000 employees) seem to be low (3.2 - 3.4). The manufacturing sector takes up the rear end at 3.1.

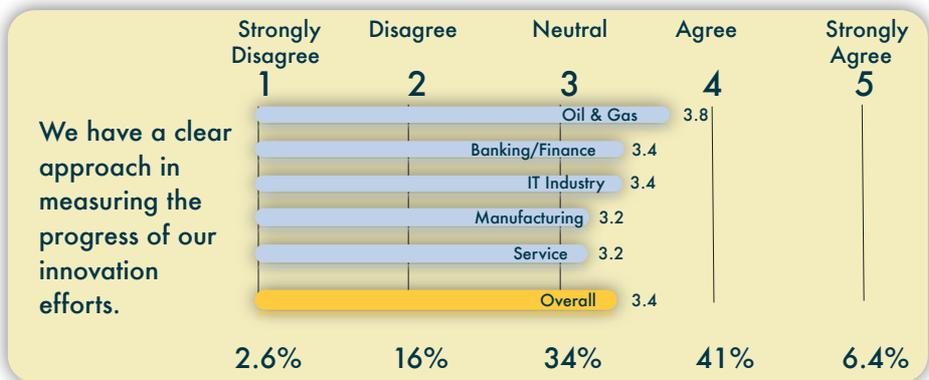
If we are to consider the manufacturing sector, what are the repercussions of having risk averse leaders on the innovation quest? Does having a clear criteria for accepting and rejecting ideas make a significant impact?

As we saw previously, the manufacturing sector appeared to have a clear process for accepting and rejecting new ideas however as their leaders are not willing to take on risks, the type of innovation prevalent are most likely more focused on operational and incremental innovation. A risk averse culture will limit creativity and create a vicious cycle of fear to even try to do things differently.



Innovation is not about generating great ideas alone. The ideas need to be executed to create value for the company. The survey reveals that when it comes to having a **structured approach in funding and providing resources for promising ideas**; the Oil and Gas industry is way ahead of the rest at 4.0. The overall score in this section is 3.3.

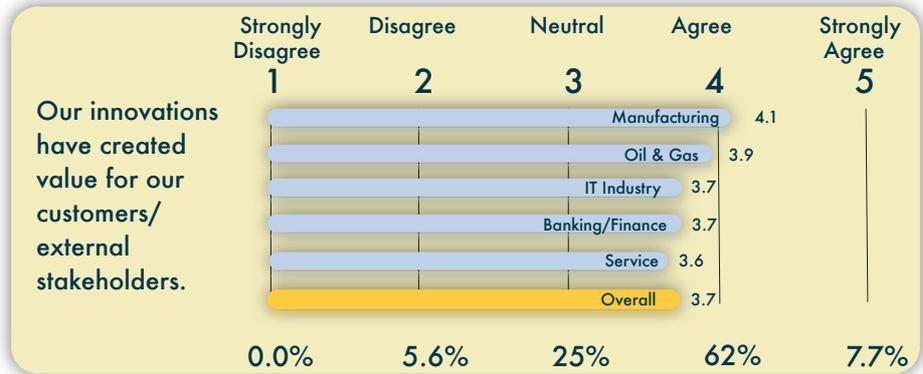
Managing innovation projects is no different from other projects. It requires discipline, consistent communication and follow through. In this area the Oil & Gas sector again leads with a score of 3.8 in having a clear approach to measuring progress in their innovation efforts.



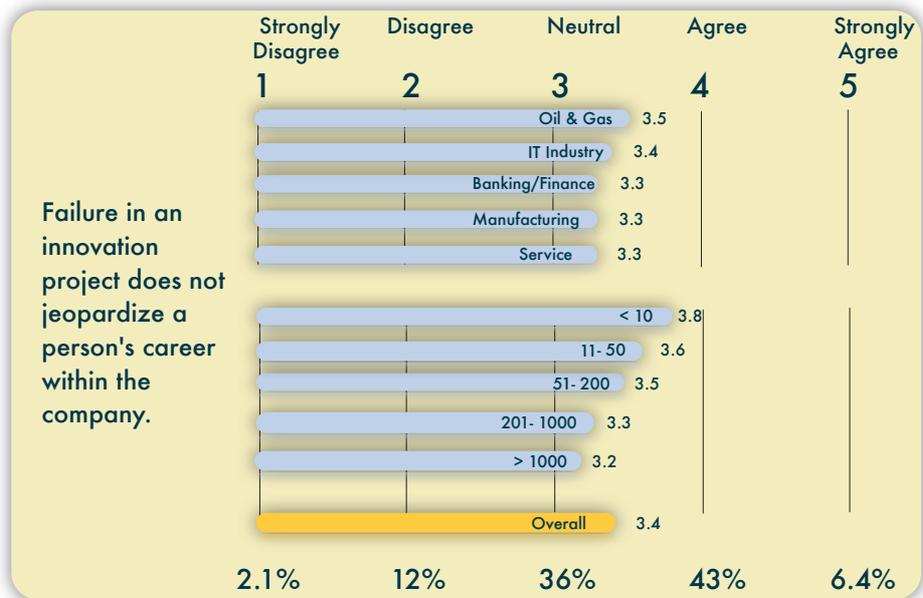
Part of the equation is also to know when to abandon an innovation project. In this sense, companies must not lose sight of the initial focus of the project (the C1(Conception) stage of the innovation cycle).

C4 Connection

In the end, innovation happens when value has been created. A patent, an invention or a brilliant idea is still not of value until it has created an impact. What is apparent from the survey is that many felt that when they have innovated, value has been created. Especially those from the Manufacturing sector (4.1). This is followed by the Oil and Gas and IT sectors. What could not be measured in this survey was the quantification of the value created as this would have involved a lot of confidential data which many employees are not privy to.



