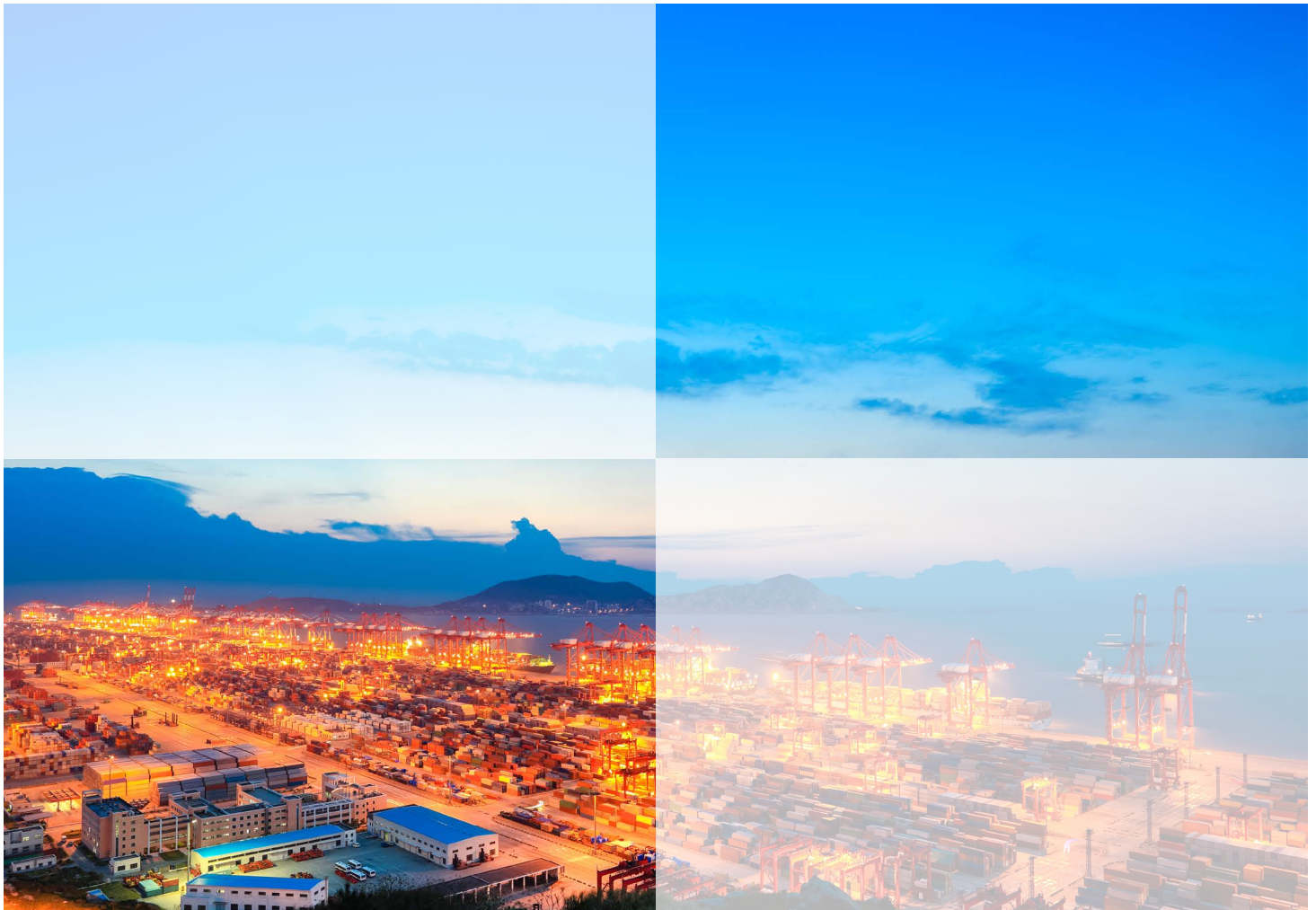


# Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

In collaboration with Strategy& (formerly Booz & Company)

March 2015





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# Contents

3	Preface
4	Executive Summary
5	Part 1: The Continuing Push for Globalization and Innovation by Chinese Companies
11	Part 2: Innovation as the Strategic Success Factor for Chinese Globalizers
15	Part 3: Emerging Best Practices by Innovative Chinese Globalization Champions
27	Part 4: Learning from the Champions
29	Case Study 1: Perfect World
30	Case Study 2: Neusoft
31	Case Study 3: Trina Solar
32	Appendix: Methodology and Selection of Case Studies
33	Acknowledgements
34	Project Team

# Preface

In the past half century, China's economic rise has brought about dramatic change in global development as the role of Chinese companies has expanded and evolved. In the late 1990s, the Chinese government initiated the "Go Out" policy, encouraging Chinese companies to make investments abroad and secure resources and technology in overseas markets. In recent years, China has continued to launch new policies in favour of its companies' "going out," creating a favourable policy environment for the globalization of Chinese capital, technology, equipment and talent. Simultaneously, the government has provided future direction for Chinese globalization through policies that promote multilateral regional cooperation, as exemplified by "The Belt and Road Initiative," a strategy intended to create a new Silk Road economic belt from China's coastal areas through Central Asia, the Middle East, and on to Central Europe.

As Chinese companies "go out," they look not only to tap into foreign markets and obtain overseas resources, but also to develop their core innovation competitiveness and use it to create a sustainable development path. In fact, innovation has become a major topic of interest in China's globalization discussions in recent years, as Chinese companies have explored a number of innovation practices, accumulating considerable experience as well as far-reaching lessons.

This report summarises research into the globalization and innovation practices of leading Chinese companies. By identifying and analysing the relationship between innovation and globalization, we believe this report will support Chinese companies as they design an innovation-development strategy and build an effective overseas operating model, helping them cope with the many challenges of globalization and further their explorations in the global market.

# Executive Summary

Despite the global economic and financial crises of recent years, corporate China continues its push for globalization. China's outward foreign direct investment (FDI) has seen significant growth over the past two years as Chinese companies have continued to invest overseas, rising from \$88 billion in 2012 to \$108 billion in 2013 and, according to recent data from China's Ministry of Commerce, reaching \$116 billion in 2014.<sup>1</sup> Meanwhile, the government of China continues to propose new international cooperation frameworks such as the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" to facilitate economic cooperation with other regions and countries, providing favourable international circumstances for Chinese companies to "go out." These and other such macro policies and economic incentives will continue to facilitate the globalization process of Chinese companies.

Moreover, a survey of 120 leading Chinese globalizers by the World Economic Forum and Strategy& has found that, as Chinese companies pursue their overseas expansion, their focus is shifting.<sup>2</sup> Not only are they focusing on resources and markets, as they have traditionally done, but they are concentrating on new technologies and talent as well, pursuing mergers and acquisitions with overseas companies in high value-added industries to enhance their innovation capabilities and promote more sustainable globalization development.

In addition, the survey revealed that Chinese companies are planning to expand their overseas innovation efforts even more aggressively, an effort that will play an important role in their overall globalization strategy.

The 2014 report titled *Emerging Best Practices of Chinese Globalizers: Tackle the Operational Challenges* concluded that an increased effort to globalize, such as purely increasing the total amount of overseas assets or the number of overseas employees, does not necessarily lead to increased output. The report's comprehensive research revealed that where Chinese globalization champions ("champions") truly outpace their peers is in their ability to systematically tackle various operational challenges in the globalization process.

This year, the research, which focuses on the success of leading Chinese globalizers, indicates that innovation and globalization are inextricably intertwined, reinforcing each other as Chinese companies rise on the global stage. In analysing the ways in which innovation contributes to Chinese companies' globalization development, the research has unravelled a dual-path framework, as follows:

- Path 1: Companies rely on innovation advantages to become successful globalizers
- Path 2: Successful globalization enables better innovation, which allows globalizers to remain successful

Chinese companies in different sectors tend to opt for one path or the other during various stages of their development in order to meet the challenges of globalization and establish a sustainable development path.

By studying the Chinese globalizers at different globalization development stages, this report also highlights the emerging best practices of outperformers in terms of global innovation strategies and operating models, and provides valuable guidelines to help Chinese companies become truly international and compete successfully at the global level.

To satisfy customer needs in today's ultracompetitive domestic and global markets, for example, Chinese globalizers need to make innovation a strategic element of their globalization process – innovating not only in products and technologies, but in service and business models, including management processes and governance. A tailor-made innovation strategy will therefore be essential for globalization success, as Chinese globalizers face different innovation challenges domestically and in overseas markets. To meet these challenges and to satisfy regional customer needs, Chinese globalizers will have to adopt diverging innovation strategies.

In addition to tailoring their innovation strategies, Chinese globalizers will need to institute an appropriate innovation operating model including the development of formal innovation processes, the establishment of local innovation teams, the empowerment of these teams and the formation of an innovative corporate culture.

In today's evolving and unpredictable overseas environment, Chinese globalizers face a number of opportunities and challenges. While some challenges will be common to all who enter the global marketplace, others will be unique to the individual location, industry, company type and development stage. Besides learning from the experiences from globalization champions, Chinese globalizers should understand the unique context and customize their solutions to meet different challenges.

<sup>1</sup> Ministry of Commerce of the People's Republic of China: see <http://www.mofcom.gov.cn/article/i/jyj/k/201501/20150100877244.shtml> (accessed January 2015).

<sup>2</sup> See the appendix for a description of the survey and its methodology.

# Part 1

## The Continuing Push for Globalization and Innovation by Chinese Companies



Despite the global economic and financial crises of recent years, corporate China continues its push for globalization. Empirical data indicate that China's outward FDI has increased significantly over the past decade.

An analysis of this outward investment trend reveals that, despite the traditional interest in the energy and manufacturing sectors, an increasing number of Chinese companies are seeking investment opportunities in high value-added industries. In addition, it is clear that in their overseas expansion, Chinese companies are not only focusing on resources and markets but are pursuing new technologies and talent, taking on mergers and acquisitions with overseas companies to enhance their innovation capabilities and promote sustainable development.

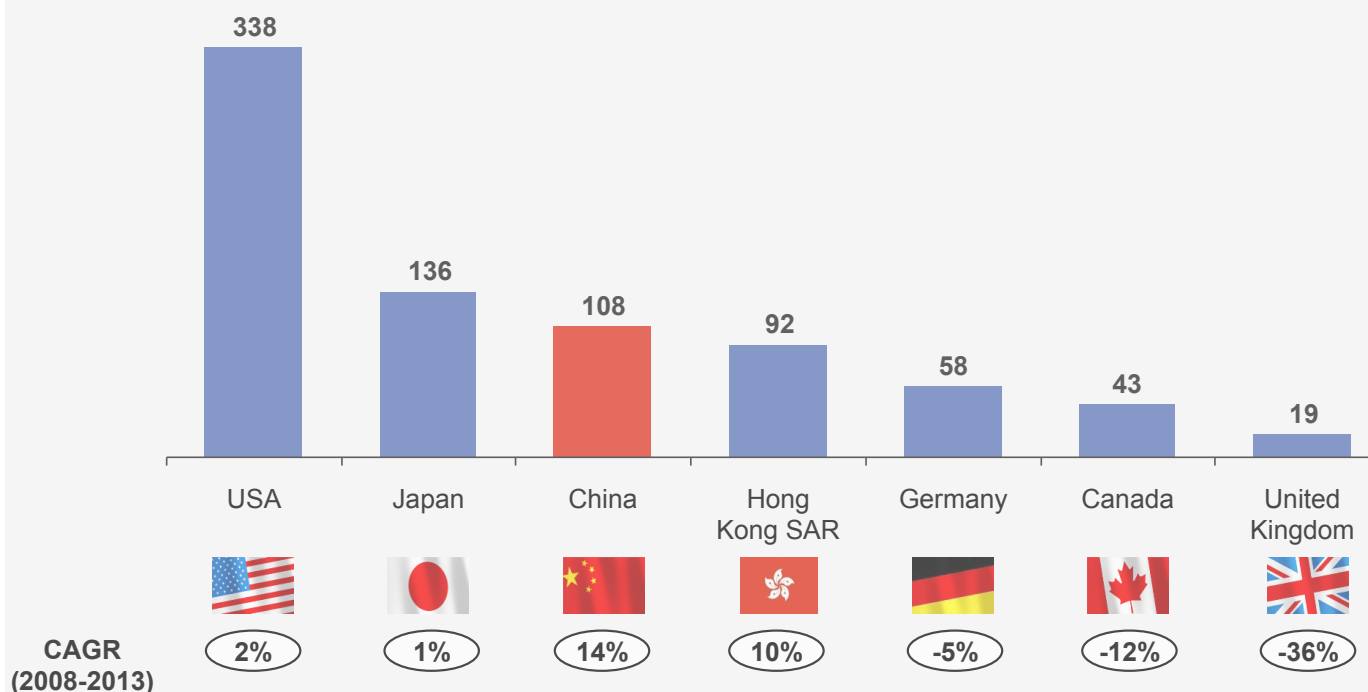
Innovation is therefore becoming increasingly important in the globalization development of Chinese companies.

