

Emerging Best Practices of Chinese Globalizers: Tackle the Operational Challenges

In collaboration with Strategy& (formerly Booz & Company)





© World Economic Forum
2014 - All rights reserved.

No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, or by any information storage and retrieval system.

The views expressed are those of certain participants in the discussion and do not necessarily reflect the views of all participants or of the World Economic Forum.

REF 020414

Contents

- 4 Executive Summary
- 6 Part I The Continuing Push for Globalization by Chinese Companies
- 10 Part II Operational Excellence as the Key to Success for Chinese Globalizers
- 12 Part III Best Practices in Tackling Operational Challenges
- 21 Part IV Learning from the Champions
- 22 Conclusion
- 23 Case Study 1 - 6
- 30 Appendix 1 Methodology and Selection of Case Studies
- 31 Appendix 2 The Globalization Endeavour Index
- 32 Endnotes
- 33 Acknowledgements
- 34 Project Team

Preface



Olivier Schwab
Executive Director,
China, World
Economic Forum

Over the past half-century, globalization has dramatically changed the world economic landscape. In the earlier stages of this ongoing process, the Chinese economy benefited enormously as the country became the world's largest consumer market and largest manufacturing workshop. In the late 1990s, out of a need for access to global resources and technologies, the Chinese government officially initiated its "Going Out" strategy, an effort to encourage Chinese companies to invest overseas. By 2012, China was ranked third in the world as a source of foreign direct investment (FDI). Approximately 16,000 Chinese investing entities had, by this time, established 22,000 overseas enterprises in 179 countries and regions.

The Chinese globalizers are a diverse group of companies: large state-owned enterprises (SOEs), backed by state capital, are mostly asset-driven, seeking access to resources and technologies; private companies are expanding globally to reach new markets and, increasingly, to acquire new capabilities. These companies all have different regional focuses and growth models (e.g. acquisition-led versus organic), depending on their strategic agendas.

Not surprisingly, these early Chinese globalizers have faced complex issues and formidable challenges not seen in the domestic environment. There have been a few successes, yet many Chinese globalizers—particularly those that are inexperienced—have encountered extreme difficulty and sometimes even failure.

Each industry and company encounters its own challenges on the path to globalization, but they also face many common issues: for example, how to establish a "management system" for an overseas entity; to whom to entrust the running of it with what level of delegated decision rights; how to integrate different cultures; how to resolve conflicts in style among members of new executive teams; how to acquire and retain foreign talent; how to resolve issues with local unions; and how to address pragmatic questions about workplace language and titles. This report frames these issues within an operating model that includes Culture, Governance, Processes, and People—all areas to which successful globalizers must give careful attention.

This report is a continuation of the *Corporate Global Citizenship Challenge* study; its objective is to identify challenges, synthesize best practices by Chinese globalizers, and thereby help to build a platform and programmes for sharing and learning.

Executive Summary



Despite the global economic and financial crises of recent years, corporate China continues its push for globalization. China now ranks third in the world for outward FDI (2012 data), with its fastest revenue growth over the period 2008-2012 coming from operations in North America and Europe. The top Chinese multinational corporations (MNCs) are increasing their overseas assets and overseas employment at rapid rates, and are seeing greater revenue increases from overseas operations than from their Chinese counterparts.

Moreover, today's Chinese globalizers have even more aggressive plans for geographic and functional expansion in the near future. A survey by the World Economic Forum and Strategy& (formerly Booz & Company) of 125 leading Chinese globalizers shows that in the next five years these companies are planning to expand in virtually every region of the world and to extend their functional footprint outside of China as well.

Our research on the success of leading Chinese globalizers has also found, however, that increased effort at globalization does not necessarily lead to increased output. Furthermore, companies with similar, perfectly sound globalization strategies do not

necessarily achieve similar results. What distinguishes a group of companies, which the report identifies as “Chinese Globalization Champions”, from the rest of the pack is their ability to systematically tackle various *operational challenges* in the globalization process.

In analyzing these challenges and how Chinese Globalization Champions overcome them, we developed a reference framework for a global operating model with four building blocks: Culture, Governance, Processes, and People. Successful execution in these four areas, in turn, allows Chinese Globalization Champions to address three sets of polarities or tensions that challenge all globalizing companies: Home Country & Host Country, Consistency & Innovation, and Control & Empowerment.

Our research on how Chinese Globalization Champions successfully manage these three polarities in their operating models reveals several best practices in the areas of Culture, Governance, Processes, and People from which other Chinese globalizers can draw lessons.

For Chinese companies setting up global operations for the first time, the initial challenge has always been overcoming cultural divides, stereotypes, and mistrust



between Chinese and foreign personnel in order to create a harmonious and effective work environment. Another important cultural issue for many Chinese globalizers involves innovation, which has been a hallmark of their success in domestic markets that they want to transmit to the global organization. Best practices in the area of Culture are: developing globally consistent values and behaviours, making strong local commitments, and implanting innovation genes.

Governance—essentially the art of balancing control and empowerment—is a critical aspect of any operating model, and managing a globalized company adds much complexity to the challenge. Critical issues include maintaining sufficient control over a far-flung global organization while empowering the overseas management team, designing the organization for these purposes, and executing them at the operational level. Best practices in the area of Governance are: empowering the overseas management team and building channels for rapid communication.

A major challenge in global operations, which have much more complexity and uncertainty than domestic ones, is to strike the balance between consistency and innovation, and between empowerment and control, in order to enable adaptation and responsiveness to overseas markets with minimal risk. Globalizing companies face decisions about to what extent processes should be standardized or made flexible,

and how to guard against the risks of too much flexibility. Best practices in the area of Processes are: pushing for standardization on a global scale, allowing for flexibility in a controlled way, and implementing rigorous risk control mechanisms.

Along with Culture, no component of the global operating model framework we are describing here is more important for managing the tension between home country and host country than People. This poses important questions about assembling global and local management teams, the right balance between local and expatriate employees, and issues such as compensation and career development. Best practices in the area of People are: developing global teams from the very top, hiring and incentivizing local talent, and providing development for expatriates and deploying them on local teams.

Today's Chinese globalizers face certain collective challenges arising from the unique historical context of their globalization efforts. Yet, every Chinese globalizer also faces its own unique set of operational challenges that it must address in its own unique ways. Thus, it is important for companies to customize their solutions to their major operational challenges, while also taking a holistic approach by implementing the full range of best practices designed to deal with the particular operational polarities that pose the biggest challenges in their business context and stage of globalization.

Part I The Continuing Push for Globalization by Chinese Companies

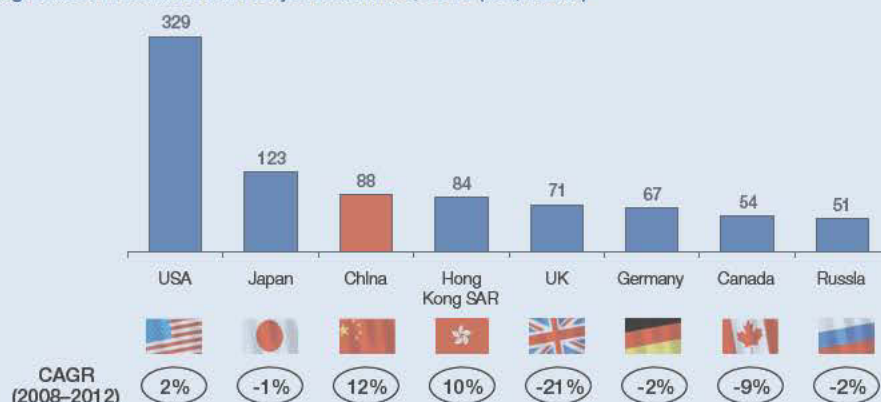
Despite the global economic and financial crises of recent years, corporate China continues its push for globalization. Empirical data indicates that both outward FDI and the scale and scope of Chinese overseas business have increased significantly since the mid-2000s. Our survey of leading Chinese globalizers has also revealed that Chinese companies have even more aggressive plans for geographic and functional expansion in the near future.