Innovation is normally a risky venture and failure is a norm. In this section we can see a dip in the scores as only half of the respondents believe that **failure in an innovation project does not jeopardize a person's career within the company**. The trend is a little bit more interesting when it comes to company size. The smaller companies seem to be more receptive of failure compared to the larger companies. Is this an influence of the entrepreneurial mindset among the smaller companies?



When cross-referenced, this data connected well with the data from C3, whereby managers from larger companies were much more risk averse.

How then can you change the culture within your organization to be less risk averse? What are the paradigms that need to be addressed?

6.0 Innovation Barriers

Unveiling the road blocks:

The survey has uncovered several barriers to innovation. The key barriers that are common across the different industries, age groups and company size are **Lack of Clear Direction to innovate (C1)** and **Risk Aversity of Managers/Leaders (C3)**.

This diagram pairs the key barriers to innovation according to the various group segments (industry, age of respondents and company size). Although there appears to be a jumble of connecting

lines, what is crucial to observe is the congregation of lines towards **Lack of Clear Direction to Innovate (C1)** and **Risk Aversity of Managers/Leaders (C3)**. No matter how we look at the data, these two indices form the most significant barriers to innovation. This further emphasizes the **crucial role a leader plays in innovation**.

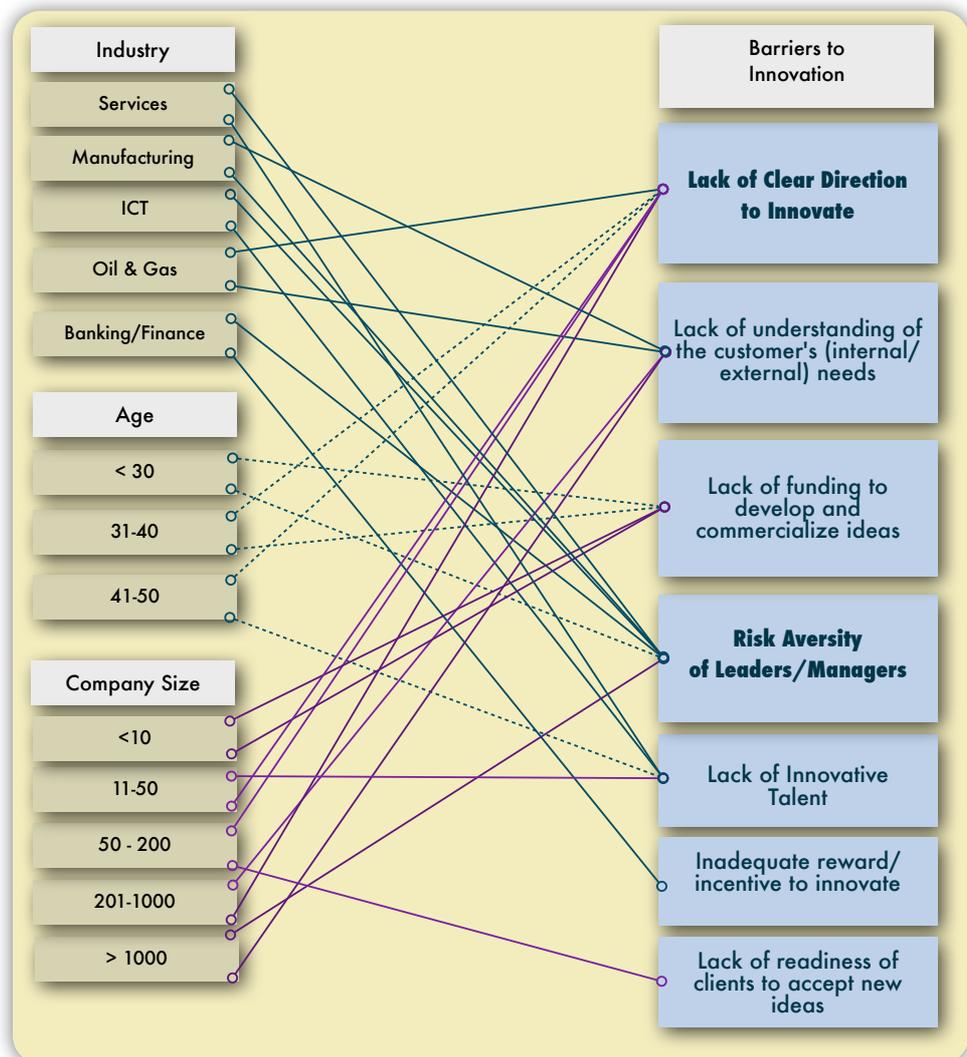
What emerges as a barrier next is the lack of understanding of customer's needs and lack of funding to develop and commercialize ideas.

How can these be vanquished within your organization?

Will addressing the two foremost issues lead to a significant increase in innovativeness?