A survey by the World Economic Forum and Strategy& of 120 leading Chinese globalizers revealed that Chinese companies have invested heavily in innovation and in research and development (R&D) and have more aggressive plans for overseas innovation expansion.

### Chinese companies' increasing outward FDI

Chinese companies continued to increase their overseas investment in 2013, with outward FDI reaching \$108 billion. The six-year compound annual growth rate (CAGR) in outward FDI reached 14% for the period 2008-2013, the highest among the world's major economies (Exhibit 1). In fact, the 23% jump from \$88 billion in 2012 to \$108 billion in 2013 dwarfed that of other economies (Exhibit 2).

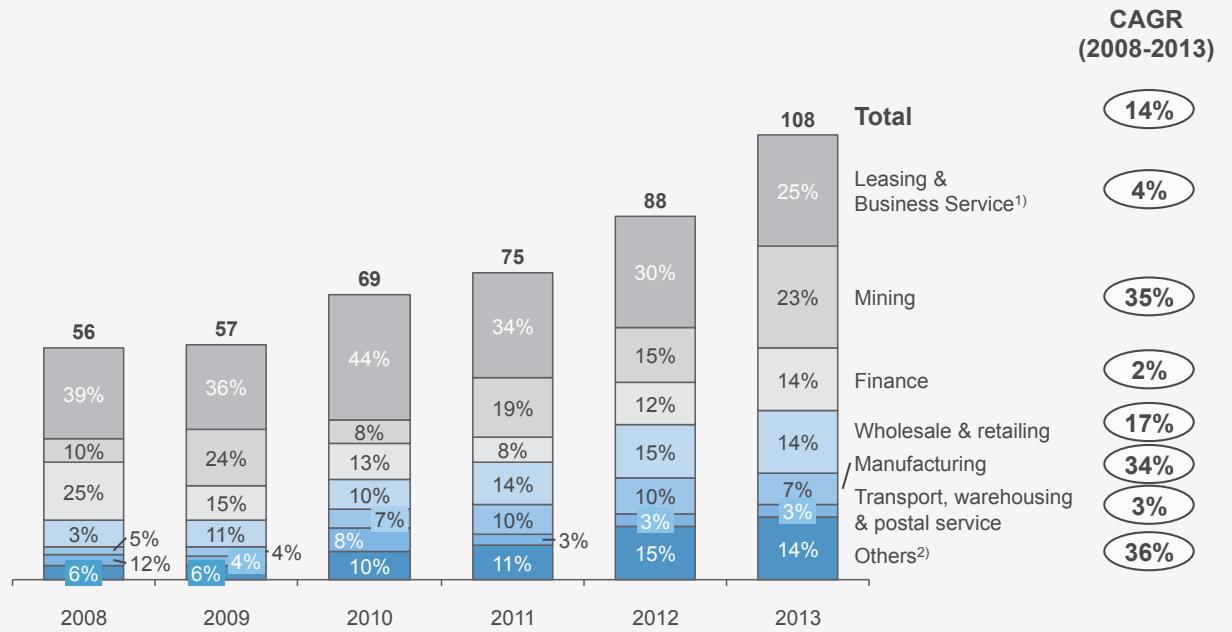
**Exhibit 1.** Outward Foreign Direct Investment from Major Economies, 2013 (\$ billion)



Source: 2013 Statistical bulletin of China's outward foreign direct investment

Segmenting outward FDI by industry shows that by far the highest rates of growth over the same period occurred in the mining, manufacturing, and wholesale and retailing sectors.

**Exhibit 2. China's Outward FDI Breakdown by Industry, 2008-2013 (\$ billion)**



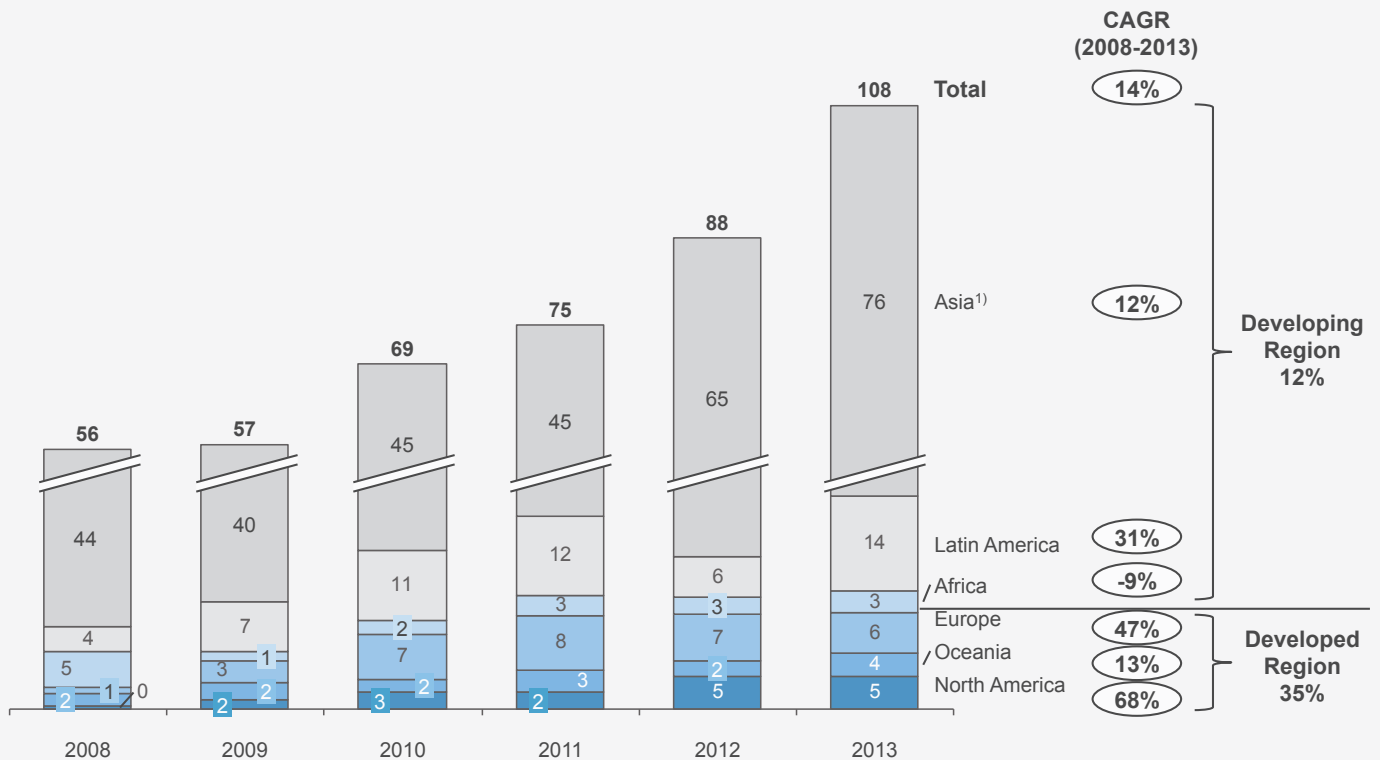
1) Leasing & business service mainly includes investment holding

2) Others include agriculture, forestry, husbandry and fishery, power and other utilities, construction, IT, residential & catering trade, real estate, science research, service & geo-survey, education, public health & social welfares, cultural, sports & entertainment, and public management & social organization.

Source: Statistical bulletin of China's outward foreign direct investment (2008-2013), Strategy & analysis

Looking at China's outward FDI by region, the highest rates of growth for this period appear in North America and Europe (Exhibit 3), reflecting corporate China's recent interest in expanding into developed regions.

**Exhibit 3. China's Outward FDI Breakdown by Region, 2008-2013 (\$ billion)**



1) Hong Kong accounts for 86% of China's outward FDI in Asia in 2013

Source: Statistical bulletin of China's outward foreign direct investment (2008-2013), Strategy & analysis

Meanwhile, the government of China continues to launch preferential policies to help provide favourable international circumstances for Chinese companies to “go out.” On the one hand, the Chinese government keeps pushing for bilateral and multilateral cooperation with other major regions and countries: in 2013, China proposed new cooperation frameworks such as the “BCIM (Bangladesh, China, India and Myanmar) Economic Corridor,” the “China Brazil Economic Corridor,” the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road” to facilitate its economic cooperation with other major regions and countries. On the other hand, in collaboration with several other countries, China is establishing special development financial institutions aimed at raising additional capital for international economic cooperation and foreign investment, including the China Africa Development Fund, established in 2007; the Chinese ASEAN Investment Cooperation Fund, founded in 2010; and the Asian Infrastructure Investment Bank, which is still in the pipeline.

Simultaneously, the country’s relevant ministries and agencies are collectively introducing various measures that support “going out.” The State-owned Assets Supervision and Administration Commission, the National Development and Reform Commission, the Ministry of Commerce, the Ministry of Foreign Affairs, the Ministry of Finance and the State Administration of Foreign Exchange have all begun to implement new policies on risk management,

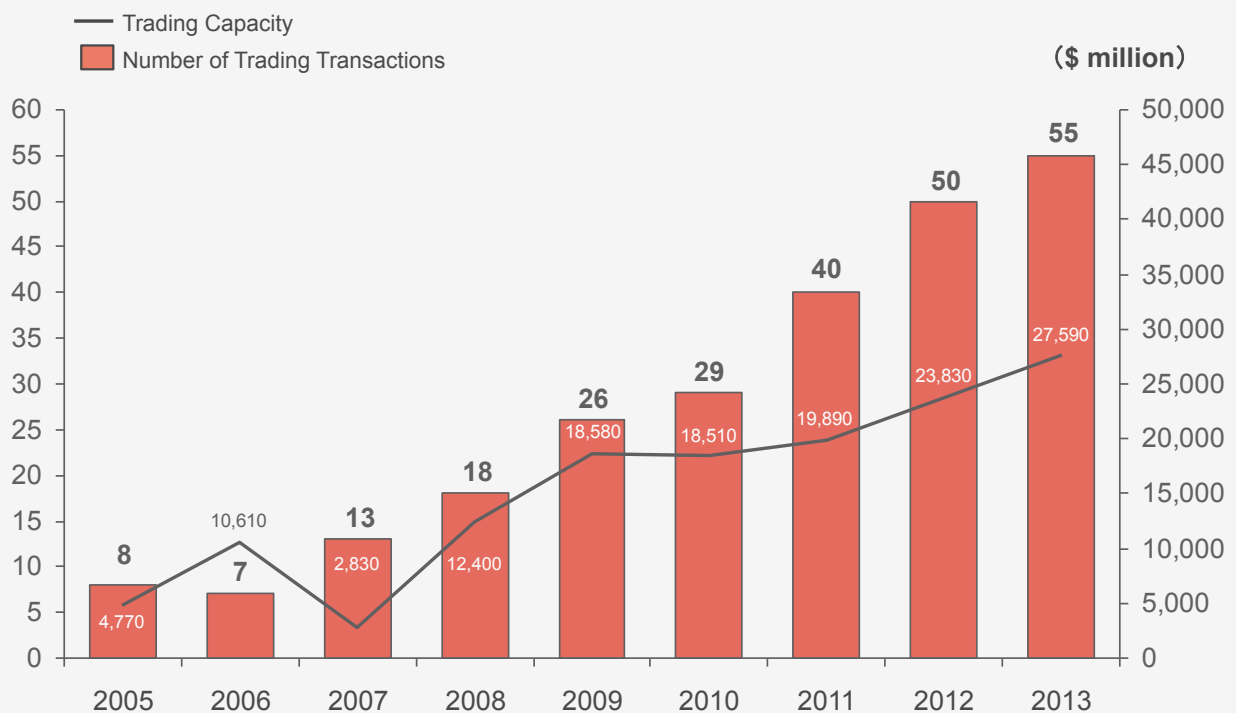
legal protection, investment approval, market information, investment subsidy and foreign payment, to streamline processes and provide service for Chinese companies branching out. The China Export and Credit Insurance Corporation, the Export-Import Bank of China and the China Development Bank also offer Chinese companies considerable assistance in insurance and loan financing as they globalize.