Rising outward FDI by Chinese companies

Chinese companies continue to increase their overseas investment at dramatic speeds. The earlier report, *Emerging Best Practices of Chinese Globalizers: The Corporate Global Citizenship Challenge*, noted that China “has become a major outbound investor”; a comparison between the 2010 data on outward FDI, on which that earlier report

Exhibit 1

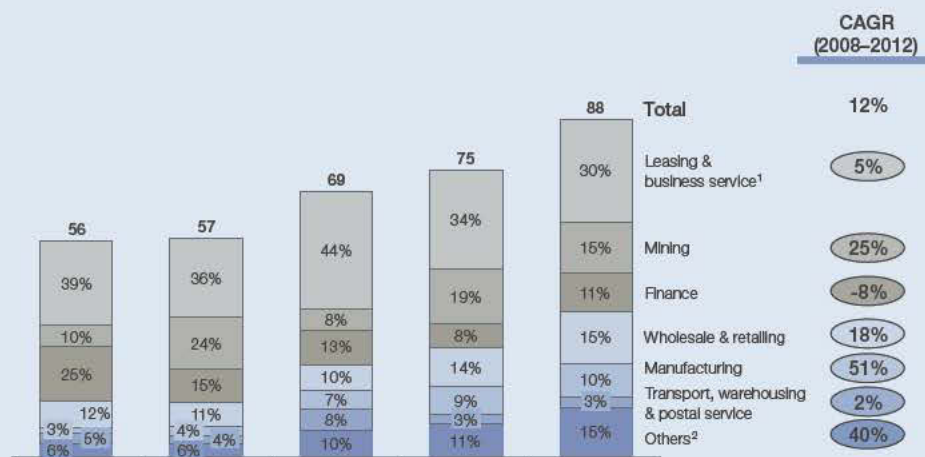
Outward Foreign Direct Investment from Major Economies, 2012 (US\$ Billion)



Source: 2012 Statistical bulletin of China's outward foreign direct investment

Exhibit 2

China's Outward FDI Breakdown by Industry, 2008-2012 (US\$ Billion)

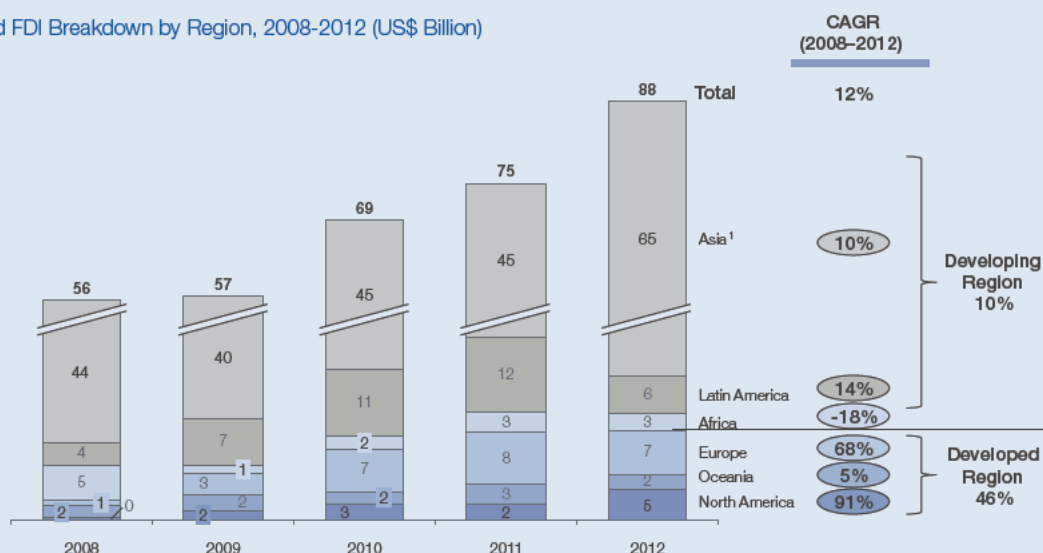


1. Leasing & business service mainly includes investment holding.

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 (2008-2012), Strategy& (formerly Booz & Company) analysis

Exhibit 3
China's Outward FDI Breakdown by Region, 2008-2012 (US\$ Billion)



1. Hong Kong accounts for 79% of China's outward FDI in Asia in 2012.
Source: Statistical bulletin of China's outward foreign direct investment (2008-2012), Strategy& analysis

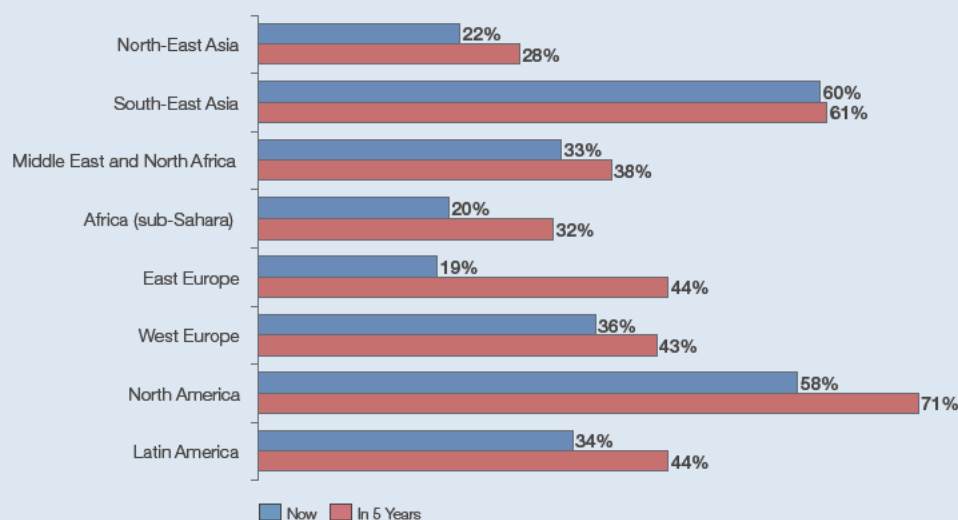
was based, and the 2012 data shows China having risen, in the interim, from fifth to third in the world. Outward FDI by Chinese companies in 2012 totaled US\$ 88 billion (compared with US\$ 69 billion in 2010), and its five-year compound annual growth rate (CAGR) of 12% for the period 2008-2012 was the highest among the world's major economies (exhibit 1).

Looking at Chinese outward FDI by industry, we see the largest CAGR over the period 2008-2012 occurring in the manufacturing, mining, and wholesale and retailing sectors (exhibit 2). Segmenting outward FDI by region, we find that by far the highest rates of growth for the same period are for North America and Europe (exhibit 3), reflecting corporate China's recent interest in expanding into developed regions.

Growing scale and scope of Chinese overseas business

As the result of this outflow of FDI, the scale of Chinese overseas business continues to grow. For the top 100 Chinese MNCs¹, overseas assets as a percentage of total assets increased, at the median, from 8.3% in 2010 to 13.2% in 2012, and overseas employees as a percentage of total employees increased, at the median, from 0.9% in 2010 to 4.2% in 2012. At the same time that they are increasing their overseas assets and employees, the top 100 Chinese MNCs have been seeing greater increases in overseas revenue than in China revenue—with median overseas and China revenue CAGR, between 2010 and 2012, totaling 22% and 14%, respectively—and overseas revenue as a percentage of total revenue also increasing, at the median, from 8.5% in 2010 to 12.3% in 2012.

Exhibit 4
Geographic Expansion Plans (% of total responses)

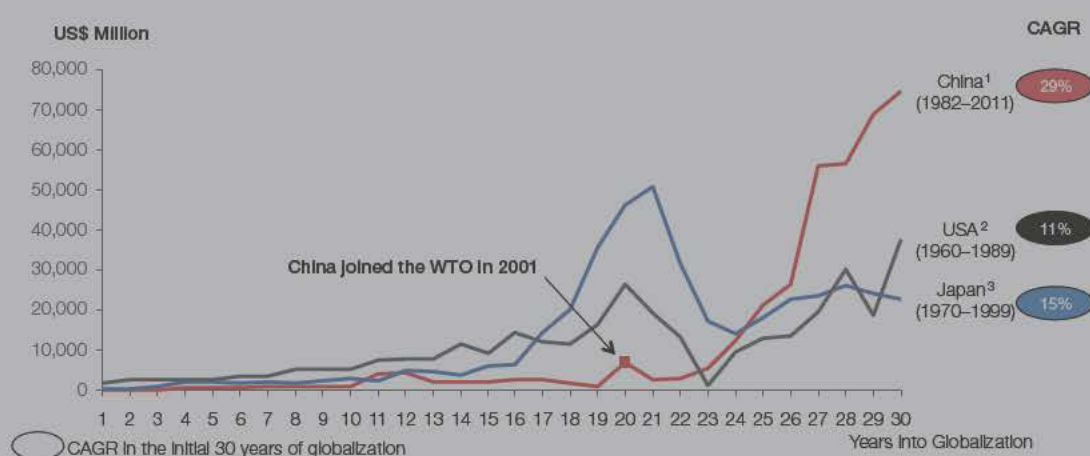


Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Outward FDI in historical context: China vs. Japan and the USA

A comparison of the trajectory of China's outward FDI over the period 1982-2011 with the historical trajectories followed by the USA and Japan during the 30-year periods (1960-1989 and 1970-1999, respectively) in which they initially established themselves as major overseas investors (see the graph below) further emphasizes just how quickly China's overseas investment has been growing since its entry into the World Trade Organization (WTO) in 2001 (year 20 on the x-axis in the exhibit). In China's first 30 years of globalization, its outward FDI grew much faster than that of either the USA or Japan in the same stage of their development (with CAGR for these three countries over their initial 30 years as globalizers coming to 29%, 11%, and 15%, respectively).