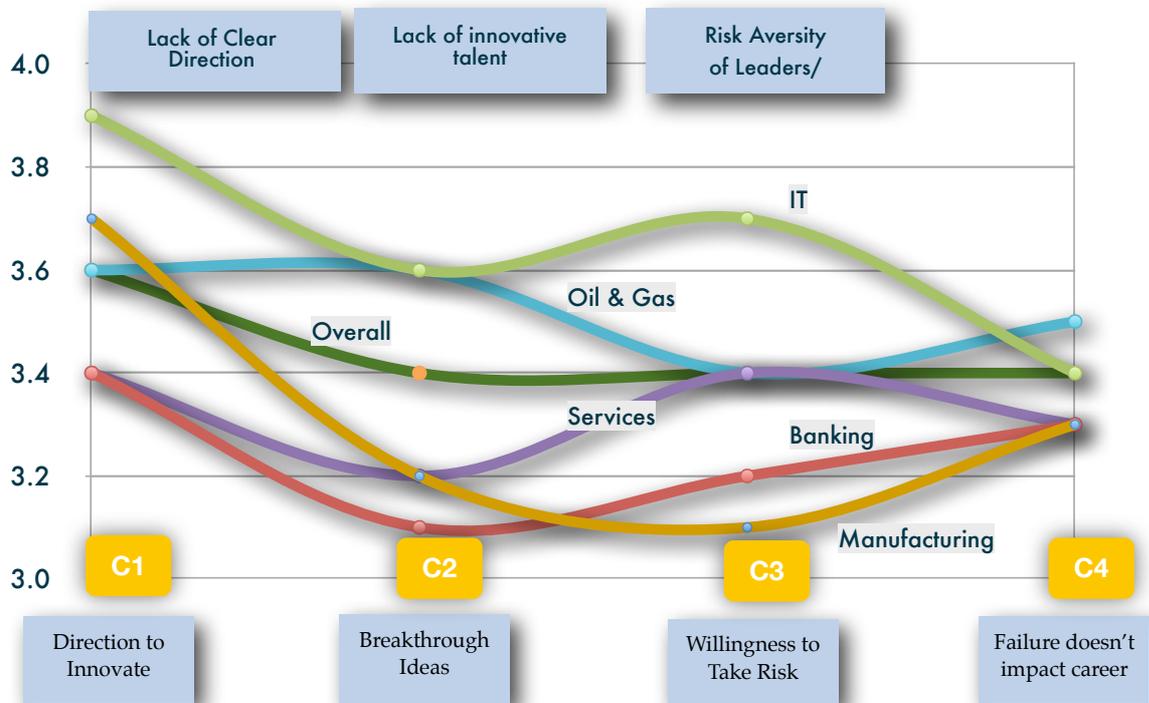
Yes, we think so!

Next, we will examine further whether the culture, capability and capacity within an organization is favorable to propagate innovation.



Where is the Culture of Innovation?

Success in innovation is not made up of a single silver bullet. It comprises of a myriad of stages. We have collated parameters from the various stages of innovation, ones that we feel are more crucial for organizations to use as a tipping point. At the initial stage **(C1), the direction to innovate has to be absolutely clear.** The second stage **(C2),** is where we **come up with ideas to innovate.** What companies need to look for is breakthrough ideas. Many organizations maintain that their employees come up with ideas however if these are incremental ideas, we will not experience breakthrough innovation. The third stage of innovation **(C3)** is where we need to narrow down and choose the innovation project to embark on. Here, the **willingness to take risk** is crucial. Organizations need to have both the low and high risk project portfolios. The last measure on the diagram **reflects the willingness of employee to stick their neck out for innovation.** If the company culture makes it unsafe to practice innovation, this will be clearly pronounced.



Our research shows that the score on the direction to innovate is generally low, with the **IT industry leading the pack.** This is re-emphasized again as **'lack of a clear direction to innovate' leads the way as an innovation barrier.** However, this was not listed as a barrier for the IT industry. This just goes to show that the role leaders play in setting the direction is crucial for innovation. But the role of the leader doesn't stop there. Their willingness to take risks have a significant impact on innovation. Here, again we see the IT industry leading the way and scores for the Manufacturing and Banking/Finance industry are a bit worrisome .

In addition to a clear direction to innovate, **employees must be able to generate breakthrough ideas**. The **low score prevalent across the industries are a reflection of our general capability to innovate**. How can we change this ? Where can we get inspiration from?

The last two indices on the graph are a **reflection of the pervasive culture**. The willingness to take risks (by the leaders or managers) and the impression that failure in an innovation project does not affect the career of an individual. The scores of the latter, when analyzed, almost converge to a single point, with **no significant difference between industries**. **Is this compounded by our Malaysian culture?** How about the willingness to take risks? How can we change that?

On the whole, the Oil and Gas and IT industry seem to be on the right path, with their indices above the average score. Industries that we see are lacking behind are the Banking/Finance and Services industry, where generally the scores are low. When we scrutinize the Manufacturing industry, the direction to innovate appears to be somewhat strong however without the capability to come up with breakthrough ideas and the lack of company culture that supports innovation, it is still not enough.



Does your company culture support innovation?

