

**The Transformation Of China's Innovative Capacity: from Imitation
To Innovation**
School of Economics and Management
Tsinghua University May 18 2017
Research seminar by Professor Bruce McKern

This talk is based on a three-year program of research conducted by Bruce McKern and George Yip as founders and co-directors of the Centre on China Innovation at the China Europe International Business School in Shanghai. It is detailed in our book: *China's Next Strategic Advantage: From Imitation to Innovation*, MIT Press, April 2016.

ABSTRACT:

In this talk, I will discuss the motivation for and the key findings of the research project on the development of China's innovative capacity, at both a macroeconomic and a microeconomic level.

Research questions

The project was undertaken with sponsorship from five multinational corporations active in China. The project addressed the following questions of importance to the sponsor companies:

- 1 Is China creating the conditions for innovation?
- 2 How innovative are Chinese companies?
- 3 What is the source of their innovative capabilities?
- 4 In what ways is Chinese company innovation different from Western innovation?
- 5 Will the innovation capabilities of Chinese firms enable them to succeed in global markets?
- 6 How are MNCs innovating in China? What is their R&D strategy in China and how is it involving?
- 7 What can foreign firms learn from Chinese companies?

Prior research

The research context for this work includes:

- Comparisons of innovative capability across countries
- Theories of the expansion of MNCs from emerging markets
- Resource-based theory and source of firm-specific advantages
- Innovation capabilities of Chinese firms & China's Emerging MNCs
- Strategy & organisation of MNC R&D

Research findings

Our research identified four groups of factors which collectively explain the development of Chinese firms and the basis for their current outward global expansion.

We describe these as:

- **Customer** –market size, fast growth, micro-niches, rapid income growth, diverse tastes
- **Culture & ambition** –entrepreneurialism, government ambition & funding of innovative ecosystem
- **Capabilities** of firms, honed in tough competition & responsiveness to customers in China
- **Cash**—due to local success, market size & growth, govt. support

The development of Chinese firms' capabilities has been occurring through three phases:

1. From Copying to “Fit For Purpose”
2. From Followers to World Standard
3. From New Resources to New Knowledge

The seminar will also address two related topics:

- The specific nature of Chinese companies' approach to innovation and how they differ from practices in Western firms
- Leadership and strategy lessons foreign companies can learn from China