Innovation Governance in Chinese Family Business: A Case Study

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Keywords: Innovation Governance, Chinese Family Firms, Qian Hu, Singapore.

Abstract: Corporate innovation governance can be defined as a systematic approach to align goals, allocate resources and assign decision-making authority for innovation, across the company and with external parties. While the dos and don'ts of innovation governance approaches in non-Asian firms are fairly well researched, little is known about the Chinese way of governing innovation in Asian family firms. This paper provides insights into the innovation management capabilities of Qian Hu, an integrated ornamental fish service provider incorporated in Singapore in 1998. Based on half-structured interviews with its Executive Chairman and MD Mr. Kenny Yap, we exemplify the key components of Singapore’s Innovation Excellence Award (I-Award) and how Qian Hu made them work. The paper attempts to shed light on some of the unique innovation management approaches in Chinese family-owned enterprises, e.g. with regard to ‘family involvement in boards’ which divert to some extent from formal business excellence standards. The paper is part of an on-going research project aimed at examining the specifics of innovation governance in Asian enterprises.

1 WHAT IS INNOVATION GOVERNANCE AND WHY DOES IT MATTER

One approach to encourage more innovation in business and beyond is to effectively govern it. In contrast to the word innovation which refers to the implementation of a new or significantly improved product, service or process that creates real value, the term governance is a bit more complex due to its connotations of authority, control and influence. The word itself derives from the Greek word kubernáo with the connotation of steering a ship (metaphorically, it refers to the challenges of steering Men).

Broadly speaking, governance is about the nature of authority relationships in a country or an organisation as well as the degree of formality of associated rules, norms, and actionable procedures - which can vary widely (Deschamps, 2013; 2014; 2015). Corporate innovation governance can be defined as a systematic approach to ‘align goals, allocate resources and assign decision-making authority for innovation, across the company and with external parties’. Innovation governance is a “top management responsibility” that cannot be delegated to any single function or to lower levels of an organisation (Deschamps, 2008).

Corporate innovation contexts are characterised by uncertainty (How will our customers react?); complexity (How best to manage diverse groups of internal and external knowledge experts from different disciplines?); low degree of predictability (Who might disrupt us and what changes will occur within our organisation when we develop a new innovation strategy); and creativity (How to nurture a climate where creativity can flourish?). Therefore, business leaders need governance frameworks, tools and techniques to effectively strategise innovation efforts with a clear focus and a balanced portfolio of innovation initiatives to make innovation work (Adams et al., 2010).

While many would agree that winning firms are characterised by strong innovation governance approaches, empirical research about this topic in Asia is rather poor. Anecdotal evidence suggests that there are many organisations here where formal innovation governance systems are completely lacking. But there are also a couple of real champions where innovation is effectively governed via solid innovation management frameworks, top leadership support and capable managers aimed at creating sustainable business and societal value. Examples include Defence Science Technology Agency (DSTA), Sheng Siong Group and...
Biosensors Interventional Technologies Pte Ltd - all of which recently won the SPRING Innovation Excellence Awards. Their summary reports are available on the website of Enterprise Singapore and provide valuable insights into key components of innovation governance systems such as a compelling strategic innovation vision and mission (to determine the goals of innovation efforts), a system of supportive values, ‘the right’ sources of innovation, innovation process-related details and so forth.

A good innovation governance system not only clearly states the vision and intended goals of innovation efforts, it also helps to clearly define roles and responsibilities related to the innovation process, including decision power lines (e.g. with regard to innovation budgets) and the nature of relationships with both internal and external collaborators, e.g. in the context of open innovation. It sheds light on the desired innovation culture and specifies how the organisation intends to create and sustain a climate in where new ideas are encouraged and rewarded, and where failure is indeed an option and not a shameful defeat.