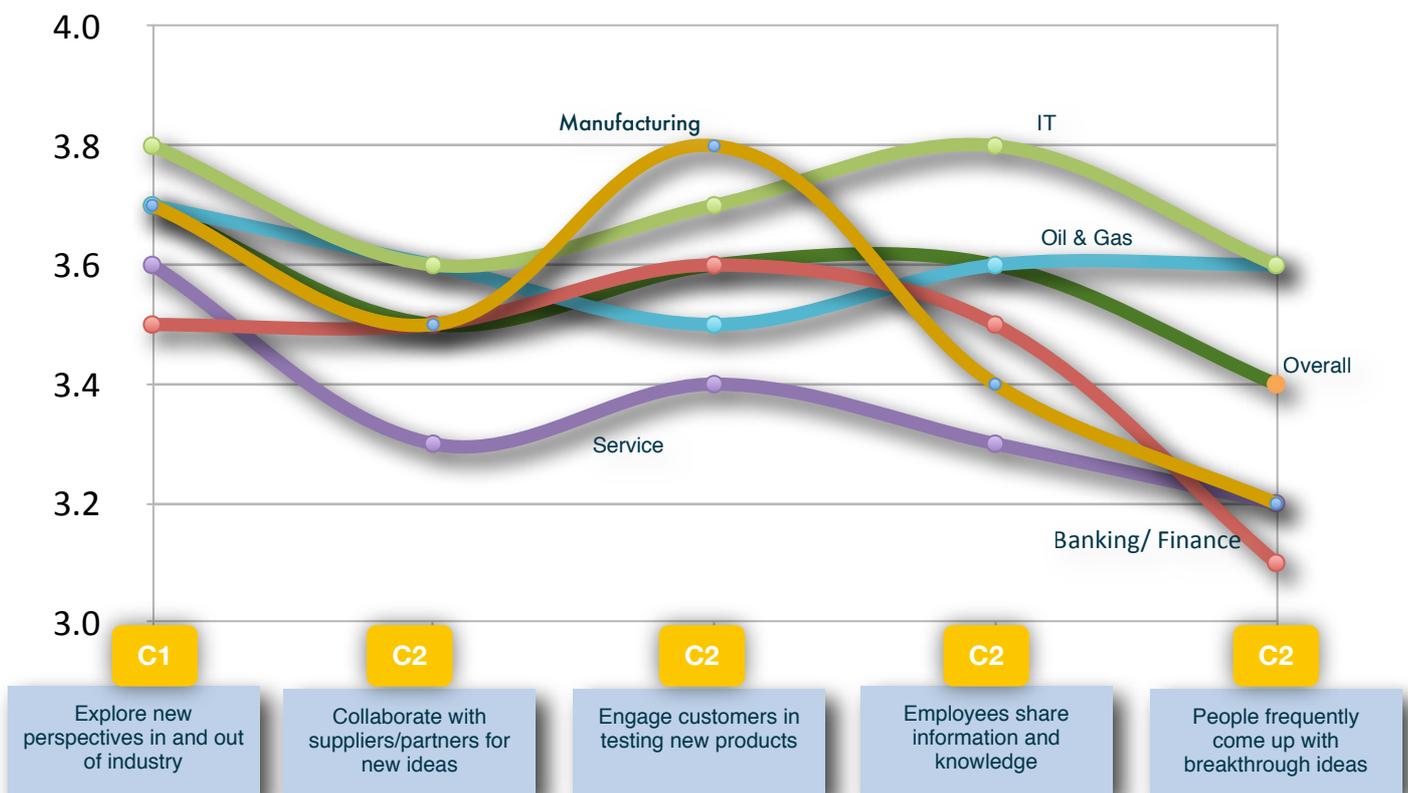
Do we have the Capability to Innovate?

In the line of our work, many a time the question 'how do you get good ideas?' surface. Arguably, if we look at literature, there are many underlying factors to coming up with creative ideas. Here we look at the degree of collaboration that happens within an industry and how this relates to employees coming up with breakthrough ideas. How do we assess if companies have the basic capability to innovate?

The IT industry appears to be leading in this area. All their scores for collaboration (which include **constantly exploring new perspectives**; inside and outside the industry, **collaboration with suppliers, business partners, engaging customers** and **sharing their wealth of information** within the group) are above the average scores and they garner the top spot in almost every one of these indices. It is then no surprise that their level of coming up with breakthrough ideas are also the top scores.

Before we get too comfortable, we need to realize that all the scores, for all industries, fall below the 4.0 mark. This does not bode well for the overall innovation scenario.

Another leader amongst industries is the Oil & Gas sector. Their scores dip only at engaging their customers in the early stages to get feedback. Their other scores maintain on the higher side. Their scores for coming up with breakthrough ideas are also on the higher end. Collaboration efforts appear to be on the higher side in this industry. This must surely also be supported by the fact that they have a clear channel for ideas to surface, clear criteria for accepting and rejecting ideas and a culture which is more supportive of innovation (this is seen in the next graph). How then can other companies emulate this?



An uncomfortable point in this graph is the level of breakthrough ideas in the Banking/Finance, Manufacturing and Service sectors which hover around the 3.2 mark.

The Manufacturing sector appears to lead in terms of engaging the customer but fall far below when it comes to generating great ideas. Here, their scores for sharing information with others are also low. The willingness of their leaders to take risks are also low (as seen in the previous chart). Compounded, this spells disaster when it comes to breakthrough idea generation. How can we halt this trend ?

Another perturbing area is the general low scores for the Service sector, constantly below average. The Banking/ Finance sector is just slightly better, managing to score average points on two areas. Overall, these two industries appear to constantly be under the bar when compared to the others.

What are the areas in which your company can focus on, to tap on the collaborative energy to innovate?



Do we have the Capacity to innovate?

We define capacity to innovate as having the resources and tools to innovate. For example, someone may have the knowledge to innovate; however they may not have the time or energy to do so. In an organizational context, a company may have the equipment and tools to innovate; however all this capacity may be tied up for routine work only. In this case our emphasis is the process of innovation. Where are Malaysian companies in terms of their capacity to innovate?