Such favourable macro policies and economic incentives will clearly facilitate the globalization process of Chinese companies going forward.

#### The growing scale of Chinese overseas innovation

As a result of this outflow of FDI, the scale of Chinese overseas business continues to grow, not only in its focus on resources and markets, but also in new technologies and talent in high value-added industries. In 2013, China’s trading capacity in high value-added industries had reached \$27.6 billion, more than quadruple that in 2005 (Exhibit 4). US high-tech companies have become coveted targets, as evidenced by the acquisition of Motorola’s smartphone business by Lenovo and the investment on Tango Me, a start-up focused on social-network site services, by Alibaba.

**Exhibit 4.** China’s Trading Capacity and Transactions in High Tech Industries, 2005-2013



Source: Statistics released by the Heritage Foundation





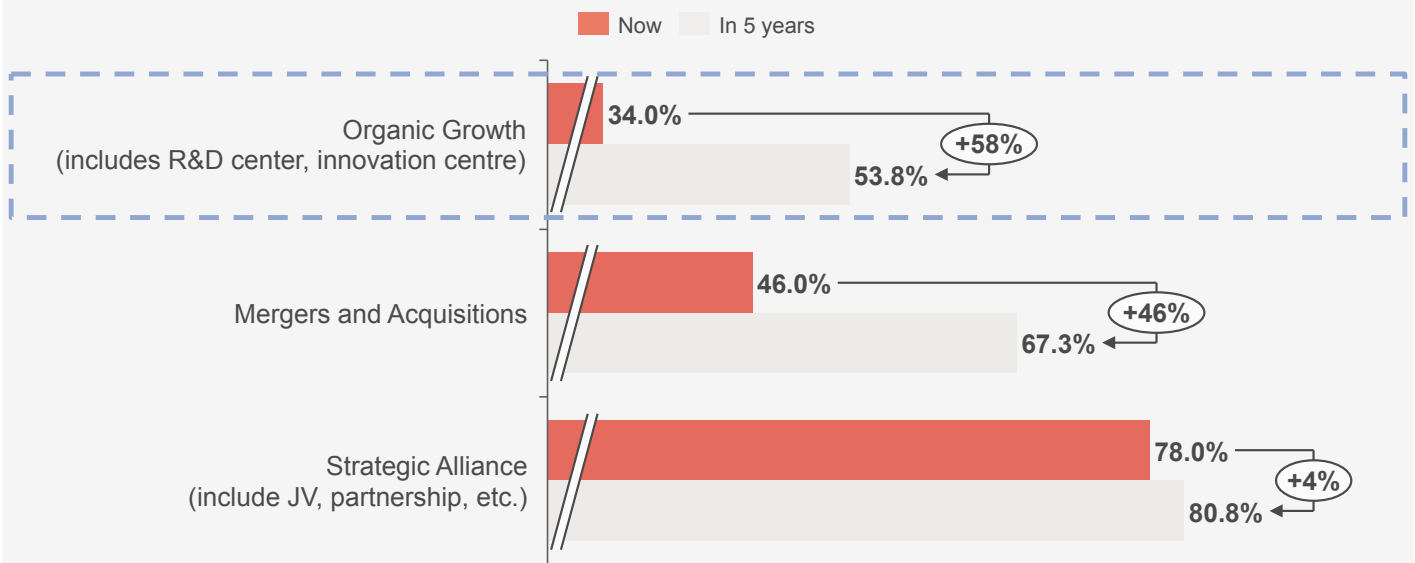
The Forum and Strategy& survey of leading Chinese globalizers (see sidebar) revealed that these Chinese champions are also planning to expand their overseas innovation more aggressively, which will play an important role in their overall globalization plan.

To improve overseas innovation, apart from the typical overseas mergers and acquisitions and strategic alliances, Chinese globalizers are also willing to adopt organic growth methods, such as establishing overseas innovation-centre development, as their major approach to expanding innovation abroad (Exhibit 5).

Leading Chinese globalizers include leaders in revenue or profit in their industries, companies growing significantly faster than their peers, companies that have developed a significant global presence and lesser known companies exhibiting strong globalizing ambitions in recent years.

**Exhibit 5.**

**Innovation Overseas Expansion Main Approach**  
**What is your main approach to expanding your overseas innovation?**

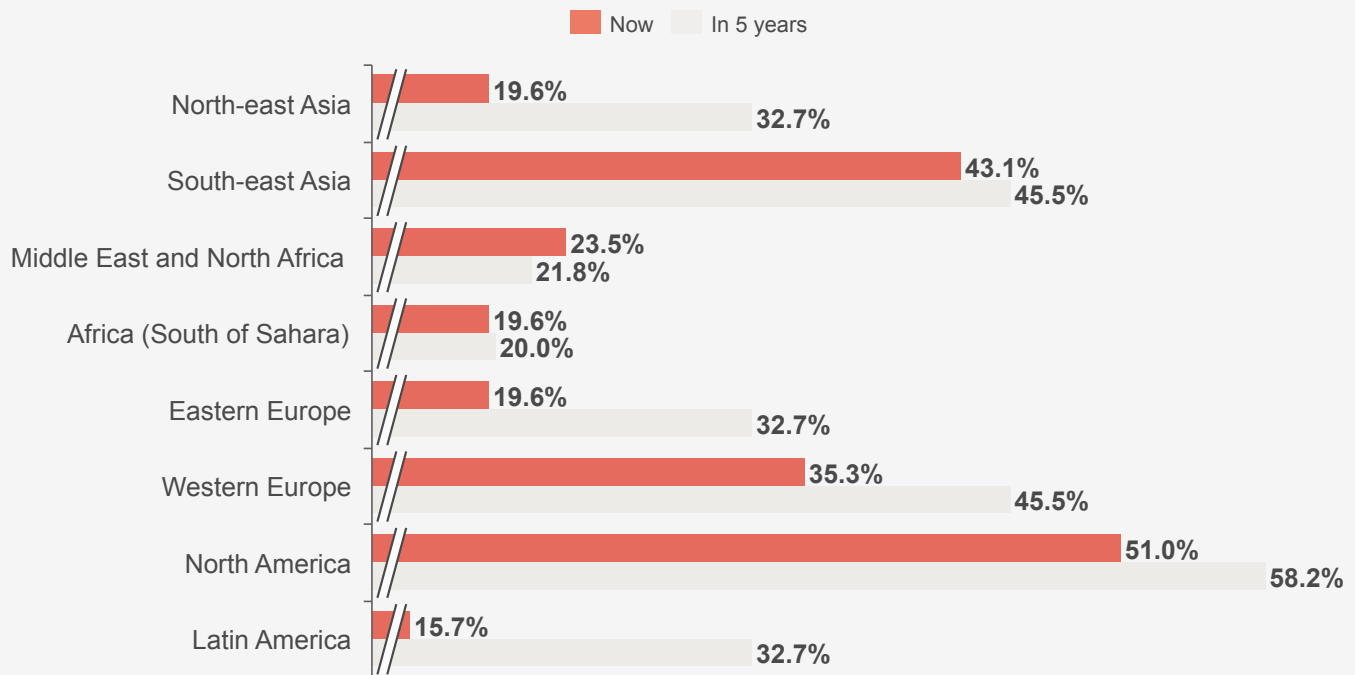


Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

Geographically, apart from the ongoing expansion in developed countries, such as Western Europe and North America, Chinese globalizers also expect significant innovation expansion in developing regions, such as Latin America (Exhibit 6).

Exhibit 6.

### Innovation Geographic Expansion What's your major innovation geographic expansion now and in 5 years?



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models



# Part 2: Innovation as the Strategic Success Factor for Chinese Globalizers

The 2014 report *Emerging Best Practices of Chinese Globalizers: Tackle the Operational Challenges* concluded that an increased effort at globalization will not necessarily lead to increased output. The report's comprehensive research revealed that the area in which the companies designated Chinese globalization champions ("champions") truly outpace their peers – where they are really able to make a difference – is in their ability to systematically tackle various operational challenges in the globalization development process.

Last year's research by the Forum and Strategy& on the ways in which these champions successfully manage their operating models also revealed several best practices from which other Chinese globalizers could draw lessons.

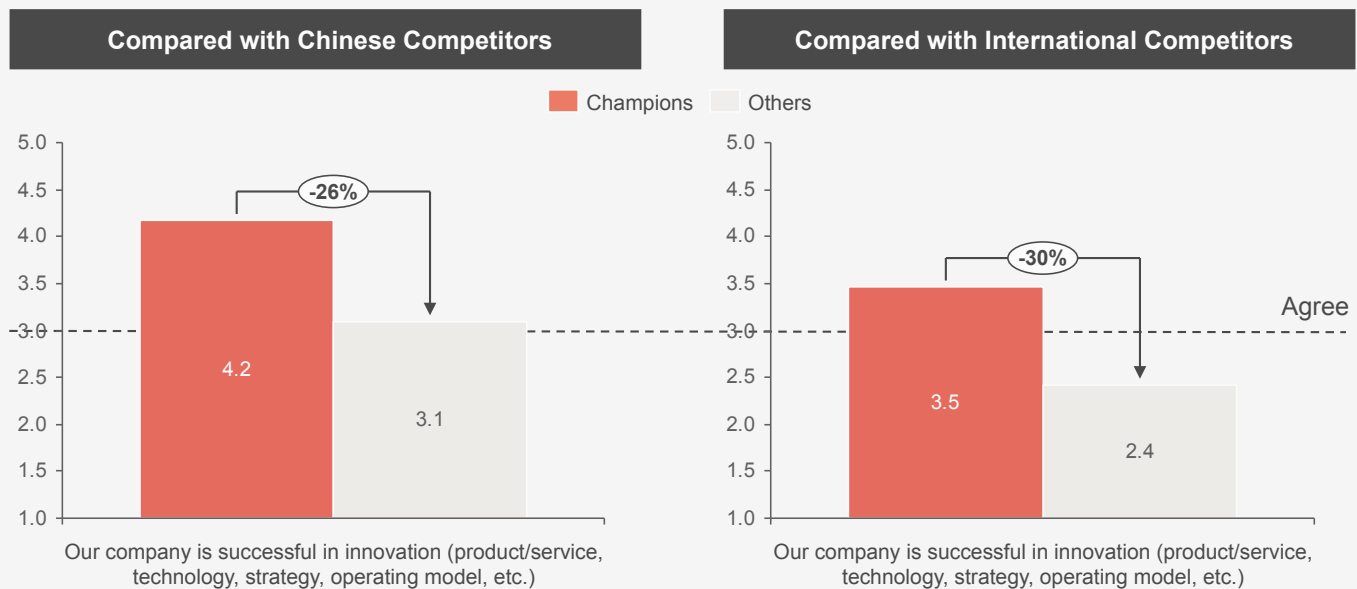
This year, among the 120 Chinese globalizers surveyed, over half can be identified – based on a combination of self-reporting, peer review and the researchers' own benchmarking – as champions that are growing significantly faster than their peers. (More details about the process by which these champions were identified this year is available in the appendix.)