Innovation governance ensures that the right innovation metrics (e.g. ratio of incremental to game-changing innovation in the portfolio, measured in the number of initiatives and/or expenditures) are used (Adams et al., 2006), and it establishes proper management routines regarding innovation project management, information sharing and timely decisions with reference to the stages of the product innovation process, such as ‘Go to Development’, ‘Go to Testing’ and ‘Go to Launch’ (Cormican and O'Sullivan, 2004). Without a well-balanced portfolio of incremental and radical innovation initiatives, organisations may become too product centric and/or too revenue impatient.

2 ENTERPRISE SINGAPORE’S BUSINESS EXCELLENCE FRAMEWORK

A useful tool to develop a governance system for innovation is Enterprise Singapore’s business excellence framework. Enterprise Singapore is a government agency championing enterprise development (https://www.enterpriseg.gov.sg) under the Ministry of Trade and Industry. Its Business Excellence Framework helps companies build their business capabilities, improve their organisational strengths and identify areas for improvement. The Business Excellence (BE) initiative was launched in Singapore in 1994 to help organisations assess which stage they are at on the excellence journey and what they need to do to achieve a higher level of performance. This is done by an assessment of organisational performance against the requirements of the BE framework which provides a holistic standard that covers all critical drivers and results for business excellence. It illustrates the cause and effect relationships between the drivers of performance, what the organisation does, and the results it achieves. It covers the following areas:

![Figure 1: Areas Covered by the Business Excellence Framework.](image)


Together, the organisational profile and the attributes of excellence form the context and foundation that encapsulate the entire framework as shown in the diagram above. To achieve excellence, an organisation needs strong leadership to drive the mind-set of excellence and to set a clear strategic direction. Customer-centricity is positioned after leadership to demonstrate the focus on anticipating customer needs and creating value for them. Strategy is developed based on understanding internal and external stakeholder requirements to guide people and process capabilities required to drive desired results. To sustain excellent performance, organisations need to continually learn, improve and innovate. Continuous learning and innovation is demonstrated through acquiring
knowledge from the lessons learned and the measurement of results, and using them in a closed feedback loop to support decision-making and drive improvements.

The so-called Singapore Innovation Class is one of four standards and certification programmes based on the BE framework interested companies can choose from (based on the same seven dimensions of excellence, namely, Leadership, Planning, Information, People, Processes, Customers and Results). Singapore Innovation Class (I-Class) offers certification for business excellence in innovation aimed at helping organisations to develop their innovation management capabilities. There were 107 I-Class certified organisations as of October 2016.

Launched in 2001, the Innovation Excellence Award (I-Award) recognises organisations for outstanding innovation management capabilities resulting in breakthrough or impactful innovations observed in areas such as business models, processes, and products and services (Mcgrath, 2010).

3 MANAGERIAL AND ORGANIZATION FEATURES OF CHINESE FAMILY FIRMS

Asian enterprises are dominated by Chinese family businesses, i.e. both small and large business organizations owned and managed by ethnic Chinese business leaders (Menkhoff et al., 2008; Menkhoff and Gerke, 2004). Despite prevailing notions about their growth restrictions due to cultural characteristics such as familism (nepotism) or lack of professionalism, many of them have developed into globalised MNCs as exemplified by firms such as the Oversea-Chinese Banking Corporation (OCBC), the Hong Leong Group or Eu Yan Sang International. Contrasting ‘traditional Chinese’ vs. ‘modern Western’ organisations and their ‘typical’ attributes does not always reflect empirical reality in fast changing Asia because of growth dynamics and intergenerational transitions as stressed by Fock (2009) or Menkhoff et al., (2014).

A typical example of a local Chinese family firm is integrated ornamental fish service provider Qian Hu which was incorporated in 1998 (Menkhoff, 2008). Since 2000, it is listed on the Singapore Exchange. The firm’s business activities include the breeding of Dragon Fish as well as farming, importing, exporting and distributing of over 1,000 species and varieties of ornamental fish. The company under the leadership of Kenny Yap also produces and distributes several aquarium and pet accessories (http://www.qianhu.com/about-qian-hu/corporate-profile). In 2013, Qian Hu won the Innovation Excellence Award (I-Award).