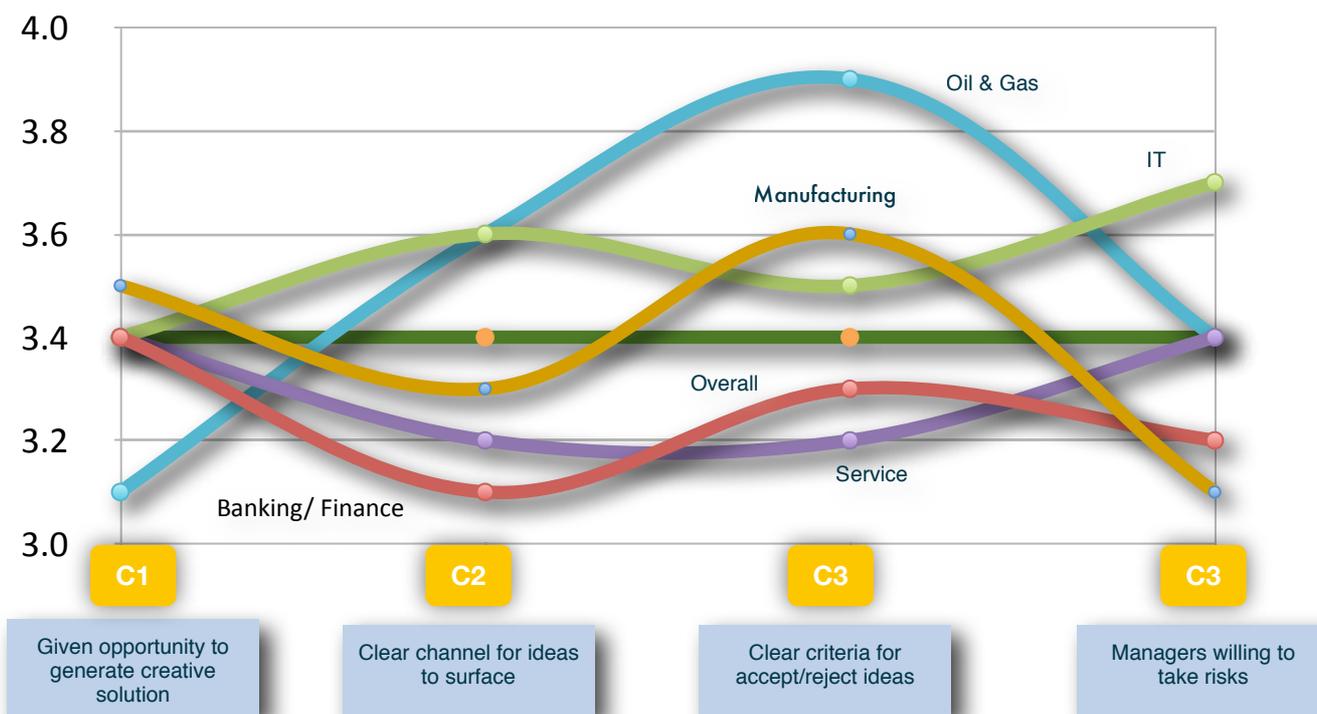
If in the first place employees are given the resources to innovate, is there a clear channel for ideas to be put forth? Are there then clear guidelines to accept or reject the idea? How much risk are leaders willing to take to champion a new innovative project? How do companies allocate funds for innovation projects?

If we are to study the graph below, clear leaders in most of the areas are again the IT and Oil & Gas sector. Almost all their indices

lie above average. The exception is that in the oil & gas sector, they don't have the luxury of time and resources. Even with this constraint, they are coming up with more breakthrough ideas than the other three industries (Manufacturing, Banking/Finance and Services) as seen in the previous graph.

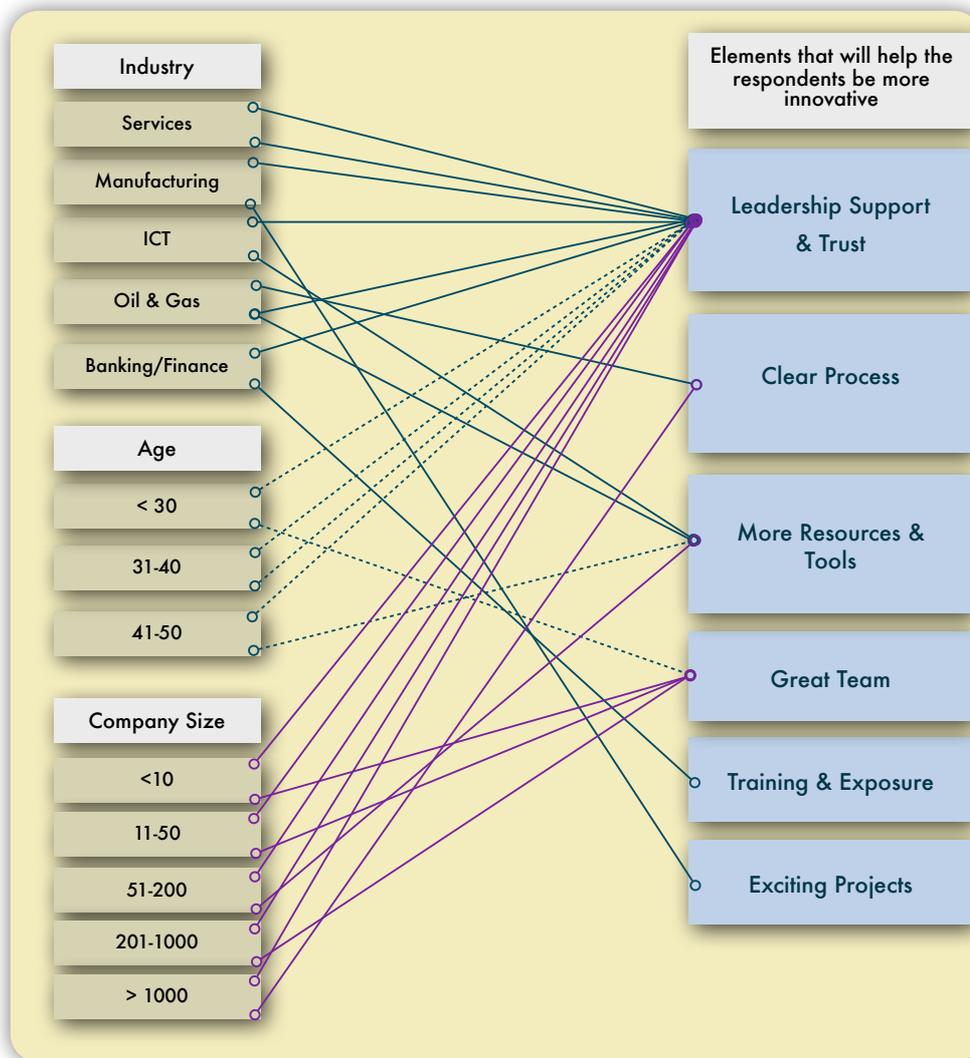
The Service and Banking/Finance sector are still below average on this juncture. The Manufacturing industry is seen to wax and wane around the average scores but drops significantly when it comes to the willingness to take risks. What also appears to be lacking is a clear channel for ideas to surface within the manufacturing sector. How then do leaders expect to tap on their vast collection of idea generators (employees) to move forward?