Importantly, it is apparent at first glance that these champions are better innovators than other Chinese globalizers (Exhibit 7).

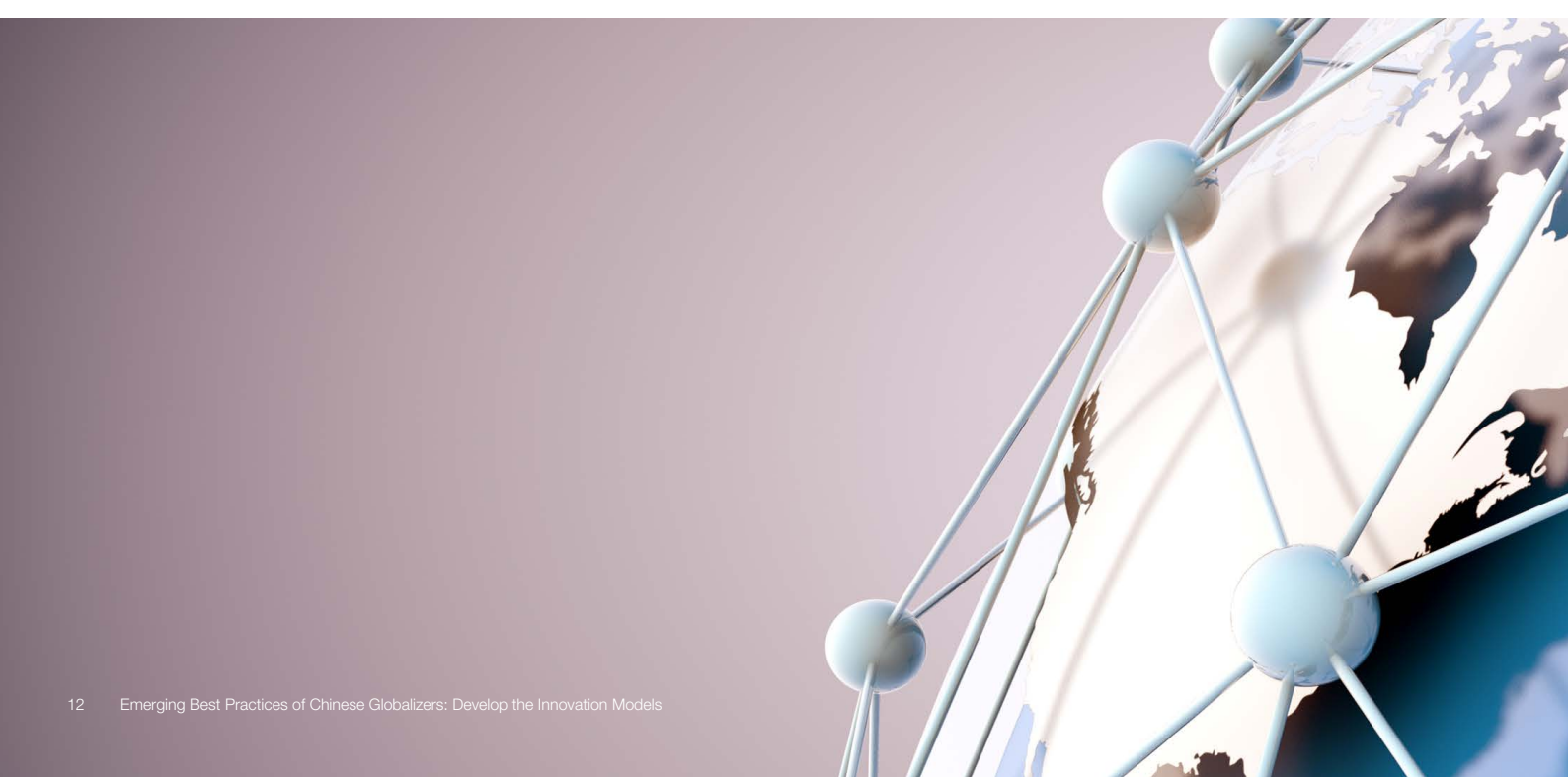
**Exhibit 7.**

**Innovation Success Overall Satisfaction Compared with Competitors**

Rate from 1 (strongly disagree) to 5 (strongly agree)

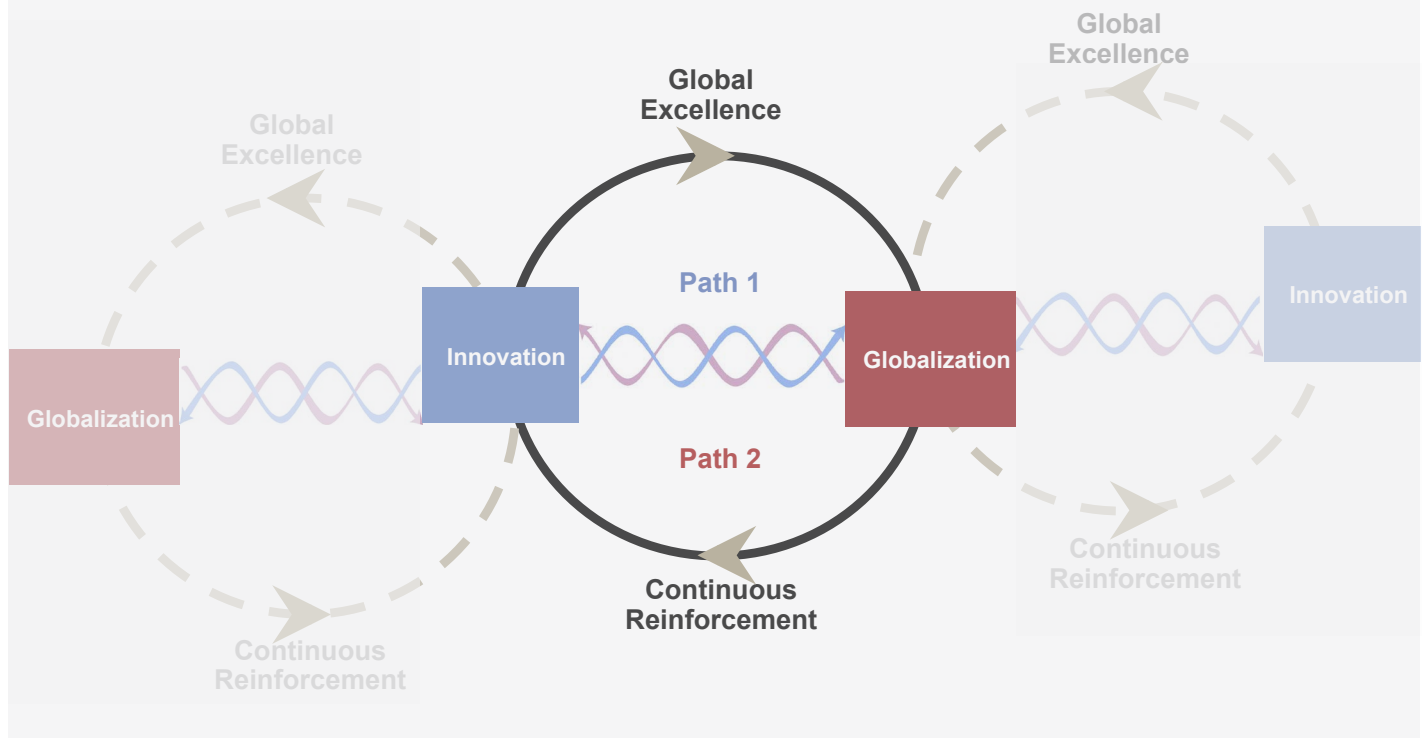


Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models



Further research indicates that innovation and globalization are intertwined, reinforcing each other as Chinese companies rise on the global stage. In analysing the ways in which innovation contributes to Chinese companies' globalization development, the research unravelled a dual-path framework (Exhibit 8).

**Exhibit 8.** Innovation and Globalization Dual-path Framework



- *Path 1: Companies rely on innovation advantages to become successful globalizers. Chinese companies become successful innovators in the domestic market first, leverage their competitive advantages in innovation to expand into the global market and become successful globalizers later.*
- *Path 2: Successful globalization enables better innovation, which allows globalizers to remain successful. To find a sustainable and successful globalization development path, Chinese globalizers leverage resources such as global innovation talent, market proximity and market insights to become better innovators.*



According to the Forum and Strategy& research, Chinese companies in different sectors opt for either path 1 or path 2 during various stages of their development in order to meet the challenges of globalization and establish a sustainable development path. The choice often depends on the company's development stage at the time. At the early stages of globalization development, for example, Chinese companies may expand their global markets first, following path 2, with a desire to access resources, sell low-cost products and benefit from China's macro governmental policy. To establish a more sustainable development path, these Chinese globalizers may then turn to path 1 at a later stage of development to leverage their existing global network and resources, innovating to move up the value chain.

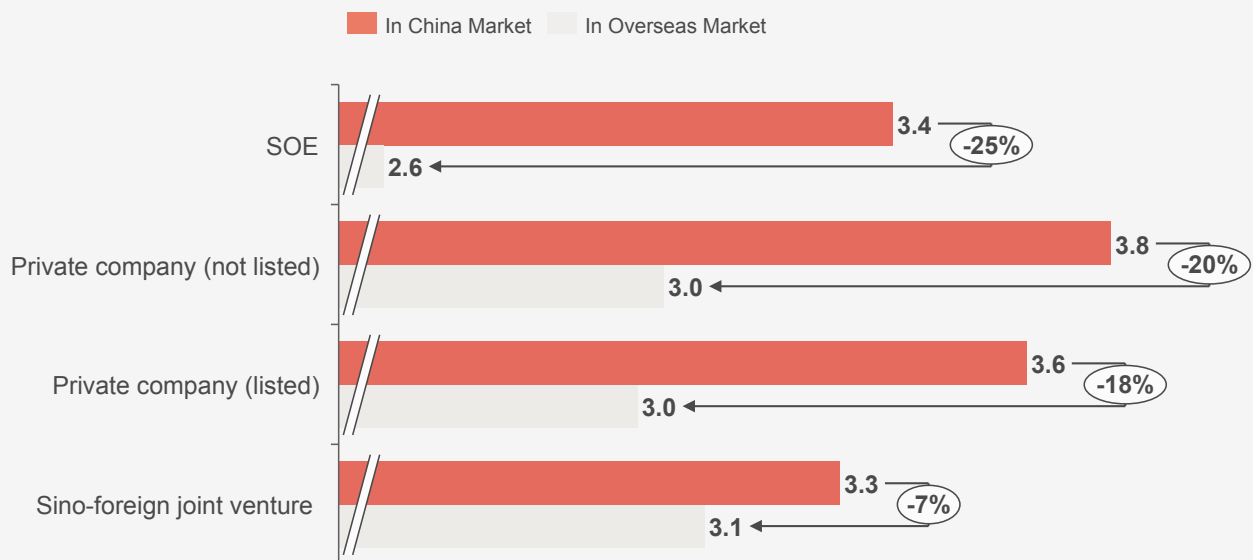
Some Chinese companies have already experienced both development paths. Perfect World, the leading Chinese MMORPG (massively multiplayer online role-playing game) provider, first chose path 1 and invested enormously in R&D, developing new products and emerging technologies to expand its market presence, then leveraged its global resources to access international innovation talent and a global technology network, thereby becoming a better innovator.

When the survey results are segmented by industry, they show that companies tend to choose different paths according to their industry characteristics. To respond to rapid market changes, for example, companies operating in high tech and digital environments always choose path 1 early on. Companies in industries with high barriers to entry also choose path 1, as they must master core innovation competencies first, to meet the stricter standards of overseas markets.

When the results are segmented by company type, they show that large state-owned enterprises (SOEs) tend to opt for path 2 and stick with that path. Initially, these large SOEs head overseas primarily to find new resources and markets. Given they benefit from the government's policies and financial support, they are not typically very innovative, lagging behind private and Sino-foreign joint venture companies as they begin to compete internationally (Exhibit 9). Nowadays, these SOEs tend to rely on their existing global resources to pursue new technologies and global talents for sustainable globalization development.