Outward FDI by China, Japan and the USA over the Initial 30 Years of Globalization
(US\$ at current prices and current exchange rates in millions)



Notes:

1. China's overseas investment prior to 1982 was negligible.

2. The USA had begun making overseas investments prior to 1960, when adjusted Outward FDI was 1.7 billion US\$. As there were changes in concepts, definitions, and coverage for surveying FDI in the USA made around 1960, readily adjusted data before that date is not available.

3. Japan had sporadic overseas investment prior to 1970, when adjusted Outward FDI was 355 million US\$.

Sources: Data 1970–2012 from <http://guides.library.harvard.edu/fdi>; USA data 1960–1970 from Foreign Direct Investment (National Bureau of Economic Research Project Report) by Kenneth A. Froot, 1994.

Plans for future geographic and functional expansion

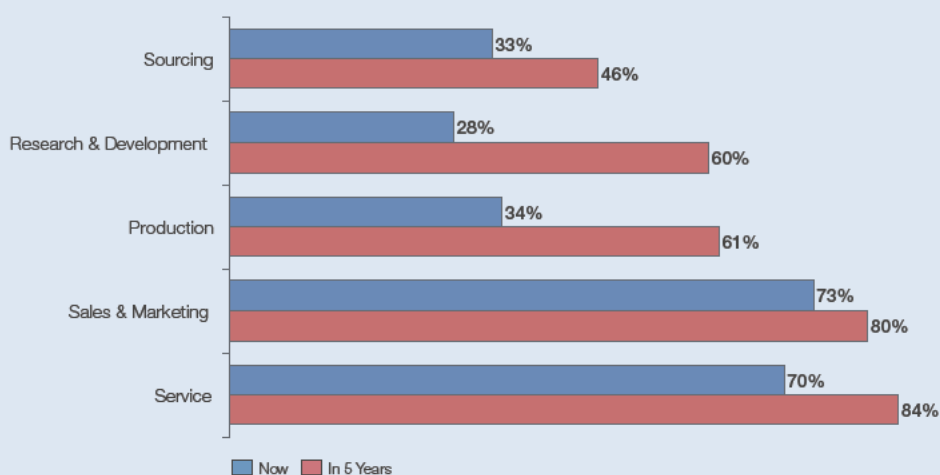
Our survey of 125 leading Chinese globalizers—which includes leaders in revenue or profit in their industries, companies growing significantly faster than their peers, companies that have developed a significant global presence, and lesser known companies exhibiting strong globalizing ambitions in recent years²—has also confirmed that Chinese companies are planning to expand globally even more aggressively in the future.

Geographically, North America and South-East Asia are the most commonly cited target areas for future expansion, although over 40% of surveyed companies plan on expansion in Europe and/or Latin America in the next five years, with the Middle East and North Africa, sub-Saharan Africa, and North-East Asia also claiming significant attention (exhibit 4).

While widening their geographic scope, Chinese globalizers are increasingly looking beyond sales and marketing to establishing functions and capabilities outside of China. Over the next five years, 80% or more of the companies we surveyed plan to establish or expand sales and marketing and/or service operations overseas. Meanwhile, the 60% who plan to move research and development (R&D) and/or production overseas in the next five years represent roughly a doubling of the number of Chinese companies that are

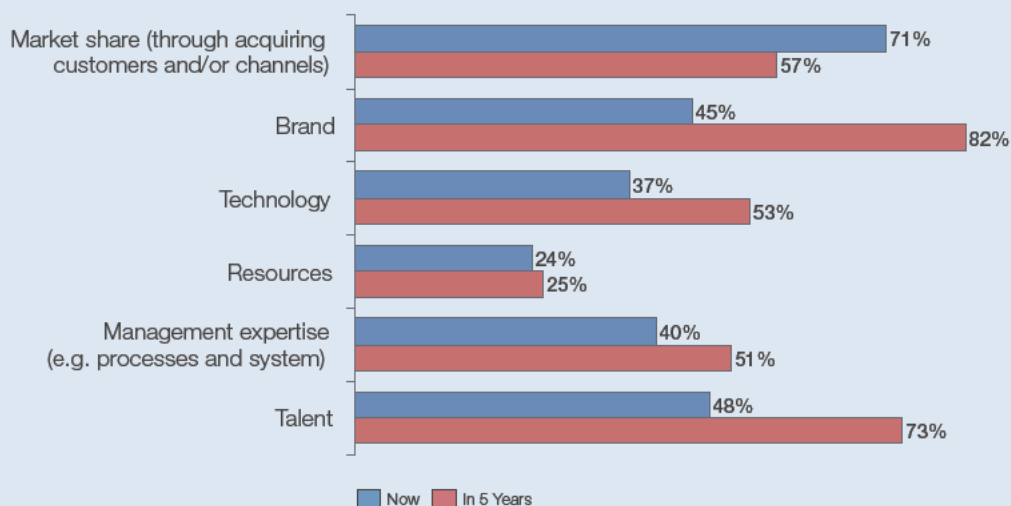
currently siting these functions abroad (exhibit 5). Chinese globalizers are also intent on building strategic capabilities outside of China, with brand, talent, and technology as the areas where interest is increasing the fastest (exhibit 6). Plans for the next five years actually show brand and talent becoming more important than market share as strategic objectives for Chinese globalizers, many of whom have so far done well at expanding into overseas markets.

Exhibit 5
Global Functional Footprint Plans (% of total responses)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Exhibit 6
Strategic Objectives in Globalization (% of total responses)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Part II Operational Excellence as the Key to Success for Chinese Globalizers

Our research on the success of leading Chinese globalizers has found that increased effort at globalization does not necessarily lead to increased output. Furthermore, companies with similar, perfectly sound globalization strategies do not necessarily achieve similar results. What distinguishes Chinese Globalization Champions from the rest of the pack is their successful execution of an operating model that allows them to address three sets of polarities or tensions that challenge all globalizing companies.

Globalization effort vs. output

The data cited above clearly demonstrate the globalizing ambitions of Chinese companies. These ambitions are reflected in the number of overseas assets and employees that Chinese firms currently have. We measured companies' globalization efforts by means of a Globalization Endeavour Index (GEI) that uses the following formula³:

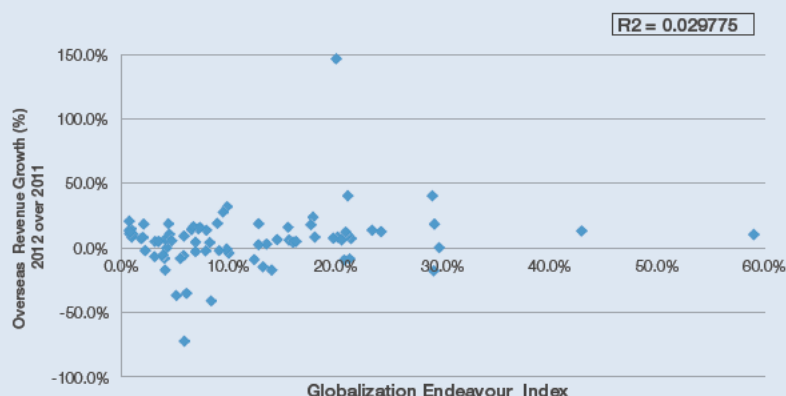
$$\text{Average} \left(\frac{\text{overseas assets}}{\text{total assets}}, \frac{\text{overseas employment}}{\text{total employment}} \right)$$

What kind of results have the globalization efforts of Chinese companies so far obtained? We studied the data from the top 100 Chinese MNCs and found little statistical relationship between a company's GEI score and its business success (exhibit 7)⁴. Contrary to what we might assume, ambition and substantial effort do not, by themselves, necessarily guarantee substantial value or growth, either overseas or in China, for Chinese globalizers.