Are these indices difficult to adopt? How can you make it happen in your organization? Its clear that these appear to work for the IT and Oil and Gas sector. What makes them so different from the other industries?



7.0 Drivers to Innovate

What employees need to innovate:



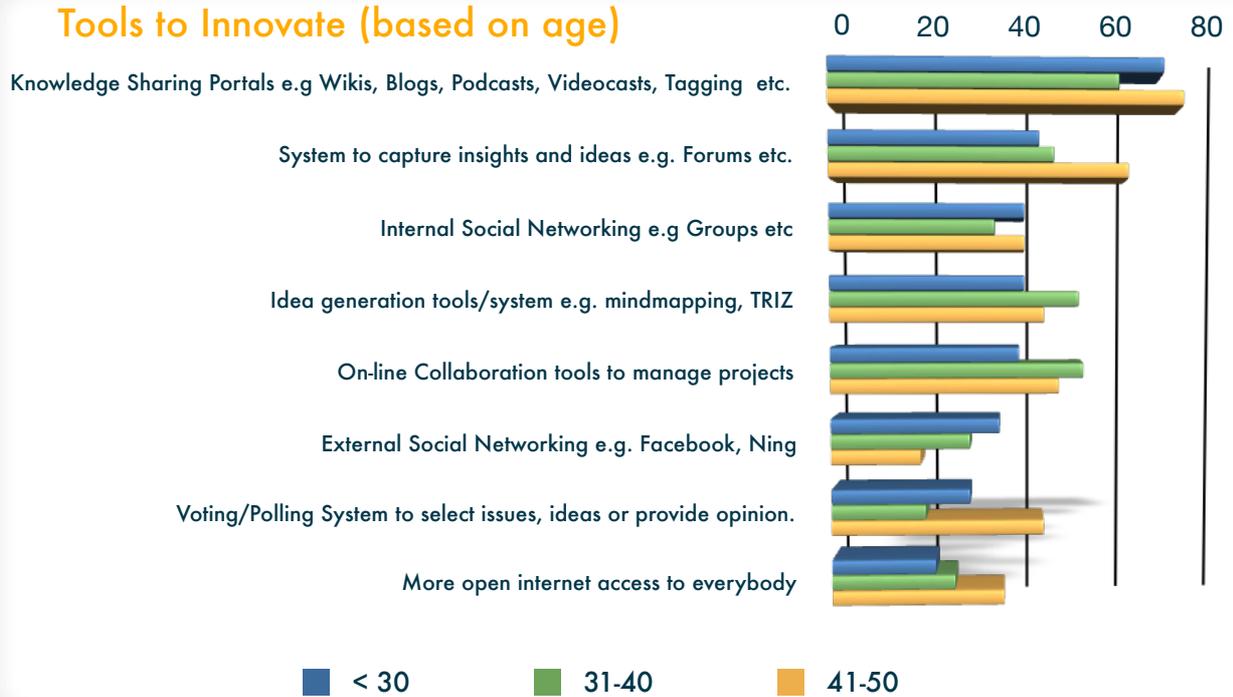
What is obvious is that its not about technology, money or process but its **leadership!**

What was so blatantly clear in this section was that the majority of respondents wanted **leadership support and trust** for them to be able to innovate. This was seen across the board in all the various age groups and company sizes. Even in the more mature age group, this was an issue. One point to ponder is, if the more senior people feel they are not getting enough leadership and trust, how are they demonstrating it themselves? Does it then become a chicken and egg situation?

respondents wanted leadership support and trust

Are employees really given insufficient freedom and empowerment to innovate?
How much empowerment is enough?

Tools to Innovate (based on age)



The second element is a tie between **more resources and tools** to innovate and a **great team**. As seen in the table above, employees want to have more knowledge sharing portals (Wikis, blogs, videocasts) and a system to capture insights and ideas. These tools form a platform for collaboration and idea capture which is essential in innovation.

Forming great teams can be a physical entity however we should not forget that with the advent of web 2.0, teams can be virtual too. A diverse team would be more apt at combining insights and knowledge from the different divisions of the company.

Other elements which surfaced as drivers to innovate were the need to have a clear process to innovate, more training and exposure and exciting projects to work on.

How then can leaders make this happen within their company?

*More knowledge sharing portals
(Wikis, blogs, video-casts)*

8.0 Time to Embrace Constraints

The Bottom line

The survey revealed that innovation is critical for Malaysian companies to be successful. However only a small percentage of the companies viewed themselves as highly innovative. The challenges to innovation is now laid clearly in front of us.

At **C1(Conception)** we saw that many companies are not very strategic when it comes to managing innovation. In fact, the key barriers to innovate at this stage is 'not having a clear direction to innovate' and 'lack of understanding of the customer's (internal/external) needs'. At conception we also found that companies are not really investing in R&D and innovation is not something that they emphasize strongly in their day to day operations.

At **C2 (Creation)** of our innovation process, we found that many companies are not investing in innovation as only half are spending time to innovate. Even then, they felt the creation of breakthrough ideas is still not very strong. Among the key barriers identified here is the lack of innovative talents and inadequate rewards to innovate.

At **C3(Conversion)** the challenge lies in two areas. Firstly there is no strong process and discipline within Malaysian companies to capture, fund and manage new ideas and insights. The other challenge lies in the level of risk managers and leaders in Malaysia are willing to take to innovate. In fact the survey revealed that barriers related to this stage include risk aversity of managers/ leaders and also the lack of funding to develop/commercialize ideas. When it comes to the funding issue, the challenge lies not with the fact that we don't have enough cash for innovation but it is rather that we

are not willing to spend it on risky innovation projects!

Finally at **C4 (Connection)**, those brave enough to reach the final stage of innovation, found that their efforts in innovation frequently generated value for their stakeholders. The challenge is that in most companies failure at this stage does not seem to be favorable and could instead impede someone's career within a company.

