

## INCREASING RUSSIAN INNOVATION ACTIVITY - CHINESE WAY

**Abstract:** Russia and China are close political allies. Meanwhile, as Russia is still struggling to build developed and innovation-driven economy, China paves the way as a role model state that successfully creates investment-friendly business environment, conducive to developing and testing technological and business innovations. This article aims to demonstrate uniqueness and complexity of modern Chinese approach to implementing innovative methods of management. The relevance of the research is emphasized by the fact that Russian and Chinese markets share many complexities. In this regard, understanding of specific business culture of China and its customers' preferences may help to improve corporate strategies of Russian companies as well as contribute to further strengthening of mutually beneficial economic partnership between the two countries.

**Keywords:** innovation activity, Chinese business innovation, business culture, business model innovation, innovative products, consumers' preferences, emerging markets

### Introduction

In market economy companies strive to fill a specific market niche and maintain sustainable competitive advantages. It is especially relevant in an unstable economic conditions. New players that enter the market using new strategies and business models change the rules of the game and make this task much more complicated for established firms. They have to take new protective measures that will ensure the flexibility and sustainability of their business models and allow them to respond to new challenges immediately. For Russian companies these protective measures serve as an important way to maintain competitiveness which remains to be very low in terms of international comparison. Thus, the increasing of innovation activity of Russian enterprises is a task of strategic national importance. Companies in Russia can't rely on domestic demand to facilitate innovative development, because low income level of the Russian population limits its access to modern hi-end goods and services. New methods of organizing and managing innovation processes should be introduced in order to increase innovation activity in Russia.

The model of Chinese business innovations aimed at increasing the innovative activity of entrepreneurs in regions with a relatively low standard of living represents a particular interest. Chinese entrepreneurs introduce lean and affordable high-quality products, which can positively affect the quality of life of the population. Thus, economic transformation towards meeting the needs of financially constrained consumers in rapidly developing emerging market of Asia very resembles the Russian realities.

### Hypothesis

In this regard this study proposes to examine a hypothesis that Chinese models of business innovations can be applicable as a way to revive innovation activity of Russian enterprises.

### Research methodology

The study employed such scientific methods as analysis, synthesis, group comparison, logical modeling and data systematization. The accuracy of insights into the problem is enforced with experts' assessments, analytical data from specialized publications as well as personal research of the author.

Different aspects of organization and management of innovation activities in general were elaborated in the works of such researches as Zott C., R. Amit., Hamel G., Timmers P, Tucci C. However these authors do not examine particular categories like, for example, lean innovations in full their complexity. There is also lack of theoretical base that leads to inconsistency of empirical data that may negatively impact business activities of enterprises. Some definitions of business model innovation have been proposed in scientific literature. However a unified and comprehensively supported approach has not yet been formed. The complexity of interpretation for each definition varies depending on the purpose of a particular research study. Within this

article business model is defined as a complex of plan and resources that allows you to create value for customers. Innovative business model provides with new method of forming new value. It should not be exactly an offer of a fundamentally new product or service, but rather a search for a new method supply.

Nowadays the development of innovative products turns out to be the most effective way to achieve long-term business sustainability. Hi-end products and cutting-edge technologies are the result of sophisticated production process. Market competition shrinks the life cycle of goods and limits time of their development. Emerging problems cannot be fixed using a standard set of tools. Entrepreneurs are turning to new innovative approaches to form flexible, cost and waste sensitive model of lean production.

Business model innovation is a relatively new managerial concept that gradually gains recognition among established enterprises. Implementation of this model seeks to increase company's profitability through redefining existing product or service, delivery schemes, sales pattern etc [1].

China, as a main trading partner of Russia, represents a particular interest as an example of emerging market where local government supports cultivation of innovative business environment. Traditional methods of production are still widespread there. Meanwhile Chinese culture strongly influence the buying preferences of local customers.

There are some of their behavioral features that also forms Chinese entrepreneurial mindset:

1. Chinese are known for their skills of saving capital, they won't pay extra if lookalike and cheaper products are available. Price targeting should be managed very carefully;
2. They plan for short and mid-term periods and don't really care about product durability over a long distance;
3. They prefer frugal innovations made by local brands instead of more expensive, imported products.

