

IPS-Monitor Business Times Innovation Series

Article 2

Needed: CEOs with a vision

Singapore's business leaders must adopt innovation as a growth strategy in order to achieve market leadership

By **Hitendra Patel** and **Steve Wyatt**

AS A FIRM whose core business – moving boxes – is decidedly unglamorous, Singapore-based container shipping giant Neptune Orient Lines (NOL) would hardly seem a prime candidate for innovation. And up until now, it hasn't been.

"This is not a industry that is given to innovations," says NOL CEO David Lim. "It is an industry given to productivity. It's about: How do I get more lifts from the crane? How do I stick more boxes on the ship? We are struggling all the time to see what we can do to be a bit more efficient – make lots of little incremental improvements here and there. But if you are looking for breakthrough ideas in this industry – well, there have not been many."

Now Mr Lim, who assumed his post in 2003, is trying to change all that. He is making significant efforts to redefine the scope of NOL's business by understanding and creating value along its customers' entire supply chain. In other words, he is trying to think outside the box – literally.

It will take bold, creative, innovation-relevant leadership like Mr Lim's to maintain or even surpass the high-level economic performance that Singapore has enjoyed for the past 40 years. As we discussed in our first article last week, we believe that Singapore is at a crossroads; reaching the limits of the investment phase of economic growth, it is now repositioning itself for growth through innovation.

Perhaps the single most pivotal factor determining whether Singapore successfully manages this transition is the attitude of its senior business leaders: their commitment to goals which go beyond the known horizons and capabilities, that drive new solutions and new performance levels; their openness to evolve business models that are truly new (as opposed to those derived from existing benchmarks); and their willingness to engage with and manage risks and uncertainties.

Our recent survey conducted in partnership with the Institute of Policy Studies of 75 organisations in Singapore looked in depth at their innovation attitudes and practices; including interviews with David Lim and many other leading executives. It indicated that local CEOs recognize that innovation is valuable: fully 90 per cent of the respondents told us that innovation is either important, very important or essential to their companies' goals and ambitions.

Still, the executive-level push towards innovation is less passionate – and potent – in Singapore than what we see in other countries, including Korea, Japan, US and Germany. And in fact, our survey reveals that many of Singapore's CEOs have a somewhat narrow, restricted vision of innovation's true benefits and the central role it must play in a strategy for sustainable growth. The bottom line: their current approach is good, but not good enough.

Consider these survey results:

- ◆ When asked why their company needs to innovate, 90 per cent of the CEOs cited tactical benefits: cost advantages, revenue gains, process improvements, product quality, etc. Only one in 10 spoke of the strategic benefits of innovation, such as sustainable growth, greater differentiation and the creation of new markets.
- ◆ The majority of CEOs define innovation narrowly – eg. As new materials, methods, processes, and product refinements – as opposed to a broader definition that encompasses the creation of new business models, changing industry structures and growth engines.
- ◆ Few CEOs cited the four main areas of benefit of innovation: customers, suppliers, employees and shareholders; leading to the conclusion that their expectations of innovation are not as ambitious as they could be.
- ◆ Many CEOs view successful innovation as a process that helps to squeeze life from existing business models or to counteract rising costs that threaten to undermine their model. They generally prefer to utilize benchmarking; learning from others, minimizing risk and executing well. Typifying this attitude is one CEO's assertion that, "other companies' innovations can be the benchmark for what I want to do here".
- ◆ Few CEOs are setting business targets ambitious enough to drive the original, creative thinking that is crucial to innovation.

In sum, when Singapore's CEOs think about innovation, the survey shows, they tend to think tactically instead of strategically; short-term instead of long-term; incrementally instead of boldly. Perhaps this is not surprising: The pressures to adopt innovation as growth strategy – cutthroat domestic competition, tough customer demands and intolerant and mobile shareholders – are less intense in Singapore than in other countries.

But visionary executives can transcend a sheltered business environment – as South Korean CEOs have demonstrated. Whereas Singaporean business leaders tend to set goals based on what is known and what is achievable, some notable South Korean counterparts (who, many would say, also operate in a sheltered environment) have boldly declared their intention to become "Top Three Globally In Three Years".

Their drive and ambition have propelled their companies into the thick of demanding customers and fierce competition globally – and helped them to harness the power of innovation management to achieve global leadership.

Singapore is not without its own go-getting visionaries. Osim CEO Ron Sim, for example, has used a focused strategy of growth centred upon innovation to help transform his struggling trading company into a market-maker in personal health equipment.

Ron Sim is a charismatic leader who has made it clear to his employees that he expects constant innovation and growth, values new ideas, and recognizes the need to "push the envelope" by setting long-term goals (in this case, region-wide industry dominance) that are ambitious enough to spur the creation of new businesses and markets.