**Exhibit 9.**

**Innovation Success Overall Satisfaction by Company Type**  
 Rate from 1 (strongly disagree) to 5 (strongly agree)



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

# Part 3: Emerging Best Practices by Innovative Chinese Globalization Champions



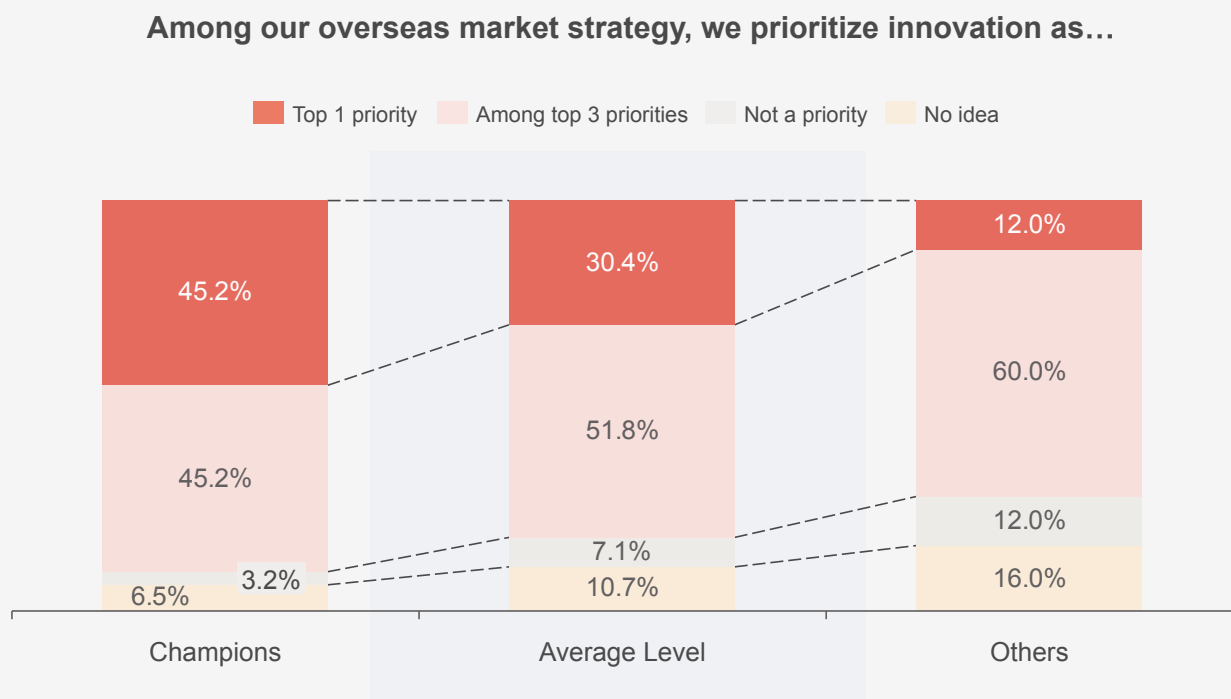
As the research on innovative Chinese globalization champions uncovered the relationship between innovation and globalization, it revealed several emerging best practices from which other Chinese globalizers can draw lessons. The findings show that innovative Chinese globalization champions tend to take four primary steps. They:

1. Make innovation a strategic element of their globalization efforts
2. Tailor their innovation strategy to meet global challenges
3. Balance polarities between overseas and domestic innovation operations
  - Develop formal and structured innovation processes and systems
  - Establish local innovation teams
  - Empower and entrust overseas innovation teams
  - Develop an innovative corporate culture
4. Develop long-term innovation capabilities for the expansion of globalization

## 1. Make innovation a strategic element of globalization

In responding to the World Economic Forum and Strategy& survey, nearly half of the champions put innovation as their first strategic priority, ranking it much higher than did other globalizers (Exhibit 10). The interviews with these champions prompted the observation that, in many of these companies, especially in those whose founders have a technical background, innovation not only serves as a crucial part of their overseas strategy, but is part of the company’s core DNA, attracting the close attention of corporate leadership and being promoted throughout the company.

**Exhibit 10.** Innovation as an Overseas Market Strategic Priority for Chinese Globalizers



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

To satisfy customer needs in today’s increasingly competitive domestic and global markets, Chinese globalizers not only innovate in terms of their products, but also in services, technologies and business models (including management processes and governance), both domestically and overseas. The champions attach even more significance to product and business-model innovation in overseas markets than domestically, as approximately 90% focus on product innovation and 81% focus on business-model innovation overseas (Exhibit 11), compared to 84% and 77%, respectively, in the domestic

market. In contrast, other Chinese globalizers are more focused on every type of innovation in the domestic market than in overseas markets.

In interviews, senior executives of global multinational companies (MNCs) acknowledged strong innovation challenges from Chinese companies, both in China and abroad. Previously, according to these executives, Chinese companies would only compete in certain products. In recent years, however, as Chinese companies have started to innovate around their services and business models, their innovation efforts have begun to exert a much greater influence.

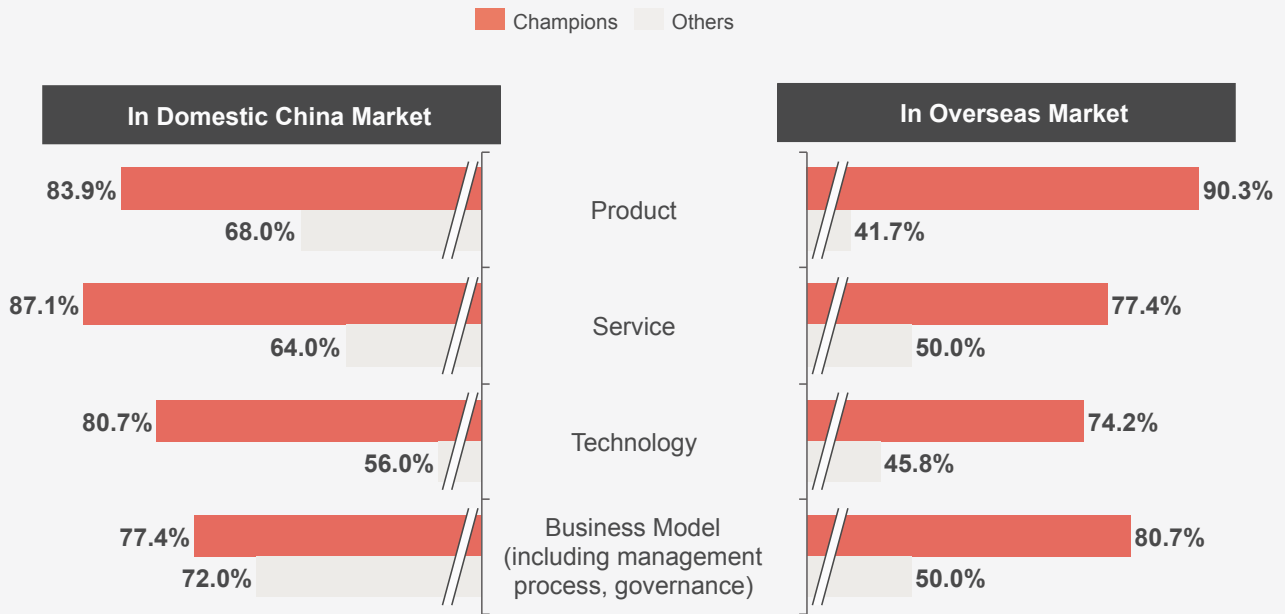


For example, Haier Group has made business-model innovation a key theme over the past few years, as has Neusoft Corporation, which also focuses on innovation in technology and products. A new medical platform that Neusoft has recently begun to promote represents not only simple IT technology innovation, but a new model of

cooperative medical service. Neusoft is building this online platform across China to connect thousands of grassroots medical institutions, hundreds of large hospitals and citizens to develop a medical service ecosystem.

**Exhibit 11.** Innovation Focus in Domestic and Overseas Markets by Chinese Globalizers

**Under globalization, we focus on the following innovation aspects to satisfy customer needs ...**



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

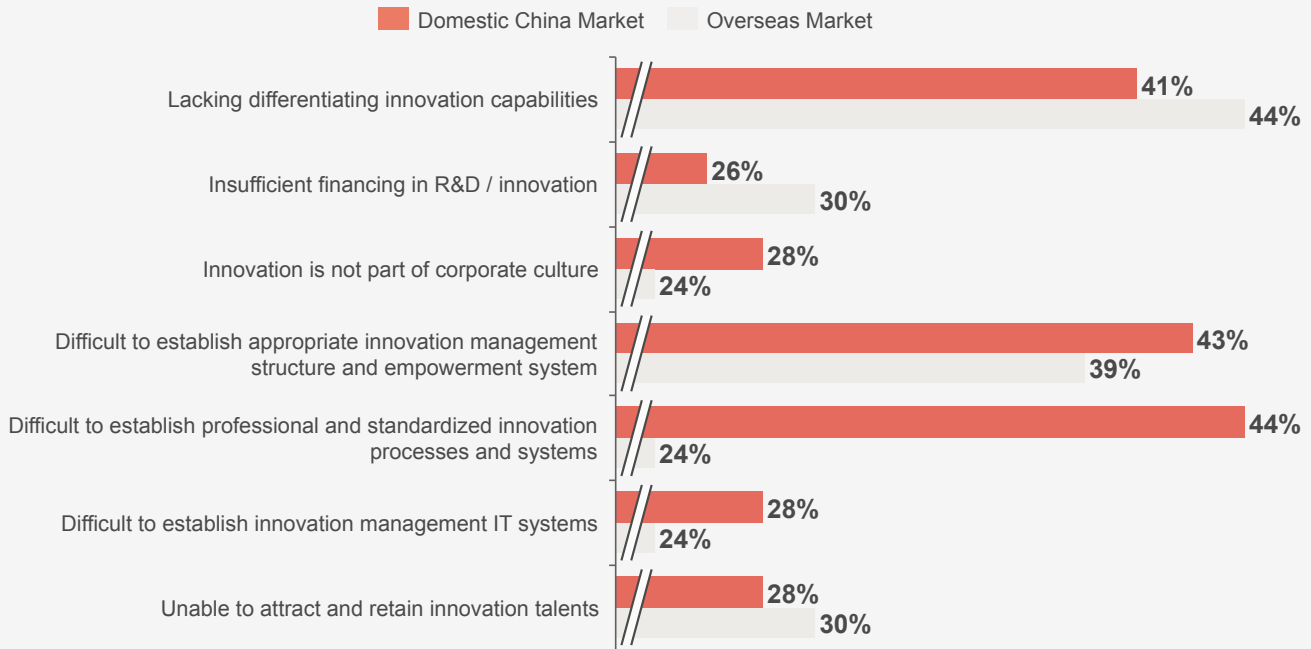


## 2. Tailor the innovation strategy to meet global challenges

In today's evolving and generally unpredictable overseas business environment, tailoring an overseas innovation strategy is necessary for globalization success. Chinese globalizers often face somewhat different innovation challenges in their domestic market than overseas (Exhibit 12). To meet these challenges and satisfy regional customer needs, Chinese globalizers must adopt diverging innovation strategies.

Exhibit 12.

### Innovation Challenge What are your biggest challenges in innovation in domestic China and overseas market?



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

According to Strategy&'s annual "Global Innovation 1000" study, there are three fundamental kinds of companies, each with its own distinct way of managing the R&D process and its relationship to customers and markets. Every company falls into one of these three innovation strategy types: Need Seekers, Market Readers and Technology Drivers – as defined in Exhibit 13.

