China: Forging a New Path to Global Innovation

The size and nature of the Chinese domestic market and the rapid pace of the country's internationalisation are pushing Chinese firms on a very different trajectory to globalised innovation.

In less than two decades a number of young, ambitious Chinese MNCs have emerged as new global players across a wide range of industries. Unimpeded by costly legacy innovation footprints, cultures of co-location and pressure from corporate traditions, when it comes to innovation these firms are in a strong position to build the right structures, processes and culture to leapfrog many of their more established competitors.

Driven by the convergence of a unique set of factors – an enormous domestic market, lagging home-based resources and rapid internationalisation – the approach Chinese firms are taking to globalise their innovation activities is very different to the well-researched trajectory followed by MNCs in developed markets and the four Asian tiger economies.

The **'traditional' path** to globalizing innovation begins at home where, stimulated by their national context, firms innovate to serve the needs of local customers and then export or license their new products, services and processes to foreign markets. As the firm grows and diversifies abroad it develops strong local knowledge hubs in new geographies. The flow of knowledge at this time is uni-directional from the home market outwards, but as distinct capabilities develop in individual markets and new customer requirements emerge, local subsidiaries become experts in specific domains and knowledge starts to flow back to headquarters and lead subsidiaries.

The adoption of these polycentric networks helps the dispersion and diversity of the critical knowledge needed for innovation; and, thus, knowledge integration gains precedence over knowledge creation.

Innovating in a unique market

In contrast to this well-researched process there has, to date, been very little understanding of the relatively recent internationalisation of innovation in Chinese firms. Scholars researching this field have been hindered by the lack of clarity with regards to national policy, a lack of reliable data at both national and firm level and a paucity of target companies willing to open themselves up to scrutiny. Despite these impediments our **recent study** on the advantages and challenges for Chinese MNEs in global innovation was able to document the innovation globalisation of some pioneering Chinese firms (BGI, Haier, Huawei, Sany, Lenovo and ZTR) and found that their path was driven by the convergence of a particular set of factors including the size and nature of the domestic market, lagging home-based resources and the rate of the country's internationalisation.

Distinct traits influencing Chinese innovation

The most glaring differentiator is the size and nature of the domestic economy. Intense local competition, a large number of middle market customers and fast economic growth has led to a rapid customer-centric approach to innovation. Chinese firms have become adept at listening to customers' needs and developing new goods, services and processes to meet them.

A second factor is competitive disadvantage from lagging technology, marketing and managerial resources at home. China suffers from a lack of world-class scientists and engineers that, coupled with poor R&D productivity, will leave the country facing an acute shortage of R&D staff by 2020.

A third influence is the speed at which China is embracing globalisation. Since 2000, the Chinese government has encouraged companies to expand abroad and acquire international assets that would help them add value to their business. As well as using overseas expansion as a mode for growth, the more ambitious Chinese firms are deliberately expanding their innovation activities across developed nations to acquire strategic and innovative resources and capabilities which will give them an advantage back home.

A good example of this is Sany, which in 2009 established a $144 million R&D and manufacturing base in Germany. Two years later it opened a $25 million R&D centre in the U.S. As well as giving the firm access to world-class technologies, talent, suppliers and standards, the company benefited by being able to sell products 'made in the U.S.', or 'made in Germany', helping them overcome the commonly held opinion that goods 'made in China' were of an inferior quality.

When acquiring overseas subsidiaries, Chinese firms tend to leave local management in place. This avoids the risk of unfamiliar Chinese management inadvertently destroying value in their acquisition.

Once a foreign R&D centre has been bought or established Chinese firms place a strong emphasis on learning from local customers and using the knowledge to improve products and services locally. The fact that learning remains local points to a lack of capabilities within Chinese firms to successfully innovate using dispersed knowledge sources.

Well-resourced and obligation free

Despite this, Chinese firms do have a number of advantages when setting out to internationalise their innovation activities. They are not constrained by legacies of technological path dependence or by bloated innovation footprints.

They are also capital rich and are not dominated by the primacy of the home base, which is a major impediment to integrated global innovation. The large diaspora of overseas Chinese can play an important role in the dispersion of innovation by acting as a bridge between China and other cultures.

Whether these advantages translate into the flexibility and agility that leads to sustainable competitive advantage will depend on their ability to overcome the inherent challenges in organising and managing an integrated global innovation network.

Lesson to learn

To date Chinese firms have performed well in terms of innovation when their newly acquired knowledge is closely related to their core knowledge base, but have not fared so well when the knowledge is more distant.

When investing abroad Chinese firms prefer acquiring companies with mature technologies - complete products or modular subsystems - which they can sell as standalone entities, rather than leading edge entrepreneurial-type firms with the resources which will contribute to their innovation process. This points to a lack of product innovation capabilities.

If Chinese firms are to evolve from being deft imitators to skilful innovators and knowledge integrators they will need to think strategically about optimising their innovation footprints and improving their absorptive capacity by encouraging stronger communication and collaboration.

Looking ahead

China's size and rapid expansion have made it an important global competitor. The spectacular growth and internationalisation of many of its MNCs has, to date, been driven by energetic, determined, savvy owner/founders. Whether the next generation of professional managers is able to create the strong innovative cultures necessary to managing subsequent growth phases remains to be seen.

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Yves and Keeley authored the book ***Managing Global Innovation: Frameworks for Integrating Capabilities Around the World.*** *Their study "Advantages and Challenges for Chinese MNEs in Global Competition" was published in* ***China's Innovation Challenge: Overcoming the Middle Income Trap***

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