3.1 Comment on Research Method

In the following, we will present selected insights from an ongoing study on the innovation governance specifics of Asian family firms based on the grounded theory (Glaser and Strauss, 1967) and case study approach (Yin, 2014; Bernard, 2000) to uncover what makes innovation tick in Asian enterprise.

4 INNOVATION GOVERNANCE AT QIAN HU

4.1 Visionary Innovation Leadership

According to Kenny Yap, innovation is extremely important in the changing business environment, especially in Singapore with its continuous emphasis on improving productivity:

“How do you increase your productivity? It's only through innovation. There's no other way. You say ‘you save a little bit here and there’. That's not significant. You've got to create some significant and impactful kind of productivity increase. You have to go for innovation because innovation is about finding new things to do, which you can do to increase the value added...It's extremely important for any company, especially for SMBs, because the impact of the disruptions of technology is going to make them die faster than the bigger company”.

The CEO “must be the key driver” of innovation efforts because the management staff may not always have the complete picture about finance and other resources:

“If the CEO does not have the heart and the belief in making innovation work, I don't think that the organization can do that. Who are those groups of people that are heavily involved? Usually all the top management members … and then you have to empower all the other people to try, you know, to come up with new things. This is why I say innovation is broad-based. Of course, you have to have a certain kind of hierarchy and chain of command. But basically, I want to involve everybody. Every project small or big must make a
4.2 Strategy as Driver of Customer Satisfaction, Innovation and Productivity

Since its ISO 9002 certification in 1996, Qian Hu has put emphasis on value creation through quality products and processes. Through Qian Hu’s new e-shop, for example, customers have easy access to the firm’s quality products at competitive prices. Qian Hu started to innovate internal processes in 1997 by semi-automating their packing processes while most of the other fish farms still relied on manual processes: “But we semi-automated. We also integrated the weighting machine, computers, and all these to generate packing orders or the invoice. We started the whole thing back in 1997. There was a government agency called Productivity Board which helped us”.

In 2009, a strategically integrated R&D division was formed to spearhead the firm’s research and development efforts. For Kenny technology is a key innovation driver:

“No matter what kind of new things you do, you have to involve technology. So technology is something that I wanted to put in. Before I retire, I want people to call Qian Hu a technology company. Not a fish company because, regardless of what we do, we use technology to enable what we are doing”.

Over the years, Qian Hu has implemented numerous innovative projects, automated processes and increased efficiency, for example, by developing a new filtration system called HydroPure as part of its R&D driven technology innovation efforts:

“Conventionally we used filter material but now we use current electrolytes to break down the things that we don't want like ammonia. We retain all the minerals. So that’s new. Of course, we have to spend a lot of money on it. During the past few years, Qian Hu was not doing too well but is profitable - not as profitable as before. I always tell my shareholders, ‘if I stop doing innovative projects or invest in R & D, I can show you the numbers; but Qian Hu will die after I leave the company’. So this is why I always say, ‘a CEO’s job is to think beyond the current generation kind of business’”.

R&D is critical for further differentiating Qian Hu from its competitors. Recently, the firm has moved into edible fish:

“Innovation helps us to diversify into other things. This is why it is extremely important for Qian Hu. We have been doing a lot of innovative things, and we invested a lot in R&D. We are able to diversify quite smoothly. The learning process of going into edible fish is slightly shorter than any of the things that we attempted before”.

To ensure business continuity and successful strategy execution, a long-term business perspective is important. A short-term business perspective based on quarterly reporting can hurt the business quite badly:

“I'm lucky because nobody can fire me because my family owns the business so I can think long term. Just imagine an employed CEO, the bonus tied to annual results and he not being ethical, the company will collapse. So I say, ‘sometimes I do not know what shareholders want’… When they buy a share today, they expect that it appreciates by 10% the next day. They never have the heart, and so I say, ‘I will care for my employee more than you. Because I'm the bigger shareholder. I know how to take care of the shareholders already. You are the short term ones. I'm the long term one. And my employees actually create value for you’. This is the truth but nobody wants to say that. But I dare to tell my shareholders that. I say, ‘whether you like it or not, it's a free market, free will, you can always sell Qian Hu share’”.