Making Innovation A Reality

Innovation is about creating value, whether it is bringing an idea to market or transforming a listless company into a vibrant organization that enriches the bottom line. An innovative company is one that boldly develops and executes great ideas while taking informed risks. We believe that the ability to innovate is inherent in a company that possesses **a culture and a mindset** that recognizes the **need for change**.

The ability to innovate is inherent in a company that possesses a culture and a mindset that recognizes the need for change.

InnovAsian: Innovating Innovation

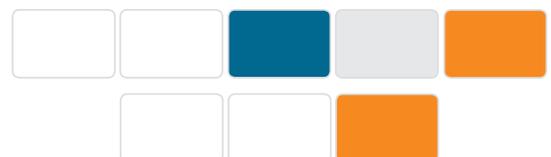
We have no shortage of books on innovation flooding the market. Why is it then still elusive to most companies? Truth be told, the innovation challenge differs from company to company, country to country and culture to culture. We believe that innovation is very much within the reach of many Asian/Malaysian based companies, nevertheless they should refrain from simply adopting, copying or bench-marking against Western innovation models. Instead they need to find their own way in the innovation agenda. Sadly, there is no one size fits all in this.

We have seen the best brains sent to the top business/engineering schools that equipped them with brilliant ideas and concepts only to find that it is misaligned with the Asian culture. We have hired world class consultants to develop strategies to innovate yet progress is slow. Borrowing Western ideals is, of course, more boon than bane. But our culture, talent pool, size of capital, technological and market accessibility limits our ability to emulate the Western style of innovation.

The reality is that our Asian culture is not going to change in the next few years and the mindset of our people won't transform overnight. We are not going to get a sudden upsurge of cash, time and resources to innovate. Our education system will also take time to produce innovative talents to feed into the innovation economy.

The key to innovate is **to take from the best and blend with the rest**. We must accept the realities of the operating environment – and its packaged constraints – then develop an approach to innovation that is most native to our culture, values and modus operandi. We must move away from focusing on best practice and work on the **next practice** or **our practice**. We must innovate in the way we innovate. This is the beginning of our journey in search of **InnovAsian**.

*We must
innovate the
way we innovate*



In Asia's risk-averse culture that demonizes mistakes and failure, new insights and ideas are easily dismissed. And as a result, innovative ideas rarely take off. Similarly, unless a project is safe, low-risk and promises immediate returns on investment, it is rarely given an adequate budget or any funds. More often than not other short-term endeavors take priority over promising but unconventional ones. This leads to another barrier to innovation, cash, which is prevalent in many Asian companies.

Even when a company takes a chance on innovation, several inhibitors come into play. Companies may not have the leaders, partners and talent with capability, technological ability or know-how to innovate. Do leaders trust and empower their employees to innovate? The trouble is, middle managers and executives continue to hold onto linear mindsets, which some say is the result of rote learning and conformity promoted in the education system. This prevents their organizations from moving into the innovation front. Many are unwilling to explore new frontiers in innovation simply because failure is often dealt with severely. But also, leaders may find themselves swamped with the traditional aspects of

management, leaving them very little capacity to lead the innovation process. Companies should not be surprised to find that some of their most talented, capable and passionate employees are buried in routine tasks and internal fire-fighting.

While customers are always looking to improvement in the products and services offered to them, there are always those who shun change and improvement and would much rather stick to the tried and true.

But companies need not fear these constraints as it can act as a force to spur innovation. In some cases, companies are forced to innovate when they've lost market share, stricken with an outdated business model or faced with a daring new competitor, only to bounce back bigger and better than before. Everybody plays a part in making innovation real regardless of your role in your company or society. We hope that this report will help companies understand the state of innovation within Malaysian organizations. We hope that companies can find the courage to accept the constraints facing them and begin their quest in innovation.

*Constraints can act
as a force to spur
innovation*



InnovAsian: The Critical Elements

Innovation isn't the work of a lone visionary, it is instead the sum of many parts. More than often, management must ensure that its nuts and bolts – among them the organization's culture, structure, finances and people – are aligned before they even think about innovation.

Nevertheless, influencing 400 instead of 40 employees to innovate is a mammoth task that lavishes on more time and resources than necessary. Companies should, instead, empower and influence leaders to mobilize the troops. It is an efficient and powerful strategy aided by Asia's patriarchal traditions that have resulted in organizations that thrive under top-down management styles.

Once an organization has its leaders sold on the idea of innovation, it's time to turn the Kenduri (feast) sized affair that is the process of innovation into a manageable and seamless soiree. To cover all bases, leaders must embed eight crucial elements in their organization:

E1: Concentration:

Have a clear sense of purpose. Embark on an internal and external branding campaign to ensure that the message to innovate is clear and consistent within the company.

E2: Coordination: Design a formalized innovation process that includes risk and project management mechanisms.

Alternatively, look at your organization's existing system, identify the obstacles and develop ways to overcome them. This will allow leaders to tap into the flow of insights and ideas from employees. Set up a resource allocation system to realize those ideas.

E3: Context: Tune in and map out. Get a feel for the vibe that resonates in your organization. Walk the hallways and cafeterias of your headquarters and find the answers to these questions: How do your employees feel about innovation? What are the issues they face? Be aware of the changes that are happening in and around your company. Extrapolate the



environment in which your organization operates in. Operating in isolation exposes you to the risk of being dated. Furthermore, stagnancy will only kill your bottom-line and your company culture.

