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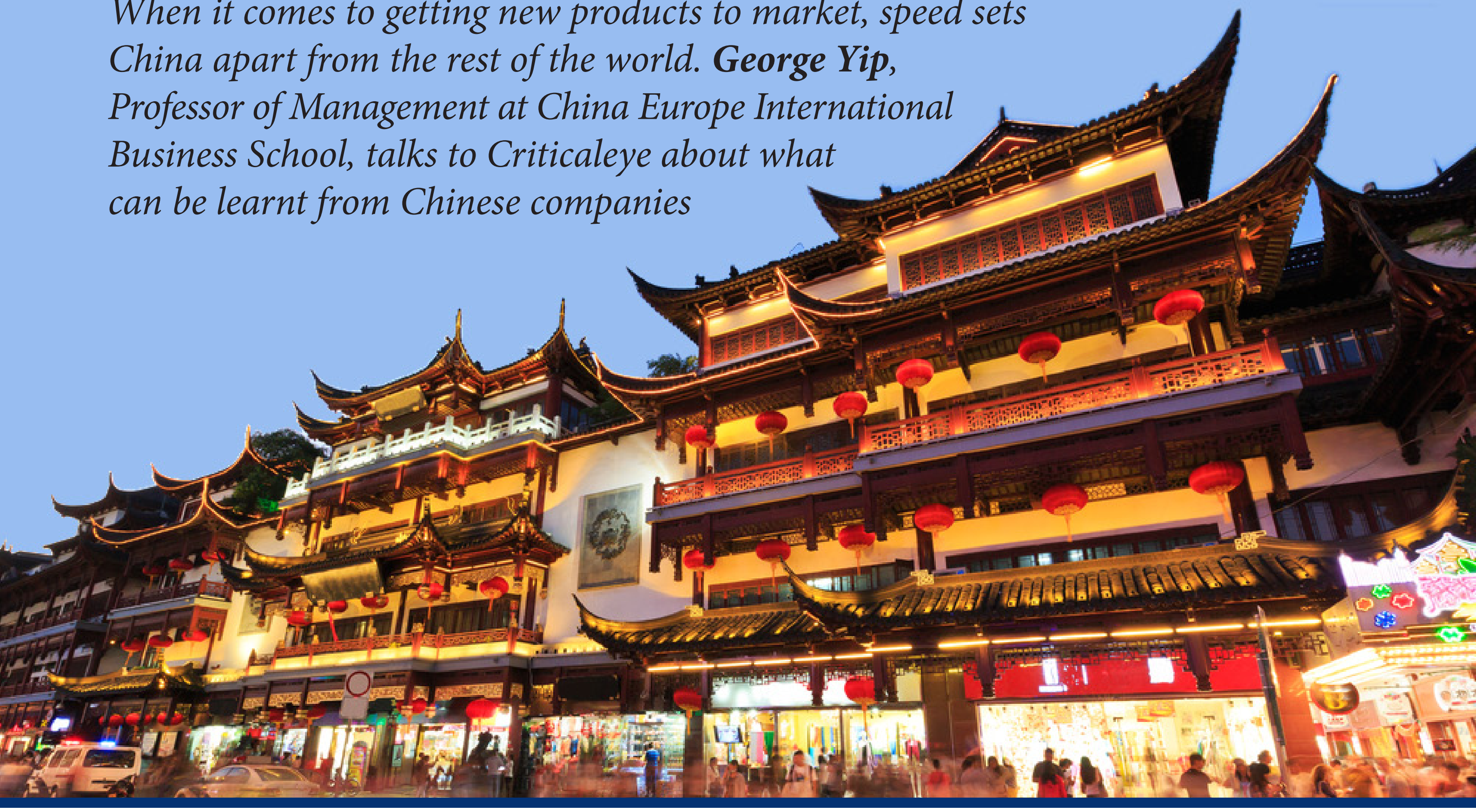
# The Pace of Innovation in China

*When it comes to getting new products to market, speed sets China apart from the rest of the world.* ***George Yip****, Professor of Management at China Europe International Business School, talks to Criticaleye about what can be learnt from Chinese companies*



**How would you define innovation?**

It is anything that a company does that is new or allows it to do something new. Some focus on product innovation, but an organisation can innovate in lots of different ways.

**What part does company culture play in driving innovation?**

There is a central dilemma when it comes to this subject. By its very nature, innovation can interfere with what companies are good at, which is doing what they already know. Doing anything new tends to go against the existing activities within an organisation and its core operations.

To break that cycle, companies need to have a strong culture. They must be very good at what they already do and then they need to be able to alter it, embracing new ideas and the opportunities they bring.

**In terms of organisational design, what can companies do?**

They can put many mechanisms in place that encourage innovation, and the R&D department is central to this. Things like skunkworks and idea labs are helpful, but they are not enough – you can't innovate with these alone.

You have to take what the R&D department does and turn that into profitable offerings in the marketplace. ▸

This means creating a link, which has to be maintained between the full-time innovation team and the people who are running the business operations day-to-day.

It's important to maintain a strong connection between these teams. Big mistakes can arise when innovation teams are too separate from the company's main operations.

### How are Chinese companies approaching innovation?

China's market is fast-growing, simple [in comparison to the West] and local companies take more risks. This makes it easier to innovate and take products to market. Chinese organisations want to innovate pragmatically and profitably. They are willing to fail quickly because the market is more forgiving, the regulatory environment is not as strict and there are fewer lawsuits.

On the supply side, China has traditionally used low-cost labour and engineers for manufacturing and, as a result, it has become a leader in global manufacturing. Now the country is taking the same approach with R&D scientists, where they use larger numbers of staff, in order to innovate in a cheaper, faster way.

### What are Western companies doing to compete?

Western companies are slow in comparison. They are risk-averse because of slower growth in their home markets, stricter regulations and they simply don't want to make mistakes.

Western companies have large R&D science teams, and although they've learned from the errors of earlier companies, it's quite easy for their labs to lose touch with the marketplace and develop technology for its own sake. This has a pay-off in the long run, but the Chinese are looking for a short-term gain.

> *"Western companies are slow in comparison"*

### Do Western companies need to be faster?

They have to adapt to the characteristics of a rapidly changing global market. Each year, Western companies set-up more R&D centres in China than any other country in the world, including the US. They appreciate Chinese methods of innovation and are eager to learn how to innovate quicker.

Reverse innovation is also taking place, where products that have been adapted for the Chinese market are then brought back to the West. For example, General Electric initially created an ultra-sound machine because their regular machine was too expensive for China. They created something simpler, cheaper and easier to operate and now that simpler version has returned to America and is being used in new ways, such as in emergency vehicles.

Foreign companies are also doing more knowledge-based innovation in China. The first type of innovation they did was adaptation, so they could produce products in China, because they had to use different materials and different production processes. The second stage was to adjust products for the Chinese customers. The third stage was to invent new products for the Chinese market specifically, and now there's a fourth stage, where products are brought to the rest of the world.

### What are Chinese companies gaining from the West?

Technology – they want to adopt as much as possible. Most Chinese companies are relatively new – about 30-years old at most.

Western companies need to learn how to innovate faster and take more risks, while Chinese organisations need to learn to innovate in a more formal way. Being pragmatic about the kind of innovation companies do is the key to achieving profitability in the digital age. ■



*George Yip was a speaker at the 2014 Criticaleye Asia Leadership Retreat, in partnership with CEIBS.*

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