



The Innovation Shift

Rise of Asia as an innovation hub

The importance of innovation is irrefutable. The time where innovation was something novel has long passed. Although innovation has clearly received global significance and attention, Asia is generally perceived to be trailing behind. This article delves into how innovation in Asia has changed, and explores some of its barriers and drivers, while highlighting specific initiatives that may benefit organizations contemplating a shift to Asia.



Innovation in Asia

In 2014, Asia was already home to 60 percent of the world's population. The Asia we knew a decade ago has transformed and in many cases, hardly fit the image of the developing region it once was. The first wave of change saw the emergence of Korea, Japan and Taiwan, followed closely by China and India, due to their massive scale. The latest transformation is occurring in the ten-member ASEAN countries, mostly attributed to a strong focus on innovation.

Several indicators support this rise. At a country level, Bloomberg Innovation Index ranked South Korea, Japan and Singapore in the top 10 most innovative

countries in the world since 2013, while 7 countries in Asia made it into the top 25 of the Index in 2016. The Global Innovation Index 2015 also listed 4 Asian countries in the top 5 Innovation Index Climbers. Then we have Asian based companies such as ST engineering, CP Foods, AirAsia and DiGi, which have all embellished Fast Company's, or Forbes's Top 100 Most Innovative companies list, at one point or another.

The shift however has not been an easy one. There were many challenges, ranging from country policies, availability of resources and cultural issues that had to be overcome to reach the stature it is today.

Government gumption

Unlike the developed countries where much of the changes seen are more organic in nature, the growth in Asia has been more deliberate.

At the turn of the millennium, policies of most Asian governments were to stimulate industrialization more than innovation. As a consequence, organizations were not aided nor driven to be innovative. This changed in the past decade, where many governments are seen to be more active in driving innovation in the country.

South Korea's Institute for Advancement in Technology (KIAT) is the government's R&D funding agency and had a budget of USD 1.17 billion in 2012. It directly supports firms in their R&D efforts, and has a planning and advisory capacity through which it channels its funding. Singapore, in 2016, just announced a budget of S\$19 billion to support its R&D efforts over the next five years, which will focus on four key areas, advanced manufacturing and engineering, health and biomedical sciences, services and digital economy and urban solutions and sustainability. In Malaysia, Agensi Inovasi Malaysia was set up as the driving force behind Malaysia's goal of becoming an innovation economy by 2020. Its subsidiary, PlaTCOM Ventures facilitates end-to-end commercialization of products and services from the ASEAN region. A few 'world's first' have emerged from this initiative, one being the virtual autopsy program that was piloted at UK's first dedicated digital autopsy centre in Sheffield at the tail end of 2013.

The openness of the governments to collaborate towards spurring innovation within the country is apparent. Coupled with the immature ecosystems that allowed for flexibility, this gave way to innovative approaches in driving innovation in Asia.



Maturing Markets

The Asian middle class swelled from 525 million in 2009; and is targeted to reach 3.2 billion by 2030, constituting 66% of the global middle class population and 59% of middle class consumption. In the past, Asian markets were not so mature and distinctly separated or even isolated, however with the extreme growth in middle class spending, markets have drastically grown and customer behavior has changed. With similar alternatives being offered left, right and center, companies are forced to listen more to the specific Asian customer needs, which have influenced market maturity and innovativeness.

Global companies have also shared how their innovation process have been influenced by this shifts, where, in Asia, 47% of respondents to a study strongly agreed that customers have a much greater impact on their innovation process than in the past, compared with 39% in North America and 38% in western Europe. This “Asiafication” of demand, as it is called, has become a clear driver for innovation for Asia.

Acting upon this, and realizing the need to be closer to their key customer profile, several large companies have set up innovation centers in Asia. Motorola had 1200 R&D engineers in Malaysia who do “ground-zero” design and development work in 2014; Dyson has an innovation centre in Singapore; Pfizer and numerous other MNCs such as Siemens, Unilever, GE, HP, Honeywell and Google, opened R&D/Innovation Centres in China; Philips now has an Innovation Centre in India with 2000 engineers; Xiaomi is also opening up a new R&D Centre in India. This has helped them better understand the nuances of the Asian customers, ultimately assisting the innovation process for these end users.