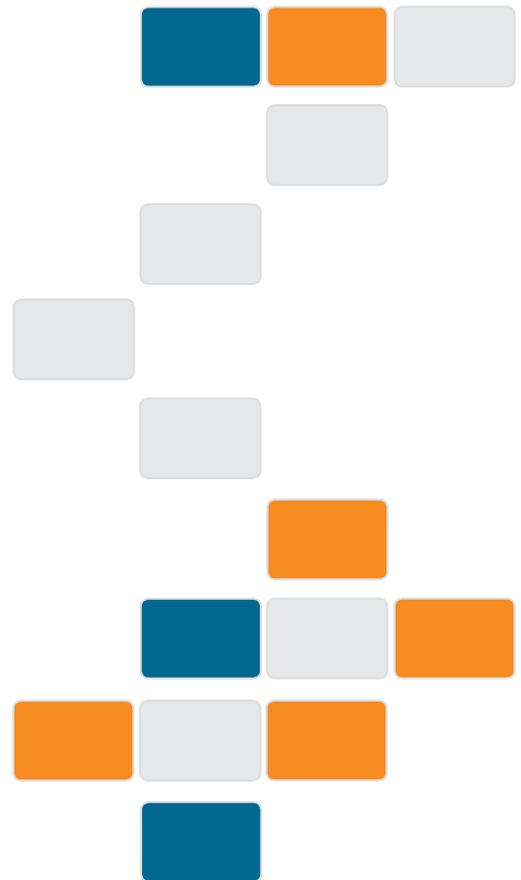
E4: Communication: Extensive communications across the board is essential. Here, companies should not hesitate to use new technology to communicate and share information.

E5: Collaboration: Encourage people with diverse views and background to make extensive collaborations – formal or open – within your organization and with your partners, clients and competitors. External collaborations can also serve as short term solutions to overcome internal capability. This can also give fresh insights.

E6: Creativity: This is a crucial, but not the sole, element necessary to generate fresh or novel ideas to innovate upon. Remember that creativity is outsourceable. Leaders can't undo three decades of what an education system does to a person in three days of creativity training. However, be ready to accept new and radical ideas if it emerges.

E7: Base Knowledge: Innovation doesn't happen in void. People need a large assortment of tacit and explicit knowledge as well as technical, operational and financial competencies. The cross pollination of ideas will also give rise to new knowledge, better ideas and insights.

E8: Energy: As with any other task, managing one's energy is extremely important. Leaders must be cognizant of employee engagement. Challenge employees to step out of their comfort zone but keep stress under control. Concentrate on building relationships and a sense of solidarity, which is typical in Asian societies. Small acts could have a significant impact.



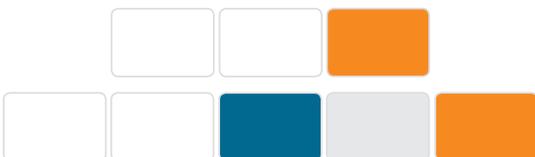
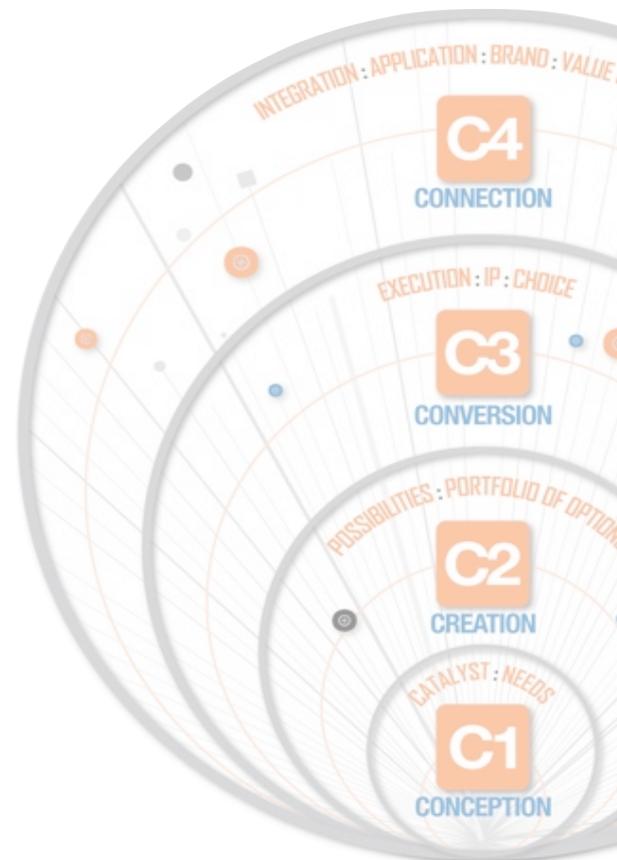
Recommendations

For the **leader**, whether at the macro or micro level, you need to create a culture where innovation can thrive, build your team's capability to innovate, provide the context and capacity for them to innovate. Lean towards creating a diverse cross-functional team. Practice managing ambiguity and risks. Tap on the Gen Y's (Below 30s) freshness. Source ideas from outside the organization (this may be from universities, customers, suppliers, competitors, innovators and entrepreneurs) to innovate. Finally provide cash or risk capital to innovate.

For the **individual**, we hope that by now you understand where you fit, in the innovation equation. Innovation is not about creativity alone, you can be involved in any stage of an innovation process (C1-C4). The key is for you to have the willingness to explore new territories, experiment doing new things differently and be prepared to take higher risks (even if it may mean losing out on year end bonuses!). Remember that great ideas come from cross pollinating concepts from different industries and disciplines. Expose yourselves to areas not connected to your field/discipline. Assimilate new and emerging trends, market products, inside and outside your industry.

For the **innovators** we hope this report will help you understand your challenges better at the different stages of the innovation process. Innovation is a team effort and you need to respect the different stages of the innovation process. Lastly, make sure that you have a combination of simple and radical innovation projects.

To conclude, innovation is a mindset and culture, that is capable of conceiving the need for change and developing breakthrough ideas and solutions. It's the willingness to choose and execute risky but promising ideas. Lastly, it is about harnessing value when ideas are brought to the market. Hence, it's a convergence of needs, great ideas, execution and value creation.



If you would like to share your views or comment on this report please e-mail us at info@alphacatalyst.com