Other firms similarly focused on innovation in the pursuit of global markets are Venture, Singapore Airlines and Keppel Off-Shore & Marine.

Now, more of Singapore's business leaders must follow suit. They must reset their goals and objectives for growth, for value creation, for global competition. They must look beyond benchmarks and existing models – the “known universe” – and have faith in the results than groundbreaking innovation can deliver if it is fully empowered and driven.

Boards and shareholders must do their parts, as well, by demanding that CEOs devise growth plans that are ambitious enough to drive their organizations to higher levels of market relevance (while maintaining prudent governance, of course). They should question whether plans for pedestrian growth are in fact maximizing stakeholder as well as shareholder value.

Years of work promoting innovation at firms around the world have taught us that leaders who, like Ron Sim and David Lim, link innovation to strategic growth are able to achieve market leadership. Specifically, we have found that:

- ◆ CEOs must adopt a new and broader vision of innovation – one based on an understanding that innovation is the key to their survival and the growth of the company.

Senior leadership must firmly commit itself both to the goal of growth and to understanding and mastering the principles of innovation-fueled growth. One such leader is Singapore Technologies Electronics president Seah Moon Ming.

“We believe strongly that innovation is a powerful and critical source of competitiveness, even as we try to compete in the international marketplace, both for customers and for talents.” Mr Seah has said. “Create the impetus for innovation! It is what enables the growth of a business and a company. Innovation is crucial for creating revenue and making profits, and enables sustainable growth over the longer-term.”

For the chipmaker Intel, innovation is not a choice. Intel has to continuously out-innovate competitors like AMD and Samsung or be left behind. Richard Eu, CEO of Eu Yan Sang, the Chinese herbal medicine company, says: “Without innovation and growth, we will die.” It is this attitude that is the key to achieving the kind of sustainable growth dreamt by all CEOs.

- ◆ The CEO and board of directors must set stretch growth targets to drive breakthrough innovation.

Setting ambitious growth targets that challenge people to “think beyond the known” is essential to driving true innovation. At the US aluminium giant Alcoa, stretched cost-reduction targets are used to drive out-of-the-box ideas and partnerships; compensation is adjusted so that meeting stretched targets is rewarded far more handsomely than meeting planned targets.

Time and again, we have seen that companies that set stretch targets often come close to meeting them - and consistently beat their planned targets. Another way of looking at it: incremental innovation (which is valuable) is often a side product of breakthrough innovation, but breakthrough innovation is never a side product of incremental innovation.

When John F Kennedy gave a speech in 1961 committing the US to landing an astronaut on the moon by the end of the decade, many observers, including many scientists, thought he had erred by being far too ambitious. But history records that Neil Armstrong and Buzz Aldrin did in fact set foot on the moon on July 20, 1969. (The achievement was one small step for man, one giant leap for stretch targets!)

- ◆ The CEO should assign executive-level leadership to manage innovation.

Creation of CIO post

A growing number of major multinational corporations such as Hitachi, Frito-Lay, CEMEX and Cargill have taken the significant step of creating chief innovation officer positions. Reporting directly to the CEO, these officers ensure that there is sufficient focus in the innovation programmes (the “platforms” to be discussed in the next article), that innovation efforts are linked directly to the growth and competitive strategies of the firm and that there is sufficient drive across the organization: in essence the CIOs are responsible for ensuring that the stretch targets are achieved.

At ST Electronics, Lu Yeow Leong has the role of the chief innovation officer; he reports directly to the company president and is responsible for driving innovation across the organization.

The Singapore government has a stellar record in coordinating industrial policy; this prowess could also help to evolve and implement a highly effective innovation policy; starting perhaps by convening a suitably high-level body to align overall policy with innovation goals, declare a national innovation agenda and continue to support the evolution of the innovation eco-systems in the country.

As a major shareholder in some businesses, the government can also encourage the boards and executive leadership of those companies to commit to growth and development plans that extend beyond the “known”, and this can only be achieved through Innovation Management.

In sum, the challenge confronting business leaders in Singapore is to move towards a bold new mindset: Innovation Management. They must embrace and acquire the skills for managing uncertainty, setting far-reaching goals and driving continuous innovation.

Because what worked well in the past, will not win tomorrow.

Successful leaders recognize and embrace this change – as NOL’s David Lim is doing – and accept the increased complexity and ambiguity of new pathways to success. In short, successful leaders know that innovation is the key to sustainable growth.

And that true innovation requires leaders who can see “beyond the horizon” and exhibit the confidence and skills needed to take the organization there.

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