Research & Knowledge

"Chinese Innovation leadership from Belgium: no master plan."

BY M. HENSMANS & G. LIU

In October 2016, two of our researchers published a working paper suggesting that the idea of a Chinese Master Plan about the conquest of European innovation resources may be more fiction than fact. Prof Hensmans and his PhD student Liu set out to study the motivations and actions of Chinese firms that set up capability-upgrading subsidiaries in Belgium, one of the principals Gate to Europe. Drawing on a combination of methods, they came to a paradoxical conclusion. Chinese subsidiary managers' ability to recognize and respond to the flaws of an initial Master Plan, rather than the Master Plan itself, are key to innovation leadership.

Two contrasting schools of thought

As innovation latecomers, emerging market multinationals use the springboard of Western subsidiaries and innovation resources to catch up with their Western counterparts. A dominant assumption in the international business literature is that multinational headquarters act as a master brain, relinquishing innovation autonomy to subsidiaries when catch-up opportunities rationally call for them. Recently, a new school of thought has emerged to argue that the headquarters "apex of rationality" assumption is erroneous. Headquarters often acts normatively rather than rationally, preferring not to go against the political and cultural preferences of home stakeholders even if the subsidiary's case for it is very clear.

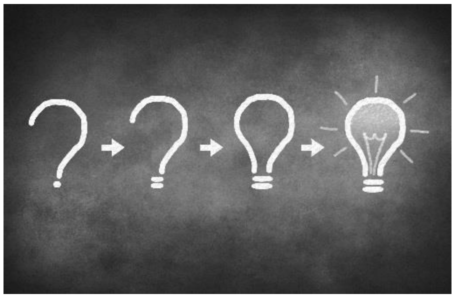
In this paper we juxtaposed these two contrasting schools of thought to identify what causal mechanisms enable or prevent the initiation of significant innovation-upgrading activities from Belgium.

The Study

Belgium provided us with the longitudinal data we were looking for. Widely considered a principal Gate to Europe, the country has been welcoming Chinese subsidiaries since the late 1980s – from the earliest signs of Chinese Opening through consecutive Chinese Go Global policies. We focused on the 15 most active Chinese subsidiaries in Belgium, operative in industries ranging from telecommunications, car parts, machinery, labelling and photovoltaics through banking, airlines, shipping and trading. Seven of the 15 firms are private-owned enterprises (POEs), three are jointly government-private owned (JOEs), and five are State-owned enterprises (SOEs). We drew on a combination of descriptive statistics, semi-structured interviews and longitudinal case comparisons to gauge the applicability of each school of thought and tease out a more accurate causal mechanism of innovation upgrading.

Why & how do Chinese subsidiaries become innovation leaders?

Tellingly, the Chinese firms that are most often associated with a government-induced Chinese Master Plan, **SOEs and JOEs demonstrated the least advanced innovation upgrading ambitions**. The cases of the two Chinese State-owned shipping firms in Belgium exemplify this. While they were amongst the earliest investors in Belgium in the late 1990s, their home master plan since did not move significantly beyond the initial aim of using the Port of Antwerp as a **springboard to extend and showcase the "brand China"**. The same goes for two of the three more recently established JOEs in telecommunications and airlines.



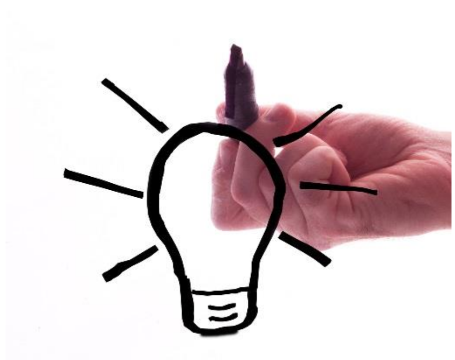
By contrast, four of the most active POE subsidiaries tried to make the most out of Belgium as a Gate to European innovation leadership: Huawei (telecom), Westlake (car parts), Sany (machinery) and Haoneng (labelling technologies). The partly government owned firm BBCA (chemicals trading) also demonstrated renewed ambitions but in an insufficiently advanced way. In contrast with SOEs and JOEs, the **four POEs first established for opportunistic rather than planned reasons**. Remarkably, they **initiated their firm's innovation leadership** in response to the **failure of their headquarters' master plan.** By elaborating a **relation of constructive conflict** with home headquarters they managed to upgrade their firm's innovation ambitions from Belgium.

We define *constructive conflict* as a *relatively fear-free process of negotiating headquarters' strategic control and subsidiaries' strategic autonomy*.

Constructive conflict is a **countercultural** trait **for Chinese** managers. Cultural norms of hierarchy, consensus, and conflict-avoidance are part and parcel of Chinese organizational life, limiting subsidiary managers' ability and willingness to engage in autonomous thinking, critique and innovation.

How did the expatriates of the four POEs manage to escape typical Chinese values of conformity? **Prior socialization** in a baseline degree of **autonomous thinking and responsibility**-**taking** at headquarters provides part of the answer. Different **normative assumptions as to what brings long-term success** provides another. Flying the Chinese flag and government priorities ensured SOE and JOE home market success. Demonstrating resilience in the face of failure and a zest for opportunity recognition ensured POE success.

General Implications



We can deduce more general implications from our findings:

1) Misdirected fears for a Chinese Master Plan

Fears of a Chinese Master Plan to take over the fruits of European innovation are overblown, certainly regarding the activities we studied in Belgium, one of the principal Gates to Europe. Some multinationals such as Huawei have become very skilled political operators, but this has more to do with their learning-by-doing capacities than a preordained or government-inspired plan.

2) Belgian policy needs to target emerging, private-owned innovation champions

Despite the belated Chinese discovery of Belgium as "the little big man of Europe"[1], Chinese FDI levels in Belgium are still low compared to its neighbors. Belgian federal and regional efforts to advertise the country's innovation strengths are well received by SOEs, much less by POEs. Nevertheless, the latter are responsible for the most advanced innovation upgrading projects. As the quintessential small and open economy, Belgium greatly depends on their advanced innovation investments for its own global competitiveness.

3) The major stumbling block to Chinese innovation leadership is cultural

Conflict, even in its most constructive forms, is thoroughly countercultural for Chinese headquarters and subsidiary managers. Before setting up subsidiaries in advanced Western economies, we advise Chinese headquarters to start socializing their future expatriates in values of autonomous thinking, entrepreneurial opportunity and failure recognition.

Further Reading

- Interested readers can find the full iCite research paper here
- For Chinese readers willing to know more about the importance of constructive conflict in Chinese organizations, we refer to the Chinese book by Manuel Hensmans et al., 2015 on Strategic Transformation, published by CEIBS education, China Machine Press. Click Here.

[1] Banks, M. (2013, Nov 8). The little big man of Europe. *China Daily*. Retrieved from http://www.chinadaily.com.cn/business/2013-11/11/content_17094469.htm

Manuel Hensmans

Associate Professor of Strategic Management & Innovation at the Solvay Brussels School of Economics and Management, ULB

Member of iCite "International Centre for Innovation, Technology and Education Studies"

Contact: mhensman@ulb.ac.be

Guangyan Liu

Doctoral Students in International Economics at the Solvay Brussels School of Economics and Management, ULB

Contact: guangyan.liu@ulb.ac.be