### Exhibit 13. Three Innovation Strategy Types

**Need Seekers** – Consistently strive to be **first movers**; **Proactively engage customers** to determine needs and shape new innovations; Determine new innovations by surfacing unarticulated needs, e.g, Black&Decker, Apple

**Market Readers** – Adopt a **2nd mover strategy**; Focus on driving value through incremental change; New innovation efforts **start from the market**, with equal focus on competitors and customers, e.g, Visteon, Samsung

**Technology Drivers** – Drive **innovation via new technological achievement**; Leverage technology for both incremental and breakthrough change. The least proactive of the three strategies in directly contacting customers, e.g, Google, Siemens

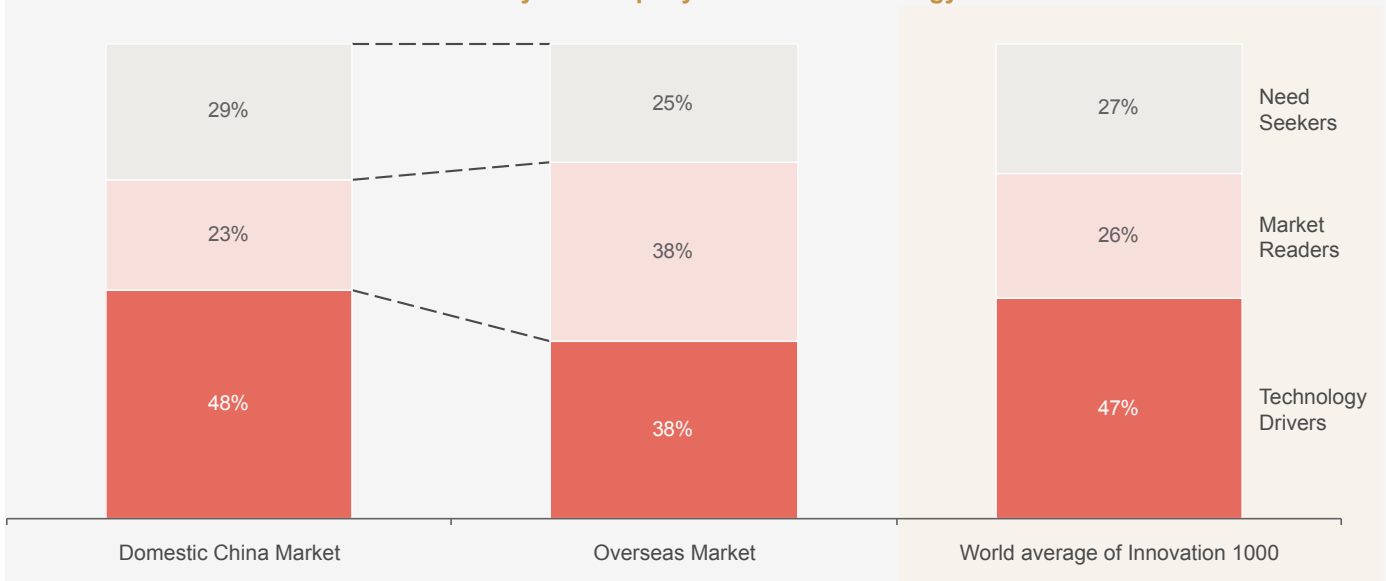
In domestic Chinese markets, the survey found that 29% of Chinese globalizers are first movers that adopted the Need Seekers strategy, while only 23% are second movers that adopted the Market Readers strategy (Exhibit 14). In fact, the percentage of Chinese companies employing the Need Seekers strategy domestically is greater than the global average of 27% – perhaps not surprisingly, given the ultracompetitive nature of the Chinese market. In overseas markets, in contrast, 38% of Chinese globalizers have taken up the Market Readers strategy and only 25% have embraced the Need Seekers strategy, the number of second movers clearly outweighing that of first movers.

This comparison indicates that Chinese globalizers tend to be relative latecomers on the global stage and be more cautious on the global stage than domestically.

The survey also observed that the Technology Drivers strategy is an important choice among Chinese companies both domestically and in overseas markets. This choice may demonstrate that Chinese companies are investing in advanced technology and then using that technological foundation – along with customer proximity and a propensity to take the risks that have historically defined the Chinese model of innovation.

Exhibit 14.

### Chinese Globalizers' Innovation Strategy Type Profile your company's innovation strategy



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models; 2014 Strategy & China Innovation Survey

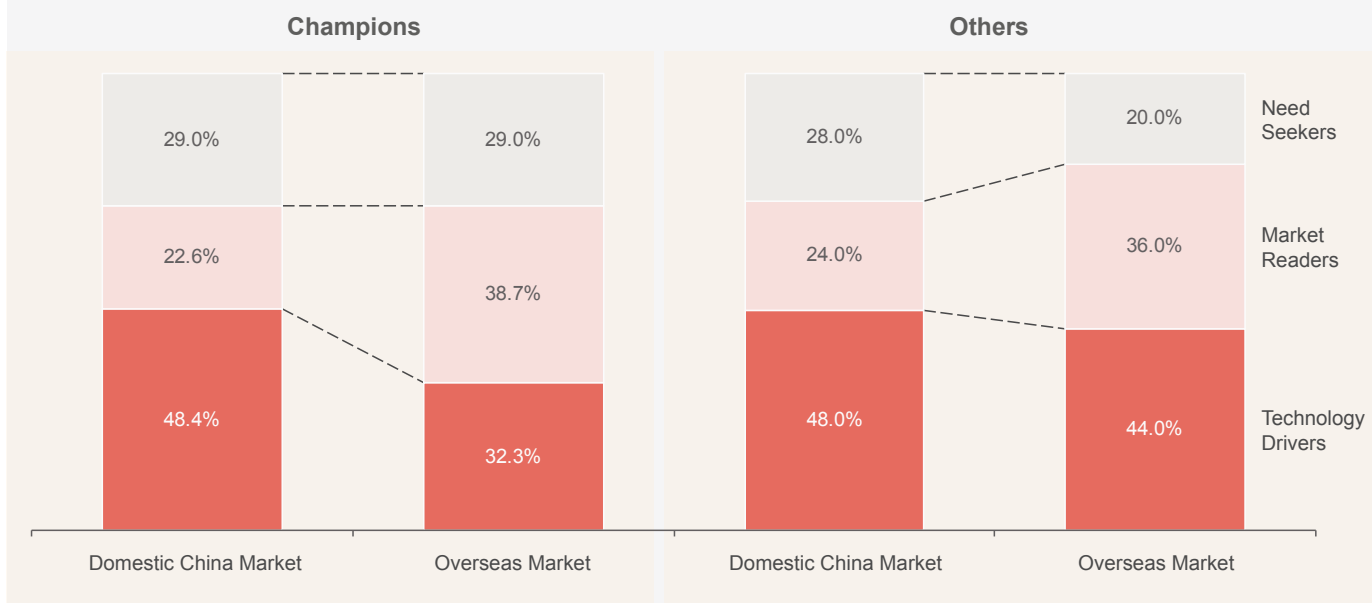


A closer examination of the innovation strategies adopted by the champions in domestic and overseas markets reveals that, in contrast to other Chinese globalizers, innovative champions who have adopted the Need Seekers strategy in the domestic market have tended to choose a similar first-mover strategy in overseas markets. At the same time, innovative champions that have embraced the Technology Drivers strategy in the domestic market tend

to opt for the Market Readers, or second-mover, strategy when moving overseas (Exhibit 15). The latter strategy seems to be chosen in response to new challenges and increased competition over products and technologies in overseas markets. In addition, it could allow the companies to familiarize themselves with the overseas competitive landscape and adapt to foreign consumer demand before attempting a breakthrough or innovative change.

**Exhibit 15. Comparison of Chinese Globalizers' Innovation Strategy**

**Profile your company's innovation strategy**



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

**3. Balance polarities between overseas and domestic innovation operations**

Developing an appropriate innovation strategy alone does not ensure the success of a Chinese globalizer. The comprehensive research conducted on Chinese globalization champions shows that companies in the same industry may pursue a similar innovation strategy, but obtain quite different results. Senior executives interviewed at champion companies repeatedly stated that without a feasible implementation plan for innovation strategies, innovation is nothing more than an empty slogan that cannot be carried out effectively within the company.

The research also raises a number of questions, such as: How can Chinese globalizers establish an appropriate innovation operating model to satisfy differing customer needs, both in domestic China and in overseas markets? How can Chinese globalizers balance the innovation-operation polarities, or tensions, between home country and host country, between consistency and innovation and between control and empowerment?

Innovative Chinese globalization champions tend to take the following four steps:

- Develop formal and structured innovation processes and systems
- Establish local innovation teams
- Empower and entrust overseas innovation teams
- Develop an innovative corporate culture

*A. Develop formal and structured innovation processes and systems*

Formal processes, with their underlying procedures and business rules, allow the institutionalization of clear operating principles and guidelines across an organization. Innovative globalizers must nonetheless decide whether to standardize the innovation processes in their overseas operations or make them flexible and, if standardized, where to fully standardize and where to allow some flexibility.

During interviews, senior executives from a number of MNCs mentioned that Chinese companies' traditional "trial and error" attitude in innovation often helps them adapt quickly to market changes, but at the same time creates considerable risk in overseas innovation. The standardization of innovation procedures is therefore one of the most important issues Chinese companies face. In fact,

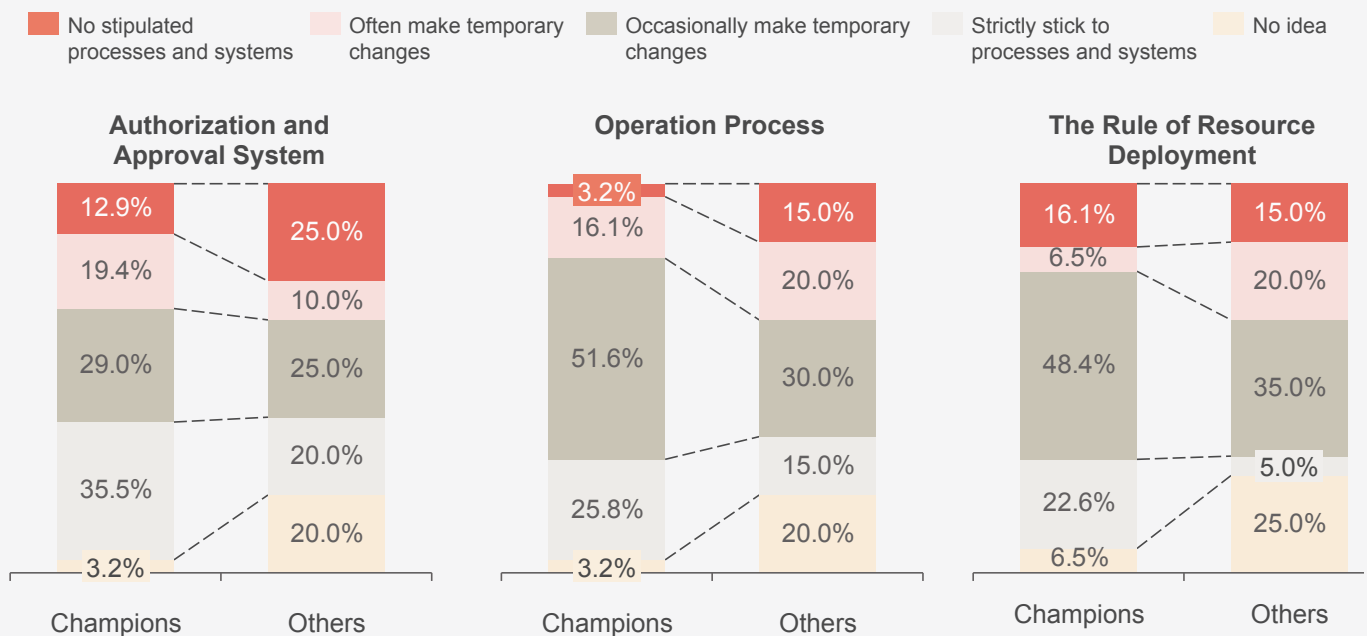
the results of the survey research indicated that champions have a significantly higher degree of standardization in innovation procedures than do other Chinese globalizers (Exhibit 16).

Having established branches in Asia-Pacific, Europe and Africa, BGI, a biotechnology organization, is a leading Chinese company in gene-sequencing services. To further promote its international development, BGI is seeking to standardize the industrialization of gene-sequencing and testing instruments. Through its cooperation with the Shenzhen Institute of Standards and Technology and several other institutions, BGI has therefore established a standard system of gene sequencing, resolved the problem of varied sequencing methods and standardized its R&D process.