Nonetheless, distinctive features of Chinese innovation industry are creativity, flexibility and fast output. Business approach of Chinese developers' can be summed up in few points:

1. Business models are implemented fast and is due to quick substitution if considered wrong;
2. Chinese developers tend to merge different models to create a workable one;
3. They rely on lean innovations to retain market competitiveness;
4. They are not afraid to challenge international markets and build global brands.

Chinese company NIO demonstrates the way local developers innovate and introduce the results of their work into practice. This company was established in 2014 and has already become the main competitor of western electric and self-driving carmakers [2]. NIO aims to create more affordable models adopted to the taste of Chinese customers. The developers of the company define their product as an experience crafted to meet drivers' expectations. For this NIO tries to build direct relationship with clients using distributor's methods, including sales and after sale maintenance.

NIO's business model covers all facets of user experience, including recharging, which remains problematic in China due to lack of infrastructure. The company is developing charging stations, connected to cloud data-centers, and mobile charging vehicles. Chinese automakers try to adapt to expectations of their clients through testing various offer options, resulting in the right match of product and market. They do not just copy upmarket models, but change and innovate to meet particular tastes.

Chinese developers use their domestic market as a springboard to global markets. They improve and adjust business models and technologies and eventually deliver more services and products outside the country steadily becoming key players on the international arena.

It is wrong to assume China remains to be a copy making country. Today she is one of the leading global center of innovation. Entrepreneurial environment, unique innovation culture, quick iteration and flexibility created there helps to address customers' needs, which distinctly differs from that in the West. Chinese developers provides us with a good example that business model innovation is a complex and multifaceted process. Local business culture and unique customers'

expectations add to the complexity of developer's task and require proper research about the market and clients to be addressed.

Another striking example of transformative nature of innovation can be seen in Chinese rural areas where e-commerce is developing at a very fast pace. Farmers start selling agricultural products on their own. For the last five years, this type of business has become very widespread, and it dramatically improved the well-being of rural residents. According to forecast, average annual sales growth will hit 40% by 2021 when market volume also should exceed 2.3 billion yuan [3].

Experts point out that cross-border e-trade of agricultural products has obvious advantages – rural dwellers get not only inward, but also outward sales channels. Online shopping is becoming more and more popular around the globe, but especially dynamic cross-border e-shopping has started to develop in recent years. Growing number of entrepreneurs strive to expand their business through electronic commerce platforms. Social networks allowed the model of transnational e-commerce to be established. It gives an opportunity for a producer to create direct relationship with a client and receive statistic data on the demand and preferences of customers in the international market. The supply chain has become much shorter, production costs have decreased.

E-commerce has clear advantages over traditional commerce. Network platform allows agricultural products to reach foreign buyer directly. That is why many Chinese manufacturers strive to open their own online businesses. E-commerce has made it possible to effectively transform the production chain of the agricultural products delivery to consumers and it has resulted in a significant decrease in the inter-chain price.

Chinese farmers and foreign buyers receive mutual benefits, and traders solve the problem of sale seasonal stock. A new form of commerce is spreading rapidly in rural China, as it allows to increase the well-being of farmers. Consumers from other countries, including Russia, also benefit from the development of rural e-commerce there.

The Chinese "One belt, one road" transregional development strategy indicates the need for an innovative approach to the search of new models and forms of trade and business, including in the field of transnational e-commerce. The PRC state agencies announced its readiness to actively promote the development of e-trade in rural areas and form delivery networks in the central and western regions of the country. By 2020, the volume of cross-border e-commerce in Russia will double and reach \$ 6 billion [3]. China and Russia agreed to expand bilateral trade in agricultural products and agricultural investment cooperation.

The developing markets may look not attractive at first sight, however, they have vast perspectives. To ensure competitiveness in these markets, entrepreneurs have to give up traditional business models and redevelop new approaches. Russian companies may try to adapt Chinese business model innovations in their ground realities. Currently, the turnover of e-trade between Russia and China accounts for 80% of total sales in Russian transborder e-commerce. Transformation and practical application of Chinese scientific and technological achievements in Russia may create new trends and add new impetus to further strengthening of bilateral trade and economic cooperation between the two countries. In the long run production of high quality mass products in an affordable price range, especially made with limited resources, may be transferred to the developed markets as a reverse innovation.

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