DEALING WITH INNOVATION FROM EMERGING MARKETS

Tigers are innovative too

By Professor William A. Fischer - November 2008

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For years, Western multinationals have had the belief, and perhaps felt relief as well, that while they might increasingly be unable to compete effectively on price, at least they have had greater innovative capacities than the rising “tiger” economies. Today, however, with the rising economies of the emerging markets, there is no way that the West can rest on its laurels. Beware of the claws and jaws - tigers can be innovative too!

In Business Week’s list of the “ten most innovative companies” for 2008, four come from Asia: Toyota, Sony, Samsung and Nintendo, while the Indian firms Reliance Industries and Tata are also among the magazine’s fifty most innovative firms. There is little doubt that with the vastness of their economies, the growth of a demanding middle-class, and the evolution of local champions into global competitors, more will follow soon. What is equally interesting is that recent Organisation for Economic Co-operation and Development (OECD) data shows that the corporate funding of R&D within the Chinese economy is reaching the levels found in the West, a sure sign that market-driven innovation is replacing command-push innovation in the Chinese economy. One result of all of this is that while Asian companies have traditionally, in most cases, been market leaders based on cost, clearly times are changing. China’s Haier and Huawei, have always been recognized in this regard, but there are increasingly many more appearing, including such innovative powerhouses as: ZTE, Alibaba, and Shanghai-based Focus Media.

These developments are vivid testimony to our reaching a major inflection point in the history of innovation. The realm of competitive leadership through creativity, design, and deliver, which for at least two hundred years has been the exclusive province of the West, is now to be shared with newly emerging firms loaded with ideas and creative energy. And, the message is not just for Western firms, alone. Emerging market firms are also learning that cost is not an advantage to be taken for granted anywhere. Cost-leadership is almost always vulnerable to innovative disruption. The inclusion of innovative practices in any firm’s portfolio of managerial pursuits is essential to maintaining the vitality necessary for a healthy organization. To consign innovation to someone else is to accept a subsidiary role in creating your own future. Perhaps that is the reason why in 2006, more Chinese-authored patents were filed with the Chinese patent office than foreign-authored ones.

They are also learning that wherever it takes place, innovation is embedded within a broader value-chain, that is shared by multiple firms, and all of these players need to be responsive enough, agile enough, and innovative enough to be a partner-of-choice for the other customers or suppliers within the same value chain. This requires sufficient commitment to innovation to grow with your value-chain partners into the future, or otherwise risk being left behind.
As a result, we believe that emerging economies are already being recognized as major sources of product, as well as process innovations. This reflects the size of these economies, and the recognition that they are large enough to host both cost-leaders and product innovators. As a result, Western multinationals are already beating a path to both India and China, and elsewhere in Asia, in search of brains, as well as brawn. In fact, the two are increasingly going together. It’s a mistake to assume that cost-leadership is necessarily “lighter on creative, original thinking and innovation.” Do not underestimate the creative competencies that go into creating innovative cost-leadership.

Geography still counts

For quite a while, many companies have spoken about achieving “seamless” collaboration anytime, anywhere, and with anybody. Add innovation in, however, and the complexity escalates. “Seamless communication” requires deep conversations among the various actors in an innovation network. One of the most interesting contradictions, in a world where R&D output is often measured in “bytes” in the virtual environment, is the imperative to continue to pay attention to the “atoms” in the physical environment. These physical atoms are particularly important when the location of R&D activities is being discussed, and when conversational environments are being designed.

Geography is still important in many innovation efforts! We know that R&D does not flourish everywhere, and that social and physical infrastructures can be catalysts for driving strategic innovation. The continuing innovative success of Silicon Valley and other areas in the traditional West, over successive generations of technology, for example, is as much about the risk-taking and conversational environments that one finds there, as it is about bright people and good ideas. In fact, they are all interrelated and mutually-reinforcing. Geographic proximity and economies of scale encourage innovative output. It is about working together.

Give and take

When allocating resources for innovation, therefore, it is important to keep a number of key points in mind. Successful innovation requires strong leadership and the availability of educated, ambitious, bright people, who are independent and self-confident enough to push their opinions and take responsibility for their projects; as well as being entrepreneurial in the management and delivery of these projects. MNCs need to compete
in local talent markets and need freedom to operate. In return, MNCs also need to assure local talent that they will have the same opportunities as any similar set of knowledge workers employed by the firm, anywhere else in the world, and they need to reassure the local authorities that they will be good local “citizens.”

If these conditions are met, any MNC can be a strong local partner for the educational systems from which they hope to recruit, and the suppliers with whom they hope to work. This will result in partnerships in knowledge and competency, and development will result all along the value-chain. An important part of this is to support and reinforce local resources in developing knowledge workers.

In today’s fast-moving, complex business environment, innovating quickly, reliably and effectively is an advantage for achieving profitability and growth. Yet, all too often, organizations are unable to generate sufficiently creative ideas and effectively move them to market. For example, IMD’s Driving Strategic Innovation program, which will be held in Singapore in 2009, endeavors to change the way business leaders think about innovation and technology strategy, and gives them a deeper, richer and more comprehensive roadmap for executing change.

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