The leading Chinese globalizer, Huawei, an ICT solutions provider, has created an original product development process that has become a crucial tool in managing the company's global R&D system, creating a unified standard for all Huawei software developers and a common language for the entire R&D staff at the company. By standardizing its development process and management tools, Huawei has been able to conduct R&D simultaneously in the Indian, US, Swedish and Russian offices; in addition, using a scientific management approach has made it possible for the company to manage and coordinate R&D institutions effectively around the world.

**Exhibit 16.** Degree of Standardization in Innovation Procedures by Chinese Globalizers

**In overseas market, for the following stipulated innovation processes and systems, my company makes temporary changes frequently or not...**



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

Local teams face different challenges and unpredictable environments, and tend to have a better understanding than the corporate centre of local conditions and the ways in which processes may be altered to adapt to those conditions. Acknowledging this, champions tend to indicate that they would appropriately fine-tune their innovation processes and procedures to cope with local business conditions.

**B. Establish local innovation teams**

For a global company, people is one of the most important factors for managing the tensions between home country and host country. All of the senior executives interviewed from global MNCs and Chinese companies stressed that talent plays an important role in any company's globalization development.

Yet nearly half of the Chinese globalizers surveyed still have a very low local employee ratio of less than 5%. In contrast, champions have much higher localization rates in overseas employment than other Chinese globalizers. A look at the overall employee localization rate reveals that more than a third of globalization champions report that 50% or more of their employees at overseas operations are local, while nearly half of the champions report at least 25% local

employees. These figures stand in sharp contrast to the localization rate of other Chinese globalizers, of which very few (only 5%) have 50% or more local employees and only 15% have at least 25% local employees (Exhibit 17).

With a much higher employee localization rate, champions can be more flexible in hiring and acquiring innovation talent on a global scale.

**Exhibit 17.**

**Chinese Globalizers' Local Employee (Non-Chinese) Localization Rate**  
**Overall Employee Localization Rate**

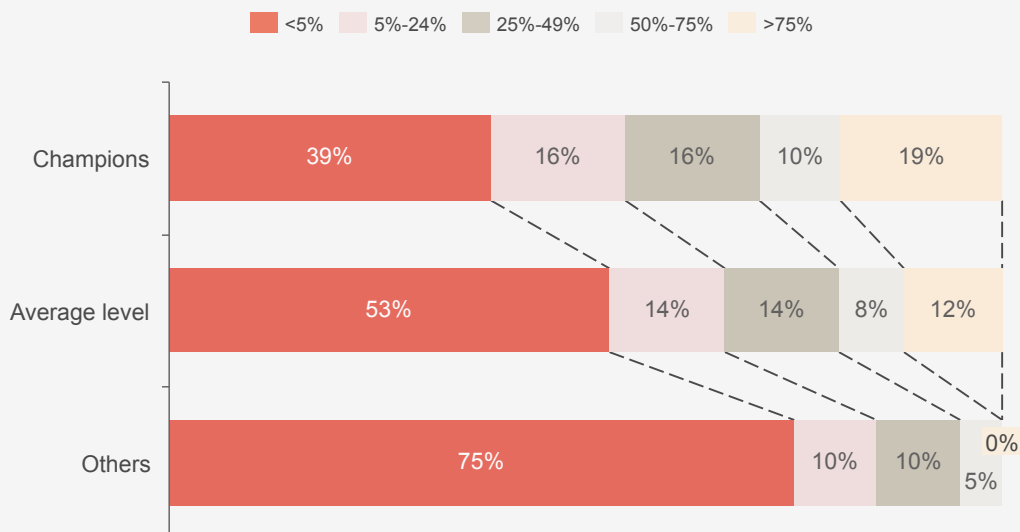


Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

When looking at the localization rate for R&D and innovation employees, the numbers are very similar: almost a third of globalization champions reported that 50% or more of their employees at overseas operations are local, and nearly half have at least 25% local employees. In contrast, as with the overall employee localization rate, very few (only 5%) of other Chinese globalizers have 50% or more local employees, and only 15% have at least 25% local employees (Exhibit 18).

**Exhibit 18.**

**Chinese Globalizers' Local Employee (Non-Chinese) Localization Rate**  
**Overall R&D/Innovation Employee Localization Rate**



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

A striking example of localization in employment comes from Perfect World, where many of the overseas teams are made up of 100% local talent, with the exception of only one or two senior executives sent from the company's headquarters in China.

In another powerful example, Huawei's centre in India is one of the company's largest overseas R&D hubs. Founded in 1999, the centre has trained hundreds of Chinese technicians who have then returned to China as core

knowledge experts. At the same time, it hires and trains a great deal of local talent, who now constitute the majority of its workforce. Localizing the overseas R&D team and enhancing the exchange between local and home-country staff have created a smooth globalization development path for Huawei.



C. Empower and entrust overseas innovation teams

Governance is essentially the art of balancing control and empowerment. A successful globalizer must consider how to maintain sufficient control, while still empowering the overseas innovation team for maximum efficiency and responsiveness to the ever-changing local environment. Compared to other globalizers, champions are much better at empowering overseas innovation teams (Exhibit 19). In addition, the champions surveyed agreed that local knowledge is essential for overseas innovation success.

Perfect World gives its overseas innovation teams full operational control; its headquarters only manages the outliers or exceptional emergency cases. Overseas

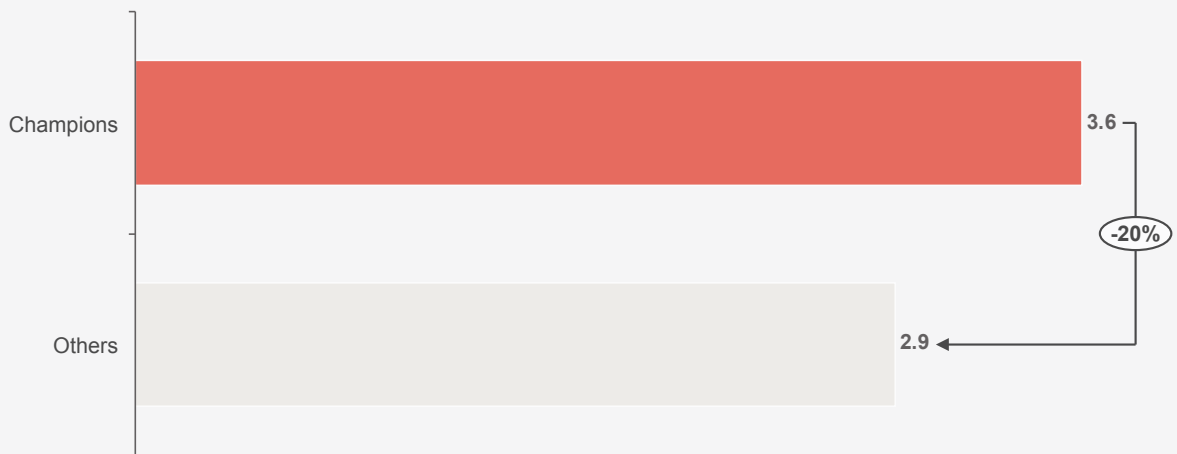
branches are considered independent local firms rather than affiliates of headquarters and are given sufficient decision rights to run their business.

Neusoft aims to develop its overseas R&D departments into the company's new innovation drivers rather than make them into mere replicas of those at the Chinese headquarters. With easy access to advanced technologies, overseas R&D centres are given flexible budgets and enough space to manoeuvre.

Exhibit 19.

**Chinese Globalizers' Innovation Governance**  
Your overseas innovation organizations can make decisions independently

Rate from 1 (strongly disagree) to 5 (strongly agree)



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

D. Develop an innovative corporate culture

Senior executives interviewed at champion companies repeatedly stated that a company's overseas innovation centres can only be fully developed and become corporate innovation drivers if employees are given enough space, their innovation passion is stimulated and an innovation culture is formed within the company.

The findings show that champions have made considerable efforts to develop cultures of innovation. All of them place

innovation either as the first priority or in their top-three priorities in the corporate culture. Many of these companies have also incorporated the concept of innovation into their core value systems. For instance, Neusoft's strategy of "open innovation," both internally and in collaboration with global industry leaders, works to encourage and engineer an innovative culture of learning and sharing.





#### 4. Develop long-term innovation capabilities for the expansion of globalization

The findings reveal that globalization champions take a long-term perspective on building sustainable innovation capabilities and are not looking for immediate returns on their innovation investment. In fact, senior executives interviewed at champion companies frequently commented that investment in overseas innovation centres brings more long-term benefits than short-term rewards. They added that blind pursuit of short-term rewards runs contrary to their original goals and may even suppress the company's creativity or lower its competitiveness in innovation.

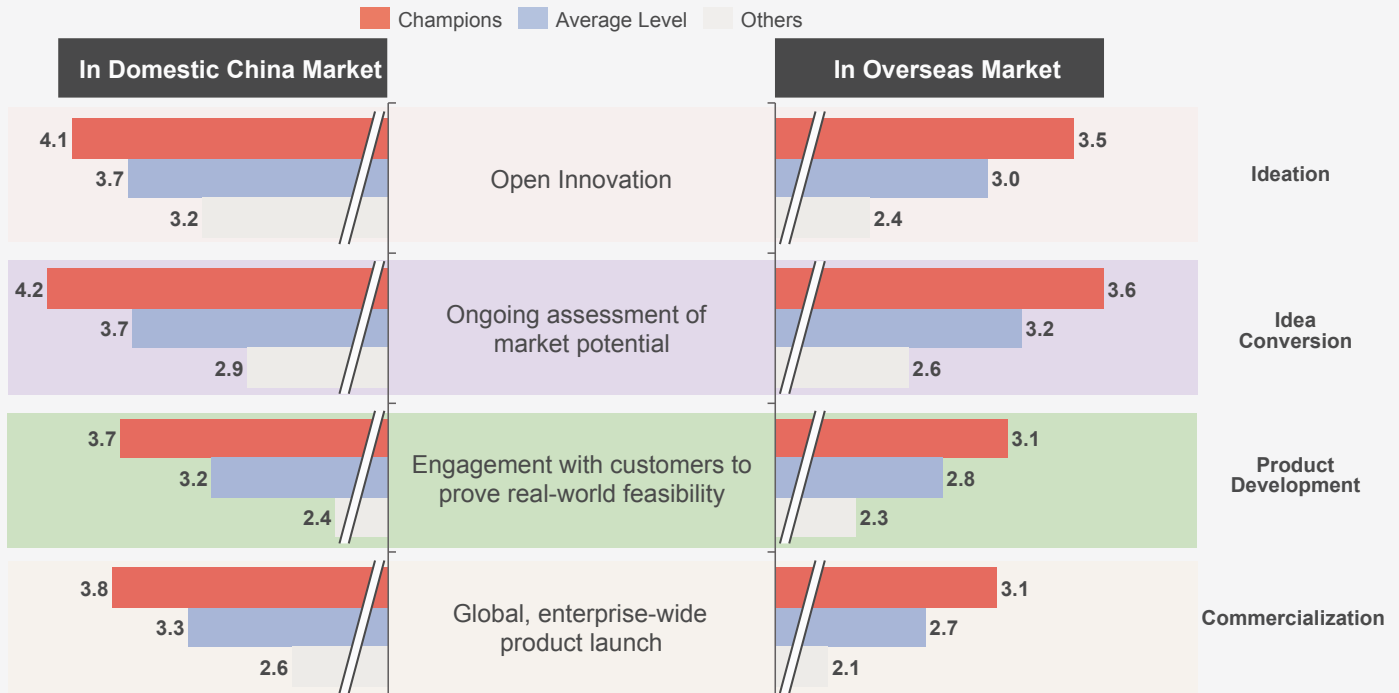
The research divided innovation capabilities into four main categories, including innovation ideation, idea conversion, product development and commercialization. A comparison of the globalization champions and the other globalizers surveyed identified several unique innovation capabilities, including open innovation, ongoing assessment of market potential, customer engagement, and global, enterprise-wide product launch, which may contribute to successful globalization (Exhibit 20).