Globalization champions and the strategy puzzle

Despite the overall lack of correlation between effort and output, we found that, among the 125 Chinese globalizers we surveyed, over half can be identified—based on a combination of self-reporting, peer review, and our own benchmarking—as significantly ahead of their peers in establishing robust global presences. We call these companies Chinese Globalization Champions (or “champions”). (For more details about the process by which these champions were identified, see appendix 1.)

Exhibit 7
Globalization Endeavour Index vs. Overseas Revenue Growth



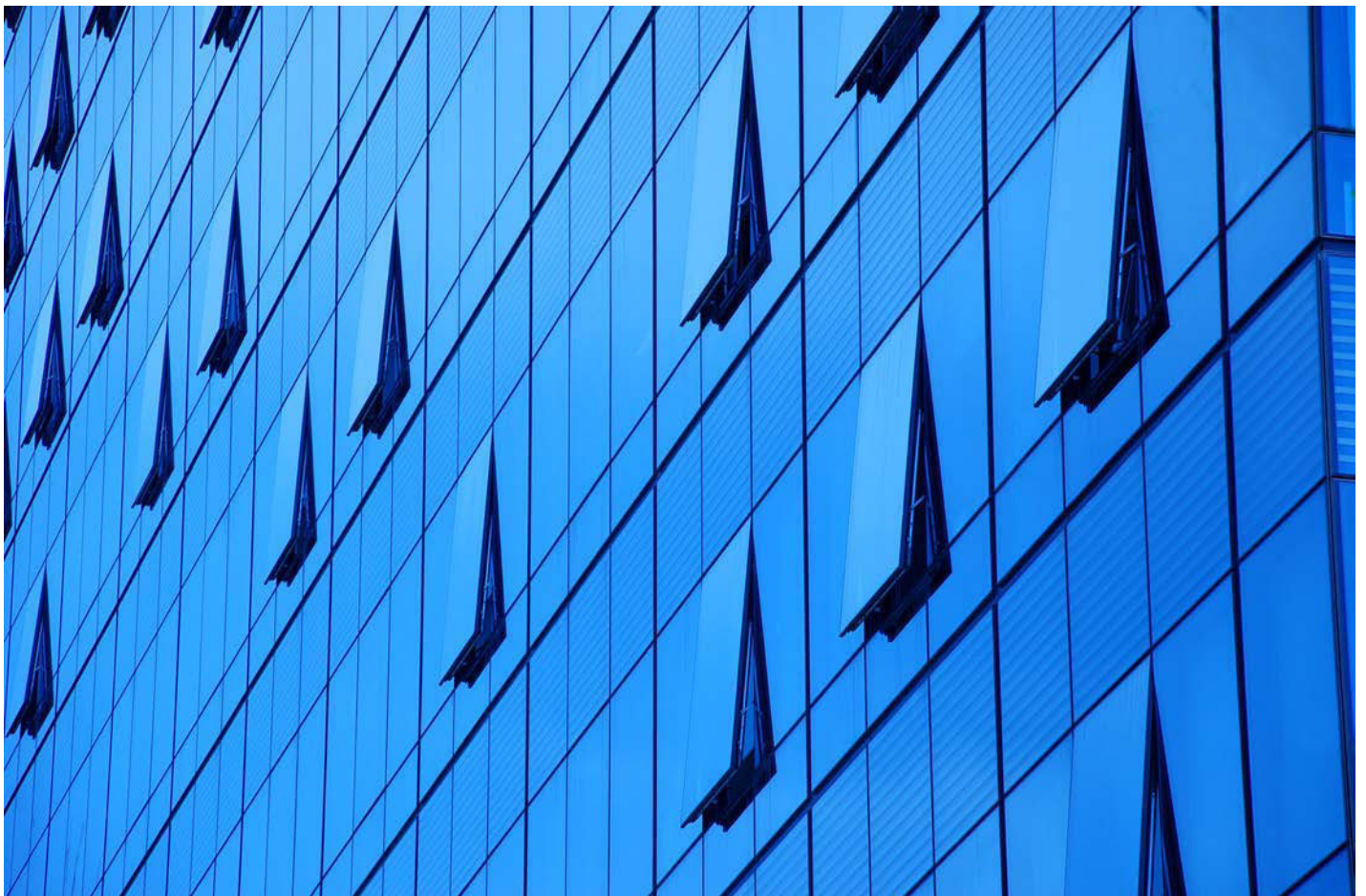
Source: *The Top 100 Chinese MNCs* is published annually by the China Enterprise Confederation; Strategy & analysis

One factor distinguishing these globalization champions from their peers is that they are far more likely (53% vs. 8%, respectively) to say that they have “systematic and comprehensive strategies concerning when, where, and how to play in the global marketplace”. Yet our research also shows that strategy per se has no more direct bearing on outcomes than does the level of effort expended in globalization. Very often, companies in the same industry pursue similar, seemingly sound strategies but obtain quite different results. Senior executives whom we have interviewed at champion companies have repeatedly told us that “strategy matters, but only if the company has the operational capability to execute it” or that “competitors can copy our strategy but they will not be able to paste it”.

The importance of execution and the operating model

If neither the amount of effort expended nor the particular globalization strategy followed has any significant bearing on results, what does distinguish champions from other Chinese globalizers? Our comprehensive research has revealed that where champions really outpace their peers is not in effort or strategy but in *execution*, their ability to systematically tackle various *operational challenges* in the globalization process. In analyzing these challenges and how champions overcome them, we developed a reference framework for a global operating model with four building blocks: Culture, Governance, Processes, and People.

- **Culture** involves how people in companies think and act, both internally and externally, in keeping with core values, vision, mission, and codes of conduct.
- **Governance** issues include the global organization structure, global controls framework, decision rights, information flows, and reporting models.
- **Processes** refer to how operations are run in the global business and include matters such as process standardization vs. customization, global infrastructure, and systems.
- **People** issues include leadership/management styles, talent management strategy (recruitment, development, and retention), and performance management.



Part III Best Practices in Tackling Operational Challenges

Culture, Governance, Processes, and People might be seen as the essential components of any company's operating model. Yet they are all crucial to managing three very particular challenges facing today's Chinese globalizers. We describe these challenges as "operational polarities."

Balancing operational polarities

The process of globalization is very complex for companies such as the Chinese globalizers we have studied, which are still in the early stages of establishing global operations more than a decade into the 21st century. Whereas earlier globalizers could be relatively single-minded in developing their operating models (as we argue in Part IV of this report), today's globalizing Chinese companies must manage three sets of tensions or competing demands. These operational polarities are: (1) home country (China, in this case) & host country; (2) consistency & innovation; and (3) control & empowerment (exhibit 8). To elaborate briefly on each:

- **Home Country & Host Country:** Successful globalizers must build globally unified cultures, governance structures, and systems, while making strong commitments to the country, local community, and people and adapting to local business practices.

- **Consistency & Innovation:** Successful globalizers must maintain consistency and even standardization across global operations, while also seeking to innovate in products, services, and operating models.
- **Control & Empowerment:** Successful globalizers must maintain necessary and effective management controls, while also empowering local teams for operational efficiency.

Although all three of these tensions are present for any globalizing company, one or two of them may present particular challenges to a given organization depending on the industry, globalization strategy, and so forth. Taken all together, the three operational polarities for Chinese globalizers require best practices in the four areas of Culture, Governance, Processes, and People. Our research on how Chinese Globalization Champions successfully manage these three polarities in their operating models reveals several best practices from which other Chinese globalizers can draw lessons (exhibit 9).