With regard to the importance of formalizing innovation strategy per se, Kenny has a dualistic view. On the one hand, Qian Hu has implemented a strategic, formalised approach towards innovation based on a 5-year plan which has helped the firm to clinch the SPRING innovation award:

“We have all the systems of doing innovative things. The whole process is being audited and we got the Singapore SQA award. We are also a people excellence award winner. We also got the innovations award. We have the whole systems of getting all the people involved in place”.

But on the other hand, Qian Hu’s boss believes that it is important to maintain a more organic, less structured approach towards innovation management driven by an innovation-friendly environment:

“Structuring innovation is so unreal. I remember in the army we had these work improvement teams, a structured work improvement approach. The HQ forced us to come up with an innovation and then, if you did not, you had issues. You know innovative ideas can just suddenly appear. So we give our staff a good environment - whenever they have a good idea, when they propose it to us, and we think its good, we will implement it, and we'll recognize them by giving them a plaque or a monetary award. So we have this system of asking all the people, the ground people, to be innovative. And, of course, during top management meetings we always talk..."
about the new things that we do that can create an impactful outcome”.

With regard to budget-driven, strategic R&D management approaches, a flexible approach works better according to Qian Hu’s leader: “Budgeting R & D does not really make sense because you never know when a good idea comes out. Between 2011 and 2017, our expenditures for R&D were higher than our annual net profit. The R & D budget fluctuates. Besides my revenues, it’s based on what kind of good ideas come up every year. You don’t wait or say, ‘oh, I don't have a budget - let's wait. No, no, no’. This year I have three projects on hand. I know it’s going to eat into a lot of my expenses and all that. But I say, ‘do it now’. I mean, like, why do I have to schedule it. Just do it. Unless you say you can't because you do not have the right people.”

4.3 Differentiation and Impact: Criteria for Project-related R&D Decisions

Asked how he determines and decides whether a project is worth investing into, Kenny stressed that important criteria include its impact and whether it helps Qian Hu to further differentiate itself from other companies. At the moment the firm is doing a project with NUS (National University of Singapore) to produce high value fish albino. It involves two Ph.D. researchers: “We had to sponsor them for four years. Their Ph.D. projects focus on this technology. Later, I might employ them if I think they are good and if they can strengthen my R&D”.

Sometimes he uses his gut feelings when it comes to decisions about innovative R&D projects:

“You can not always put numbers on the paper and do all the changes because those really stifle your decision making process. You have to look at a person. Can I trust you? Yes, I think I can. Because the way you talk. Okay, anyway, I know this professor X for several years already. So I know his character. All these kinds of things will come together and help to form my opinion to say ‘yes we'll do this project’”.

Minor decisions about potential new projects are delegated to his Deputy Directors and the MDs of the firm’s subsidiaries:

“Only when it comes to major ones involving millions of dollars or half a million or so that are going to drag down profit, they have to inform me. And then I will approve or not. Minor ones, you know, as long as they are below hundred thousand Singapore dollars they can go and do that so they don't go bothering me”.

4.4 Valuing and Rewarding People

Kenny puts great emphasis on building a robust culture of innovation:

“You must have a culture of doing these kinds of things. It's all about culture anyway. The identity of any company is determined by the culture and the behaviour of the upper management”. One way of endorsing this is to put it into the mission statement so that employees know that the company tries to be different.

In terms of staff participation and innovation efforts, management tries to involve everyone by making people “a little bit more creative” and by creating an environment to try things without getting penalized when mistakes are made:

“Making a mistake twice is a stupid mistake. They must learn from the first mistake. How do people get wisdom? You make a lot of mistakes. You have a lot of experiences, and when you come to a certain age you become wiser because of these experiences. Without all the mistakes do you think you can have the experience? I don't think so”.

As Kenny pointed out, responsible employees do care about the survival of the company and its sustainability:

“If the company can survive, they will bring good things to other people. Responsibility is a must. The other thing is attitude. The attitude towards life and towards what is right and what is wrong also determines how you want to run the company. Try to bring good things to other people. When I employ an employee, we look at attitude first of all”.