Valued more than \$40 billion in 2014, Xiaomi is a privately-owned Chinese electronics company that has experienced rapid development in recent years. The company is unusual in that it has allowed customer participation at every step of production, service and sales. It even has a fan club - a large social community made up of consumers. Xiaomi's fan club helps the company bolster its reputation through word of mouth, and also helps it understand consumer demands and develop products in response.

Perfect World has established a gaming platform in the United States on which products from around the world are displayed. The platform gives customers ample choices of games to play; through those choices, Perfect World is able to test new products, get an idea of the local market's reception of new games and obtain first-hand consumer data.

Exhibit 20.

#### Innovation Capability Competency: Chinese Globalization Champions vs. Others 1 (very low competency) to 5 (very high competency, best in class)



Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models

# Part 4: Learning from the Champions



Companies engage in various benchmarking activities to learn about best practices, hoping to find a secret recipe for success. Many have found such exercises of somewhat limited value. A quick analysis of how the Chinese Globalization Champions have used best practices to achieve globalization success reveals some key lessons.

Under evolving and unpredictable overseas environments, today's Chinese globalizers do face certain collective challenges. Understanding this context helps clarify those challenges and illuminate certain fundamental lessons from the best practices of champions. Yet every Chinese globalizer also faces its own set of challenges that it must address in its own unique ways.

Because the globalization process today is a balancing act, companies cannot rely on any single best practice for improving globalization performance. They must take a holistic approach. For particular companies, depending on many variables such as industry, globalization strategy, and stage of globalization, companies may choose different paths and tailor their innovation strategy and operating model geared to their own business contexts.

For example, in its early days, Perfect World identified innovation capability development as its first step toward globalization and invested hugely on R&D to develop new products/emerging technology to expand markets. After the achievement of initial success in overseas market, Perfect World progressed into advanced globalization period and started to leverage global network. It mobilized worldwide ideas and talents to promote the company's innovation and globalization.

## Conclusion

Having embarked on the path of globalization at this particular juncture in history, with the combination of China's continued "go out" policy and the numerous supportive measures being introduced by the government and its ministries, Chinese globalizers face both challenges and opportunities on the path to globalization. Today's global marketplace is highly evolved and fiercely competitive, yet the research presented here brings good news to globalizers still struggling to find their footing. By studying the globalization champions at different development stages, this research highlights the emerging best practices of Chinese outperformers in terms of their innovation-related strategies and operating models, providing valuable guidelines to help Chinese companies enhance their innovation capabilities and become successful competitors on the global stage.

# Case Study 1: Perfect World

Founded in 2004, Perfect World went public in 2007, growing into the leading Chinese MMORPG (massively multiplayer online role-playing game) company, with 5,069 employees in 2014. As one of the first Chinese online gaming companies to exploit the overseas market, Perfect World has launched over 20 wholly-owned subsidiaries in Europe, Japan, North America and other regions. Its overseas business accounted for 25% of its total revenue of RMB 3.05 billion in 2013.

Perfect World has adopted globalization as a core strategy and advocates an innovative corporate culture, with innovation serving as the starting point and foundation for the company's globalization efforts. Globalization, in turn, reinforces the company's innovation efforts by allowing Perfect World to leverage global resources, attract global innovation talent and develop a global technology network.

The company's global innovation efforts begin with innovation around its products, technologies and business models in overseas markets. The company first familiarizes itself with local demands and then modifies its products and technologies accordingly, laying a strong foundation for market entry. For instance, in product innovation, Perfect World develops culture-specific online games to satisfy local customer needs, such as those of customers in the Middle East. In technology innovation, the company optimizes its products to make them functional in regions and markets with incomplete infrastructure, such as areas of low bandwidth in India.

Business models, too, are modified to fit the new market, as Perfect World fully empowers its overseas branches, treating any overseas branch as an independent local firm and giving it sufficient decision rights to operate the business. Eighty percent of decisions are made according to local exigencies; only 20% are based on the company's general way of doing business and the existing resources of the head office. Apart from quarterly reviews, biweekly telephone conferences and one or two visits per year from the head office to oversee operations, daily operations and resource allocation are left to the discretion of local branches.

In addition, aside from one or two senior officials sent from headquarters, the workforce is entirely localized. Since local employees are unique in their cultural perceptions and educational backgrounds, the interaction between innovation and R&D workers from various regions often creates surprising chemistry. For example, in six

years together at the US office, American and Chinese employees, who come from various educational and cultural backgrounds and have diverse ways of thinking, have generated countless new ideas.

Having achieved initial success in overseas markets, the company is now leveraging its global network and mobilizing global resources to accelerate innovation and the globalization process. For example, through Perfect World Global Investment Plan, its global investment arm, the company acquires and invests in two types of target companies: companies that have already accomplished a certain scale, and small, early-stage start-ups. The latter investments resemble those of venture capitalists who invest in forward-looking projects, hoping to benefit from the projects' future development. After acquiring a target company, Perfect World creates a flexible working environment for its new employees and sells their products through its global network. Perfect World Global Investment Plan not only helps Perfect World build a global brand, but also gives it relatively easy access to new technology and innovation talent across the world.

Perfect World identifies innovation as its guiding principle, quality games development as its purpose and globalization as its long-term development strategy. Globalization is in its corporate DNA and innovation is its internal driving engine for sustainable development.

Source: Company interviews; literature search; Strategy& analysis

# Case Study 2: Neusoft

Neusoft is one of China's largest IT solutions and service providers. The company operates on a global basis with customers in over 60 countries and subsidiaries in the United States, Japan, Switzerland, Finland, Germany, Romania, Dubai and Peru. In 2013, Neusoft's overseas operations accounted for 35% of its RMB 7.5 billion revenue, a number expected to rise to 60% within the next 10 years.

Underlying Neusoft's global operating model is highly innovative corporate culture. As an IT company with a short product life cycle, Neusoft views innovation as a core value as well as a prerequisite for globalization; its highly globalized operating system, in turn, helps the company promote innovation by allowing it to leverage global resources.

Neusoft's primary focus is that of enhancing its core innovation capabilities. Its "open innovation" strategy promotes innovation in its technologies and products.

The company has established a corporate-level centre-for-excellence mechanism across its business units to centrally manage technical expertise. Some centres are co-established with external partners to pursue even broader collaboration. The company's knowledge is then shared on interactive platforms, including technology forums and regular topic-specific workshops, enhancing both communication and innovation.

Neusoft also seeks to innovate around its services and business model. The globalization of its medical equipment business is a powerful example. Previously, the company invested a great deal in product and technology innovation to export advanced medical products to overseas markets, competing directly with foreign companies in the international marketplace. Today, the company pays more attention to service and business-model innovation, offering

comprehensive solutions and establishing global service centres for local customers in overseas markets.

This combination of product and business-model innovation has helped Neusoft establish a comprehensive global innovation platform with systematic problem-solving abilities, laying a solid foundation for the company's globalization development. Simultaneously, Neusoft seeks to localize its management systems and corporate culture as it globalizes, understanding full well that countries vary in their laws, institutions and cultures, especially emphasizes the localization of R&D by fully empowering local innovation teams. For instance, the company implements its Global Talent Development Programme in overseas offices, a programme aimed at developing talent with global vision and management capabilities, establishing an appropriate talent evaluation system and attracting local R&D talent to serve local markets.

Source: Company interviews; literature search; Strategy& analysis

# Case Study 3: Trina Solar

Founded in 1997, Trina Solar has developed rapidly into the largest company in the global PV module manufacturing industry, as well as a leading system integrator. With regional headquarters in Europe, North America, Asia-Pacific and Africa, the company continues to further its global expansion by selling products in more than 30 countries and forming strategic partnerships with relevant firms and institutions throughout the industry value chain.

Innovation and globalization are the foundation of Trina Solar's development. The company has always regarded innovation as its driving force, keeping close track of domestic and international market activities, innovating around its product technology and business model, and using innovation to promote the company's global development. In fact, the company has formed a virtuous cycle in which innovation drives globalization and globalization, in return, fosters innovation.

In terms of product technology innovation, Trina Solar has filed over 1000 patents, far ahead of its global competitors. To further enhance the role of technological innovation, the company established its State Key Laboratory Testing Centre on PV (photovoltaic) science and technology. The laboratory has hired more than 150 researchers to work on product transformation through innovative technology, offering highly effective PV modules and innovative solutions for lowering system costs.

As for its business model innovation, to further reduce costs and provide more comprehensive solutions, Trina Solar has expanded its business along the entire industry value chain.

Headed by the Trina PV Industrial Park, established in 2008, Trina Solar now boasts a regional PV industrial cluster that combines upstream and downstream industry, equipment and accessories. The company cooperates extensively with many other companies in the industrial park through collaborative R&D and joint testing of new materials, in order to further enhance its innovation capabilities and its competitiveness in both domestic and overseas markets.

As a result of the company's continuous globalization, Trina Solar is able to marshal global resources and platforms, attracting a steady flow of talent in management and engineering. In 2014, the management team of Trina Solar consisted of members from over 20 countries, 60% of whom came from overseas or had overseas working experience. The company also cooperates closely with Australian National University and other leading PV research institutions to enhance its ongoing innovation efforts. And Trina aims to grow the State Key Lab into a world-class innovation platform promoting global competitiveness and sustainable development.

Source: Company interviews; literature search; Strategy& analysis

# Appendix: Methodology and Selection of Case Studies

Desk research was conducted to develop hypotheses about emerging best practices by innovative Chinese globalization champions. Specifically, a survey devised by the World Economic Forum and Strategy& was distributed to a wide range of Chinese companies, including:

- Leading companies by revenue or profit in their industry
- Companies growing significantly faster than their peers
- Companies that have developed a significant global presence
- Dark horse, lesser-known companies that have been active and ambitious globalizers in recent years

The answers from the 120 companies that responded positively to the survey statement “Your company is a successful globalizer compared to domestic competitors” were then examined (see Exhibit 21 for a breakdown of company responses by type of ownership and for data on individual responses within these companies by position). The companies that agreed with the statement, and whose self-evaluation was then backed up by peer

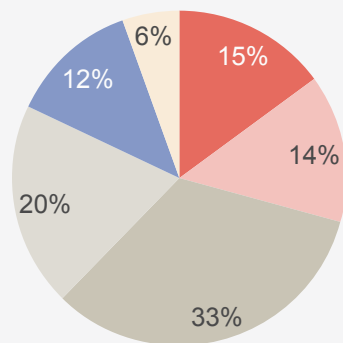
review and Forum/Strategy& benchmarking, were classified as “champions,” while companies disagreeing with the statement were classified as “others.” The responses from the two groups were then compared to the other survey questions to determine best practices.

Finally, individuals from selected companies that completed the survey were interviewed to substantiate the survey findings. The interviewees were senior executives from both leading global MNCs and Chinese companies.

The companies with written case studies were selected with the aim of collectively representing different industries and stages of innovation and globalization.

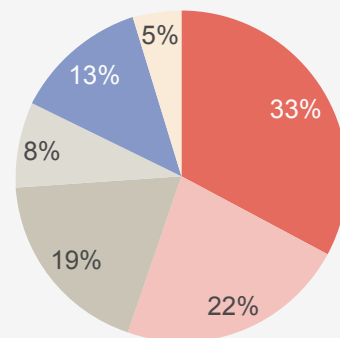
**Exhibit 21. Profiling of 120 Surveyed Companies**

## Nature of Companies



- Central state-owned enterprise (SOE)
- Regional SOE
- Private company – not listed
- Private company – listed
- Sino-foreign joint venture
- Others/ Not Disclosed

## Position in Company /Organization



- C-Suite
- Vice-President (including Senior VP and Executive VP)
- Director/ General Manager
- Manager
- Individual contributor
- Others/ Not Disclosed

Source: 2014 Survey of Emerging Best Practices of Chinese Globalizers: Develop the Innovation Models



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\* Names are listed in alphabetical order by family name. Chinese names are written family name first.  
All are listed according to affiliation at the time of participation.  
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