Exhibit 8
Operational Polarities



Source: Strategy& analysis

Exhibit 9
Global Operating Model Framework



Source: Strategy& analysis

Culture

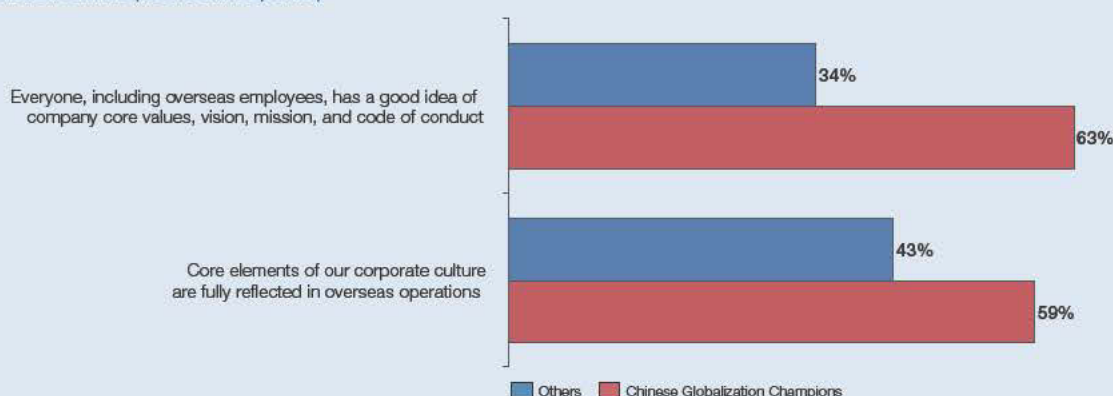
For Chinese companies setting up global operations for the first time, the initial challenge has always been overcoming cultural divides, stereotypes, and mistrust between Chinese and foreign personnel in order to create a harmonious and effective work environment. This challenge poses two major questions: (1) To what extent should the new corporate culture reflect Chinese characteristics and host country characteristics? (2) How can the organization promote cross-cultural communication and understanding in the process of developing a new corporate culture?

Another important cultural issue for many Chinese globalizers involves innovation, which has been a hallmark of their success in domestic markets that they want to transmit to the global organization. This raises the question: How can the organization infuse the innovation gene into its global operations?

Develop globally consistent values and behaviours

Instead of struggling to find the right combination of Chinese and host country characteristics, champions aim to develop truly global organizations with globally consistent values and behaviours infused throughout the company. Nearly two-thirds of these companies agreed, in responding to our survey, with the statement “Everyone [in the company] including overseas employees has a good idea of company core values, vision, mission, and code of conduct”, while almost as many agreed that “Core elements of our corporate culture are fully reflected in overseas operations” (exhibit 10).

Exhibit 10
Company Global Culture (% of total response)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

For companies such as LiuGong and Lenovo, two Chinese firms for whom acquisitions have played a central role in globalization strategy, meeting the challenge of establishing a globally consistent culture has been paramount. Another champion Trina Solar has made special efforts to promote its core values across the global organization so as to create a consistent culture.

Make strong local commitments

In promoting a globally consistent corporate culture, champions also respect local culture and proactively make commitments to local communities. They are more likely than other Chinese globalizers—far more likely in some cases—to “respect local culture, customs, and values and make special efforts to fit”; to be “actively involved in local charity programmes”; to “source products and services locally with a strong local commitment”; and to “actively sponsor local culture, sport, and entertainment activities” (exhibit 11).

All champions have programmes, which vary depending on their industry, that are aimed at embodying their commitment to local communities. An increasingly important theme for champions is sustainable growth in host countries (a subject discussed in the previous report on Emerging Best Practices of Chinese Globalizers). Sinohydro, a leading Chinese Engineering, Procurement, and Construction (EPC) company whose overseas operations are primarily in the developing world, is actively involved in local community initiatives for poverty reduction, hygiene, and education.

Implant the innovation genes

Finally, besides being more willing to invest in research and development (R&D) for overseas markets than are other Chinese globalizers, champions have made considerable efforts to develop cultures of innovation. Many of these companies have inscribed “innovation” into their value systems and have institutionalized it through processes and Key Performance Indicators (KPI) systems. For years, Haier’s corporate culture department has made business-model innovation a key theme. Neusoft’s strategy of “open innovation”, both internally and in collaborations with global industry leaders, includes an effort to “encourage and engineer a culture of learning, sharing, and reusing [of resources for building application solutions]”⁵.

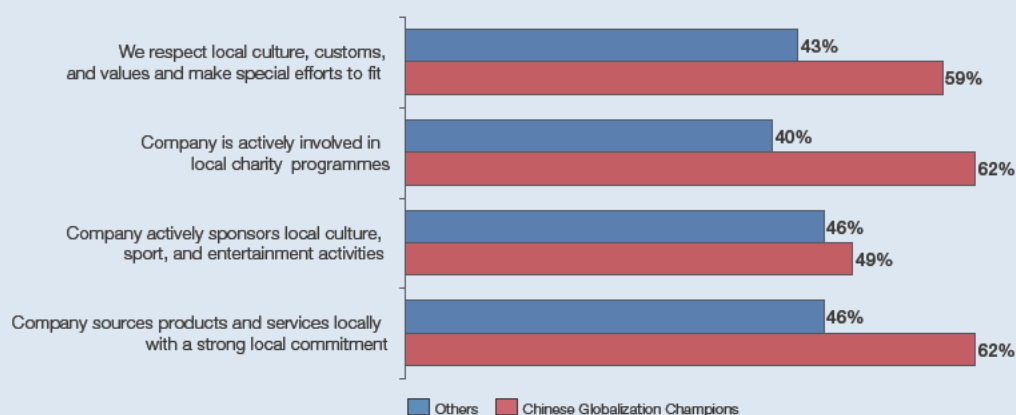
Governance

Governance—essentially the art of balancing control and empowerment—is a critical aspect of any operating model. Managing a globalized company adds much complexity to the challenge. As a globalizer, how do you maintain sufficient control over a far-flung global organization, with organizational structure, decision rights, and reporting models to ensure alignment with corporate strategy and processes, while empowering the overseas management team for maximum efficiency and responsiveness to the ever-changing local environment? How do you not only design an organization for these purposes, but also carry them out at the operational level?

Empower the overseas management team

Champions do better at empowering overseas operations to support the globalization strategy: nearly two-thirds of them agreed that “the company’s organization structure can effectively support [its] globalization strategy”, while fewer than a third of other Chinese globalizers agreed with the same statement. Both globalization champions and other companies we surveyed say that the areas in which they have most empowered overseas operations are customer service, sales and marketing, and talent recruitment (exhibit 12)—all areas where local knowledge is essential for success.

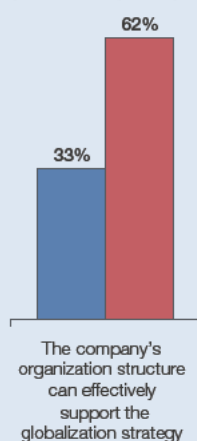
Exhibit 11
Commitment to Local Communities (% of total responses)



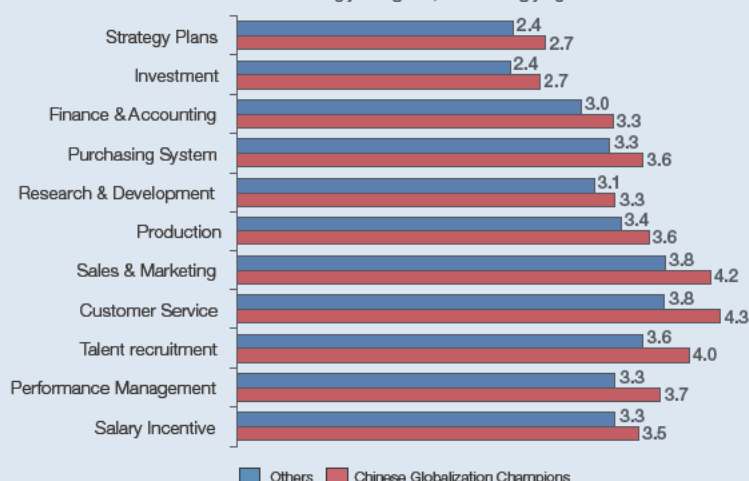
Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy& Strategy& analysis

Exhibit 12
Empowerment of Overseas Operations

Empowerment
(% of total responses)



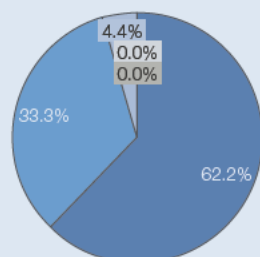
Empowerment of Overseas Unit by Chinese Globalizers (by function)
1 = strongly disagree ; 5 = strongly agree



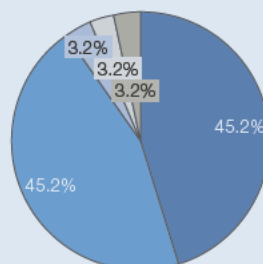
Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy& analysis

Exhibit 13
Speed of Communication between Overseas Offices and Headquarters Regarding Important Overseas Business Information (% of total responses)

Chinese Globalization Champions



Others



the same day several days several weeks the same month the same season

Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy& analysis

Neusoft gives its overseas subsidiaries full operational control and manages by exceptions. Huawei, where dramatic growth made tight control from the corporate center increasingly burdensome, is well known for "letting the front-liners make important business decisions"; company founder and president Ren Zhengfei has repeatedly stressed that Huawei should give the biggest say to the local teams that are closest to the customers.