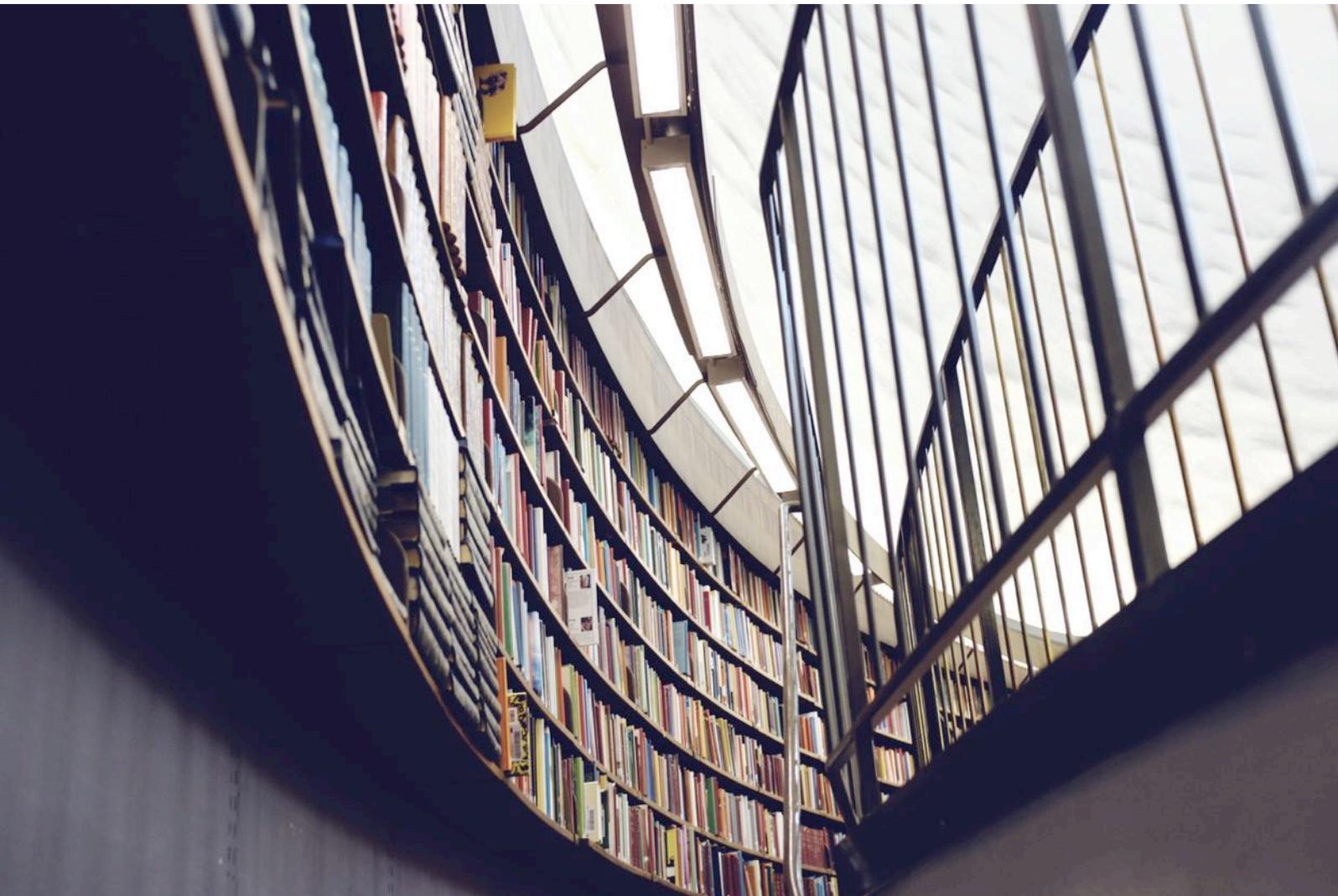
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Resource revolution