Qian Hu has a system to reward staff for suggesting good ideas: “Every month or any week, staff can come up with some things that we think are fantastic, and immediately we will reward them during that month rather than drag it to the end of the year... Innovation things cannot have KPIs. Innovation is a feel. Innovation is a behavioural thing. Creativity is about certain daily behaviours and certain actions that define certain kinds of outcomes. You don't go and measure this. When they do all the things right, eventually the outcomes will show. You don't have to specifically reward certain types of ideas because you stifle the way you come up with new ideas... Let them try everything. Think outside the box”.

To generate innovative ideas through external collaborations Qian Hu has recently invested into a start-up:
We have one project which is a start-up. A few years ago it was struggling but I really believe they have a good product, and they have knowledge that we need... We might want to acquire the company. I think the best way to assess that is to do a project first and then see whether the management people are comfortable with it. If we are, then we might acquire the company. We have attempted to do that before, e.g. acquiring medical plant-based formula. You know, we tried to go into aquaculture but we refused to use antibiotics. But we must have some things to treat them when they get sick, right? We do acquire herbal formula or other kind of things because it would take us years to develop that on our own.

4.5 Innovation Governance at Board Level

Asked about the role of the board in the area of innovation (Zahra and Pearce, 1990; Liang et al., 2013; Zhou and Li, 2016), Kenny stressed that this is contingent upon the stage of business development, the importance of technology as innovation lever and the required expertise. Board members may change according to the needs of the company:

"Initially we only had lawyers, accountants or consultants. Some of my ex-consultants became my board members. The IPO lawyer became my board member. A few years ago I started replacing some of the board members or added in new board members with more emphasis on innovations or technology. Two or three years ago I asked a retired AVA expert, head of fisheries with a PhD in fish disease and other things, to become a board member. I believe that if NUS has no problem with the lecturer, after the albino project I might invite him to become my board member. So I develop board members according to the needs of the company".

Kenny doesn’t want to have “all the politics” which are typical for larger organizations:

“A small company can be controlled by me or by my family. I know exactly what the company needs. We hate politics. I told my people ‘if you want to play politics, become a politician. Don't become a Qian Hu family member. We don't do this’. If you have anything, put it on the table. Address it. Move on. Life should be like that. Life should not, you know, be about back stabbing or having grievances or grudges against someone. Just be a happy ... I want Qian Hu to be a happy company, and in a happy company employees are happy... Not happy in terms of financial results but whether I'm also doing some things that are beneficial to other people.

One of the greatest things I told my brothers, my friends and during some other open occasions, the greatest satisfaction for me is not because I'm the CEO of Qian Hu, it's because when I look at my brothers and I look at my employees, Qian Hu has made many millionaires over the years. If they know how to save and if they don't spend it all”.

4.6 Family Matters

Most of Qian Hu’s shares are owned by the Yap family (over 50% according to Kenny). Top management comprises 30% family members while 70% are outside professionals.

Kenny puts strong emphasis on family values: “Actually, you know, when I created Qian Hu, when we listed the company, I was aware of the importance of corporate culture and values. So this is why you have to put in something to tell people what we believe in and what we care about. So the kind of behavior dictates our attitude. How do I come up with all these kinds of things? It's because I pick and choose from my Yap family values and culture and I just put it there and I said, 'we call it Qian Hu family members' so there are family elements of all the people involving in this entity. This is what you see right now, whatever you can sense in terms of culture and values, its part of the Qian Hu family values. Regardless of race, sexual preferences, gender, you know, religion and all that, if you concur with my values and you agree with my culture, right, you're part of the Qian Hu family. So we expanded the definition of the Qian Hu Family".

Kenny is proud that the Qian Hu business has helped its staff to provide their families with a brighter future:

“We came from a poor family ... Maybe I have helped society to keep certain families well-off by working. That’s one of the biggest incentives for me to come to work, rather than anything else. I think maybe Qian Hu has created something good in the broader sense of it”.