Build channels for rapid communication

In order to empower local management without losing necessary control, champions have developed channels for rapid communication between headquarters and overseas units. Champions relay important business information

from overseas operations to headquarters faster than other Chinese globalizers do (exhibit 13). Of the champions we have interviewed, almost all of them have invested massively in IT infrastructure, including the relevant business intelligence systems, to support their reporting models. As a result, many champions can get nearly real-time business data on their overseas operations.

Processes

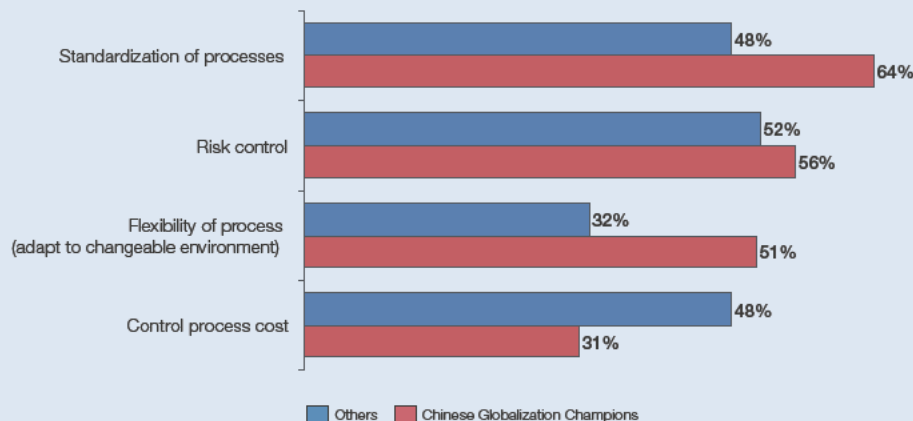
A major challenge in global operations, which have much more complexity and uncertainty than domestic ones, is to strike the balance between consistency and innovation, and between empowerment and control, to enable adaptation and responsiveness to overseas markets with minimal risk. Processes, with their underlying procedures and business rules, are the ways in which operational principles and parameters are institutionalized in any organization. Globalizing companies therefore face the challenge of answering questions such as: Should we standardize processes or make them flexible? If we need to do both, what should we standardize and where can we allow flexibility? How can we guard against the risks of too much flexibility?

Not surprisingly, champions, in their process design, place more emphasis than do non-champions on both standardizing processes *and* building flexibility into them, as well as on risk control (exhibit 14).

Push for standardization on a global scale

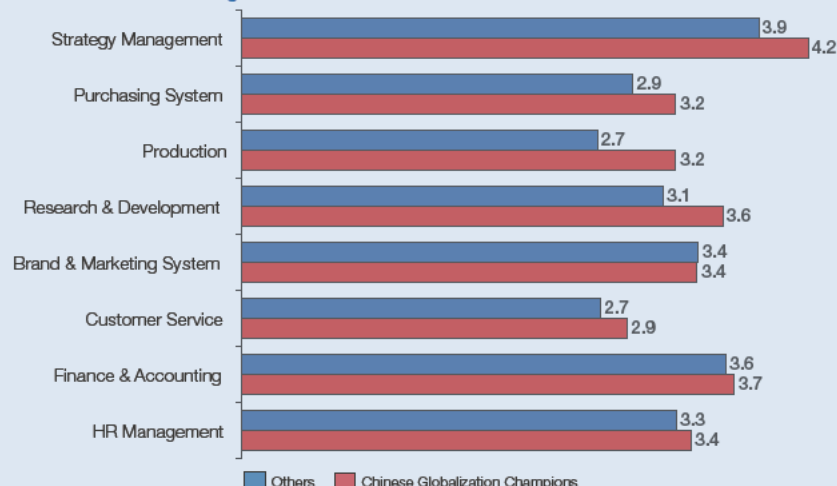
Process standardization has been a traditional weakness for many Chinese companies. For years, the rapid-growth domestic environment enabled them to focus on top-line growth with little regard to process optimization. Many Chinese globalizers have therefore taken a similar “trial and error” approach to their global operations and have learned painful lessons in so doing. Champions, however, tend to standardize processes in their global operations much more than other Chinese companies do (exhibit 15).

Exhibit 14
Goals of System/ Process Design by Chinese Globalizers (% of total responses)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Exhibit 15
Standardization of Different Functions
1 = non-standardized; 5 = standardized across different regions



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Long before it embarked on its globalization path, Huawei spent time standardizing its various business functions and optimizing many of the processes along its value chains. The company spent tens of millions of dollars and enlisted the help of leading consulting firms to optimize its integrated product development process. In similar fashion, Sinohydro, in one of its most important operations improvement initiatives, spent two years, with the participation of thousands of employees, on a project management standardization exercise for its overseas business. Tasly has made a huge push to standardize its systems and processes so as to meet international standards all along the pharmaceutical supply chain.

Allow for flexibility in a controlled way

Flexibility is a necessity for global operations success. Overseas environments are unpredictable, and local management has a better understanding than the corporate center of local conditions and how processes may have to be altered to adapt and respond to them. Over 50% of the champions indicated that they would flex their processes, procedures, and business rules in order to cope with local business conditions, about the same percentage as indicated by their peers. What distinguishes champions from the rest of the pack, as in-depth interviews have revealed, is that the champions do not take short-cuts in a random or impromptu fashion. Scenario planning is widely utilized in champions' process design exercises, and the parameters for making process short-cuts are well defined in operations manuals before the need for flexibility arises.

When Sinohydro developed its operations manual for project management, it went to great lengths to lay out all the possible scenarios in every step of the project lifecycle as well as the corresponding authorization structures, escalation processes, and contingency plans. The manual was then circulated and the processes and procedures implemented in the overseas business units.

Implement rigorous risk control mechanisms

Empowerment in governance and flexibility in processes without necessary risk control is a classic recipe for failure, as demonstrated by several overseas operations scandals at Chinese globalizers in recent years. Not surprisingly, champions are far more aggressive than others about developing risk control mechanisms, even before they set foot in global markets. Nearly two-thirds of champions report that they have embedded risk control mechanisms in their overseas operations processes, while fewer than half of other Chinese globalizers say they do. The risk control mechanisms of champions are very comprehensive, addressing not only operational risks, but also financial, political, social, and environmental risks. All the champions we interviewed have dedicated risk management staffs, conduct annual auditing on a global scale, and constantly refresh their risk mitigation plans.



People

Along with Culture, no component of the global operating model framework we are describing here is more important for managing the tension between home country and host country than People. This poses many important questions for Chinese globalizers: How should we put together our global and local management teams? What is the right balance between local and expatriate employees? How do we handle issues such as compensation, benefits, and career development for both local and expatriate employees to create a global organization in which people work together harmoniously and productively?