Asia is now the top recipient region for foreign direct investments, accounting for 40% of the global flow. PWC Strategy & Global Innovation Study in 2015 showed Asia as the top destination for corporate R&D spending, overtaking Europe and North America, which were ahead in 2008. This is contributed mostly by China who is now the world's second R&D spender behind the US and spends as much as Germany, France and Italy combined. This however, has not always been the case. The lack of capital availability coupled with limited number of talent were factors that had proven to be significant barriers to innovation in Asia. The abounding improvements in capital market maturity, improved regulations and systematic risk management frameworks have since helped the region to change.

Corresponding with this change was the shift of the Asian consumer attitude that demanded more, which fueled the Asian innovator's appetite for risk capital. Currently, not only is there a good amount of Asian capital present, there is also an increased amount of capital flowing from Asia to other regions. The advent of alternate funding options like crowd funding or co-ownership has also been embraced very well in Asia, quelling the desire of the start-ups.

For the incumbents, there is an emerging trend of innovation departments or subsidiaries being set up which scan the horizon for disruptive innovations. In some cases, they themselves collaborate and back start-ups to create the next disruption for their industry. This is particularly evident



within the finance industry. Taiwan's Financial Services Commission (FSC) recently launched a Fintech incubator fund, which raised USD 6 million and is targeting a total of USD 30 million. In the South East Asia corner, companies like DBS and Maybank are leading players in exploring Fintech.

The second lacking resource was talent. The previous outflow and unavailability of talent meant that Asian companies often could not achieve their full potential. This has been combated with extravagant schemes of "brain reclamation". In 2016, China's government doubled its budget to 4.4 billion Yuan in its bid to attract more academics and professionals to help nurture innovation back home. Similar patterns are also seen in India, Singapore and Malaysia. This has proved to be valuable, as the talents would have gained valuable experiences abroad whilst still understanding the local mindset and culture to obtain optimum results.

In creating a vibrant ecosystem for innovation, countries inadvertently created exciting venues for talents to gravitate towards. In Singapore, true to the label of 'the melting pot of Asia', P&G's new innovation center houses talent from 18 nationalities. The availability of high-speed communication network has also allowed many companies to outsource work globally and not be restricted to talents physically located in the same geographical location.

These features have created a rosier and conducive ecosystem for companies to relocate to Asia. Far from being the risky option for growth, Asia has secured its place as a location of choice for fast growing and dynamic companies.

How did Asia combat the issue of talent shortage?



Culture Conundrum

The cultural differences that have defined Asia for so long might be the biggest challenge yet. Nevertheless, the embedded hierarchical approach and strong top-down culture does have strengths and weaknesses. Whilst regularly viewed as counter to innovation, if coupled with the right tool for engagement, these traits may serve to expedite innovation initiatives throughout the organization. The kind of tools that are used to facilitate engagement of employees are generally technology platforms. As the recent Google research suggests, Asia is the most connected place on earth!

A study of the Asian community in 2014 showed that the most outstanding need for innovation to happen in an organization is the leadership support and trust whilst the largest challenge faced by employees to innovate is the lack of trust and empowerment. Technology based collaboration tools appear to empower employees and are able to connect every single individual in the organization. Having a clear direction from the top can transform the talent pool into a powerhouse of ideas and solutions. However, knowing how to maximize on the Asian culture could instead spur the organization's growth.



Conclusions & Actions

Innovation is clearly essential for organizations to thrive and Asian organizations, while late to the table, have definitely proven to be a strong force. Whilst tremendous progress has been made on the innovation landscape in Asia, plenty of challenges still remain, and new ones are bound to arise.

For many companies, Asia has proven to be capable to rise to the occasion. Governments are putting in the effort. Talent is stepping up. It is now up to the individual companies to strategize how to be part of this Innovation Rise.

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About Alpha Catalyst Consulting

We are a boutique Innovation Consulting company that specializes in helping Asian organizations develop and execute their growth strategy through innovation, without compromising on their unique and ever-evolving Asian culture and values.

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