5 CONCLUSION AND IMPLICATIONS

In this paper, we provided insights into the innovation management philosophy of Kenny Yap, the leader of a Chinese family-based enterprise (Qian Hu) in Singapore with reference to innovation governance. The term corporate innovation governance refers to a systematic approach to align
goals, allocate resources and assign decision-making authority for innovation, across the company and with external parties (March, 1991; Waldman et al., 1991; Deschamps, 2008). Key capabilities include Kenny Yap’s visionary and values-based innovation leadership cum strategic innovation approach as exemplified by the emphasis on family continuity, value creation through R&D and product innovations beyond existing ones such as the Lumi-Q fish tank. Qian Hu’s innovation governance approach can be described as both explorative and exploitative. ‘Yap family values’ serve as guidance system for managing both people and partners while business processes are optimised through IT and strategic L&D approaches with a view towards achieving greater business results. Table 1 summarizes key components of Qian Hu’s innovation governance capabilities.

Table 1: Features of Qian Hu’s Innovation Management Capabilities.

<table>
<thead>
<tr>
<th>Leading with Vision and Integrity</th>
<th>• Values-based leadership with a focus on quality, innovation, technology and productivity improvements combined with bottom-up staff participation (e.g. based on the ‘creating value from mistakes’ approach)</th>
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<tr>
<td>Creating Value for Customers</td>
<td>• Value creation through quality products and processes • Improved customer satisfaction index • Fast(er) on-time delivery</td>
</tr>
<tr>
<td>Strategy as Driver of Innovation and Productivity</td>
<td>• 5-year product and process innovation plan • Technology and business model innovation</td>
</tr>
<tr>
<td>Valuing People and Partners</td>
<td>• Staff dialogues, open channels, project teams, career development • Increasing support for innovation learning • Improved staff innovation index and length of service</td>
</tr>
<tr>
<td>Managing Processes with Agility</td>
<td>• Harvesting creative ideas and implementing them to create value for the organization • Use of patented HydroPure technology to provide optimum healthy water conditions for the fish • Leveraging IT to increase process efficiency, e.g. zero error in shipments • e-shop (e-commerce)</td>
</tr>
<tr>
<td>Knowledge and Learning</td>
<td>• KM system and strategic human capital development</td>
</tr>
<tr>
<td>Sustaining Outstanding Results</td>
<td>• Improved sales turnover for innovative, patented accessories, trademarks, R&amp;D investments vs. sales, operational improvements (e.g. lobster quarantine), patents</td>
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Not surprising perhaps if one scans the literature on Chinese family firms and innovation (e.g. Roed, 2016), the study revealed that the innovation governance at Qian Hu corporation is driven by the Executive Chairman himself (rather than other people appointed by him or the Board). ‘Family involvement’ in Qian Hu’s board seems to strengthen the relationship between R&D investment and the firm’s innovation performance. The role of Qian Hu’s Board in innovation governance turned out to be skewed towards providing expertise that the firm needs (again, that seems to be directed by ‘the boss’ as well) while Kenny himself stands out as the company’s ‘Innovation Czar’. Decisions about major innovation investments are mainly made by Kenny himself while smaller ones are delegated to those managers who are responsible for the business units. As a result, innovation governance in this dynamic Chinese family firm is arguably very different compared with large, non-family owned organisations (Hendry and Kiel, 2004) and the premises of the Anglo-American corporate governance model.

Besides this key hypothesis, the interview data point to a couple of other important components such as proactive innovation leadership with a clear vision towards innovation and productivity improvements, a robust organisational culture and inclusive family values beyond the immediate family as drivers of intra-organizational innovation efforts as well as disdain for a codified (rigid) innovation strategy. The entire management approach at Qian Hu comes across as being organic and contingent rather than inorganic-mechanical which arguably is well aligned with the current VUCA environment.

Challenges ahead include the search for novel business model components beyond ornamental fish, accessories, plastics and e-retail (in a bearish operating environment) as well as continuous technology innovation in order to create and capture new value.

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