Develop global teams from the very top

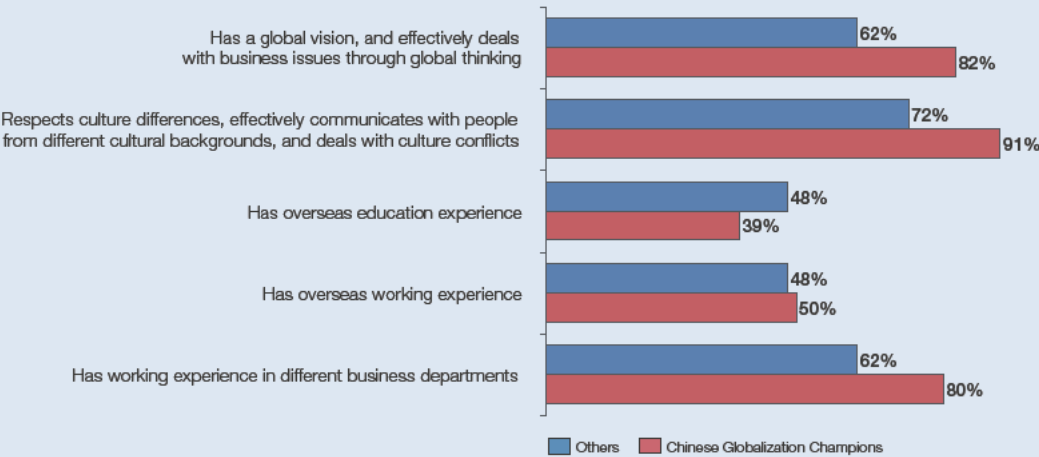
Starting from the very top, champions have assembled global executive teams with diverse cultural backgrounds and global vision—meaning that they are able to deal effectively with business issues by seeing the whole context and understanding where the opportunities and challenges

lie in the global marketplace. These executive teams also respect cultural differences and can communicate effectively with people from different cultural backgrounds and can deal efficiently with cultural conflicts (exhibit 16). Lenovo offers an example of a company that has gone to particular lengths to build an executive team with these characteristics.

Hire and incentivize local talent

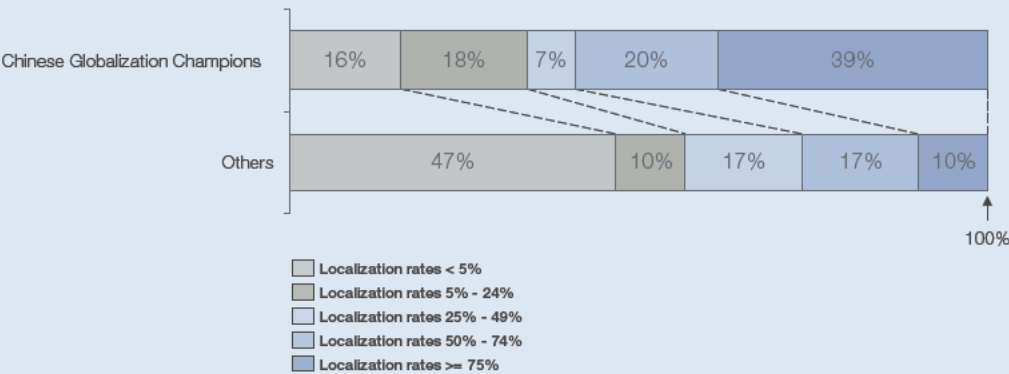
In a very significant finding, champions have higher localization rates in overseas employment than do other Chinese globalizers. Fifty-nine percent of globalization champions report that 50% or more of their employees at overseas operations are local, and 66% have at least 25% local employees; this compares with only 27% of other Chinese globalizers having 50% or more local employees, and only 44% having at least 25% local employees (exhibit 17). A striking example of localization in employment comes from Neusoft: many of its overseas management teams are 100% local except for one or two financial staff members sent from the company's headquarters in China.

Exhibit 16
Characteristics of Global Executive Teams (% of total responses)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Exhibit 17
Characteristics of Global Executive Teams (% of total responses)

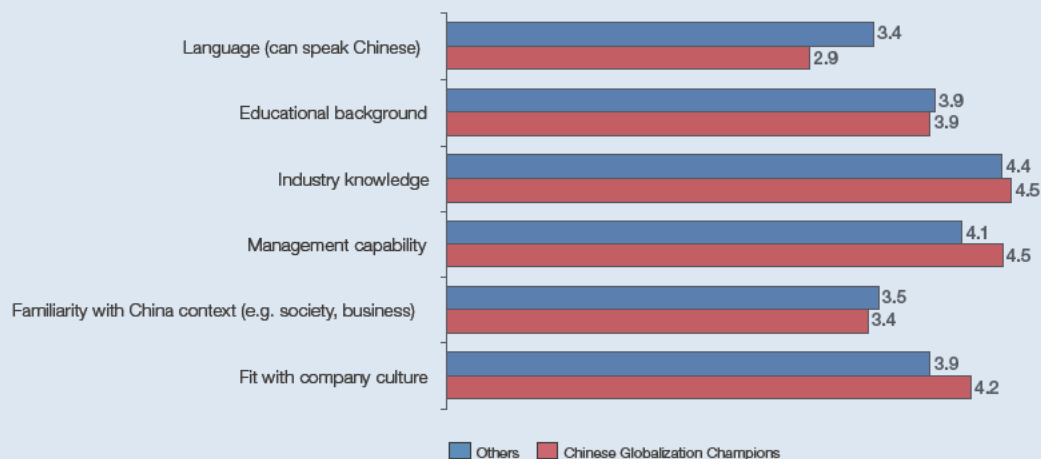


Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

In hiring local management talent, champions and non-champions alike put the greatest emphasis on industry knowledge and management capability, followed by fit with company culture. The biggest gap between globalization champions and others here is in the greater likelihood that champions will hire local managers irrespective of whether they can speak Chinese (exhibit 18). LiuGong's practices in hiring for local management teams would seem to reflect this mix of considerations, as the company, in general, deploys local general managers (GMs) in more developed countries and Chinese GMs in countries that are less developed than China.

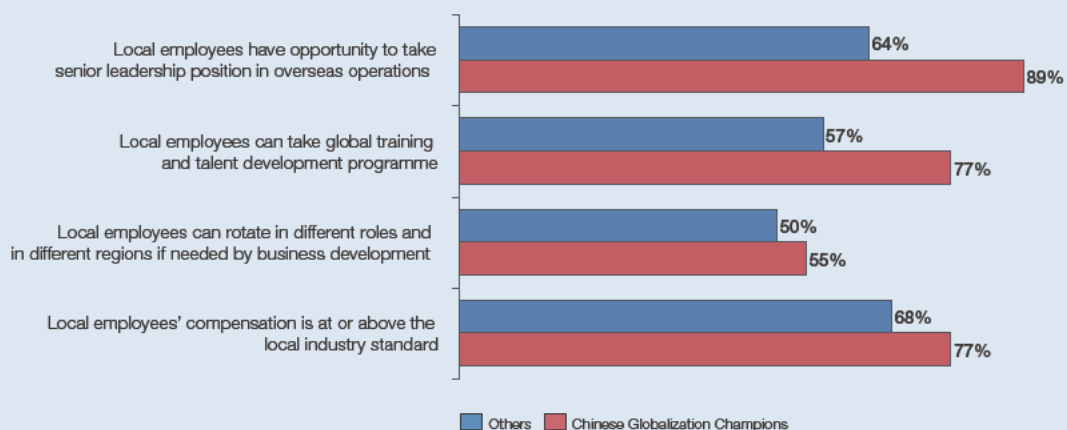
Champions provide better incentive schemes for local employees in overseas operations. Three areas to which champions pay particular attention are: giving local employees the opportunity to take senior leadership positions in overseas operations; allowing local employees to participate in global training and talent development programmes; and ensuring that local employees' compensation is at or above the local industry standard. In the first two of these areas, champions are far ahead of non-champions (exhibit 19).

Exhibit 18
Factors Considered in Global Talent Recruiting by Chinese Globalizers
(1 = strongly disagree; 5 = strongly agree)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

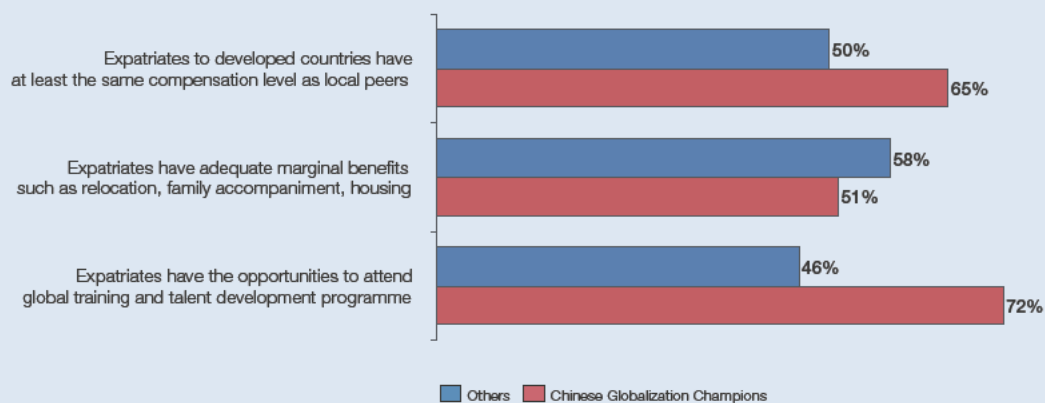
Exhibit 19
Policies for Local Employees in Overseas Operations (% of total responses)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Exhibit 20

Policies for Local Employees in Overseas Operations (% of total responses)



Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Provide development for expatriates and deploy them on local teams

Finally, champions provide better talent development programmes for expatriates than do other Chinese globalizers. Globalization champions put particular emphasis on giving their expatriate employees opportunities to attend global training and talent development programmes and on ensuring that expatriates working in developed countries have at least the same compensation level as their local peers—two areas in which champions significantly outpace other Chinese globalizers (exhibit 20).

While attending to the needs of expatriate employees, however, champions also make sure that expatriates do not stand in the way of the local management team and create unnecessary organizational tension. After its acquisition of IBM's PC business, for example, Lenovo required expatriates to report directly to local supervisors, thus clarifying that the former were responsible to the local entity rather than to headquarters in China.



Part IV Learning from the Champions

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

Customize your solution

Today's Chinese globalizers do face certain collective challenges arising from the unique historical context of their globalization efforts. Understanding this context helps to clarify those challenges and to illuminate certain fundamental lessons from the best practices of champions (see sidebar). Yet every Chinese globalizer also faces its own set of unique operational challenges, which must be addressed in its own unique ways.

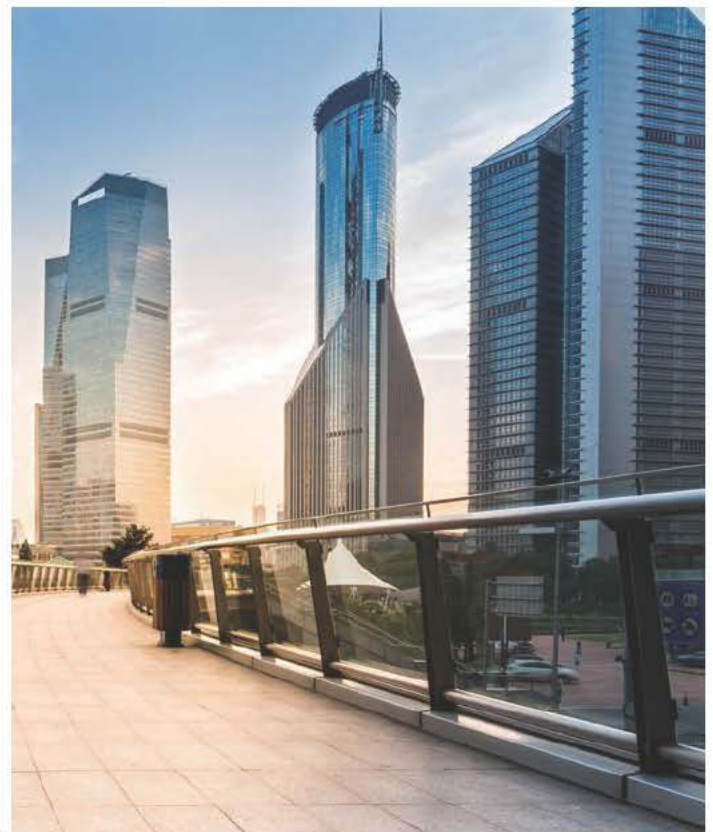
Champions, on their way to excellence, have developed solutions and implemented programmes geared to their own business contexts. For example, for Sinohydro, an EPC company competing in overseas markets with different levels of risk and regulatory complexity, the primary focuses are local commitment, standardization, and risk control. Sinohydro has therefore spent considerable time benchmarking against international best practices in these areas. For Lenovo, competing in a truly global PC market, it is essential to develop a global operating model with consistent culture identity and talent management programmes.

Champions also emphasize different ends of the operational polarities of consistency & innovation and control & empowerment as they carry out their strategic agendas. For example, for many years before it began to globalize, Huawei promoted consistency and control in its storied "Basic Law". Yet as it made the strategic transition from product/technology-centric to customer-centric, the company started to put more focus on empowerment.

Take a holistic approach

Because the globalization process today is a balancing act, companies cannot rely on any single best practice for improving operational performance; they must take a holistic approach. For particular companies, as noted above, one or two operational polarities may require particular attention, depending on many variables such as industry, globalization strategy, and stage of globalization. Yet managing these polarities successfully means implementing the full range of best practices designed to deal with a particular tension—e.g. standardizing processes, *and* building in flexibility, *and* having risk control systems to manage the tension between control and empowerment.

Moreover, since champions outpace their peers, as we have found, in terms of Culture, Governance, Processes, and People, learning from champions means taking as comprehensive an approach as possible to adopting best practices.



Operational challenges in historical context: Chinese globalizers vs. their Asian predecessors

Today's Chinese globalizers do face certain collective challenges arising from the unique historical context of their globalization efforts. Understanding this context helps clarify those challenges and illuminate certain fundamental lessons from the best practices of Chinese Global Champions. This section attempts to make a brief comparison between the circumstances in which corporate China is now building (and attempting to build) globalized organizations and the very different conditions faced by China's Asian predecessors at the beginning of the current wave of globalization.

The world in which companies from Japan and Korea began their globalization process 30 or more years ago was one in which the current wave of economic liberalization and the phenomenon of "globalization" itself (at least in its late-20th century version) were relatively new. Companies served primarily domestic, often protected, markets in systems of managed competition, and global competition barely existed in many industries. With the IT and communications revolutions, which have done so much to enable globalization, still in their early stages, products were highly standardized and consumers—with many fewer choices than they have today—were much less demanding. Japanese and Korean companies were motivated to globalize to gain access to the natural resources that they lacked and to reach larger markets.

Today's Chinese globalizers, by contrast, face an environment in which globalization itself has advanced to a degree scarcely imaginable a few decades ago. Open markets, intense global competition, and demanding consumers accustomed to ever better, cheaper, and more innovative products have created a far more challenging playing field for new globalizers than the one their predecessors encountered. Yesterday's Asian globalizers, moreover, were entering the global marketplace at a relatively mature stage of their development, and a less demanding environment for globalizers enabled them to develop the skills needed for globalization at a measured pace. Today's Chinese globalizers, by contrast, are relatively young companies that must be able to compete in the global arena right out of the gate.

To be sure, today's Chinese globalizers enjoy certain advantages over other countries that are still relatively new to the global arena. China's immense and diverse domestic market, with fast growth in all industries (though unstable demand in some), has accustomed Chinese companies to serving a wide variety of consumers. Competition in the domestic market from MNCs since the opening of China's markets to the world has forced Chinese companies to learn what it takes to compete and survive in today's global marketplace. The Chinese capacity for innovation is a critically important advantage in China's globalization toolbox.

Still, the differences between today's global environment and that faced by early Asian globalizers create much greater challenges for today's Chinese globalizers than those encountered by their predecessors. In particular, China's globalizing predecessors did not have to worry so much about balancing the competing demands of home country & host country, consistency & innovation, and control & empowerment. The home country/host country was much less of an issue when products were standardized, markets were more uniform, and issues such as sustainability were not yet on the horizon. Without as much need to innovate and adapt to local markets, globalizers could emphasize consistency over innovation and control over empowerment.

In short, today's Chinese globalizers do not have the luxury of being as single-minded as their predecessors were before yesterday's choice of "either/or" became the requirement of "both/and."

Conclusion

Today's Chinese globalizers have come onstage at a time of enormous opportunity, but most have a great deal of work to do in order to take full advantage of their opportunities. Working in their favor are tremendous ambition, valuable experience serving a large and diverse domestic market, and, in many cases, a proven talent for innovation. Yet having embarked on the path of globalization at this particular moment in history, they face unique and daunting challenges in a global marketplace that is highly evolved and fiercely competitive—not the friendliest of environments for relatively young companies from a country still relatively new to the free market system.

The research we have presented in this article should, however, come as good news to Chinese globalizers still struggling to find their footing in this new environment. The best practices of the Chinese Globalization Champions offer a clear path to mastering the major complexities and tensions of the globalization process in today's world. By adopting and perfecting best practices in Culture, Governance, Processes, and People, today's ambitious Chinese globalizers can learn what they most need to know to compete in global markets.

Case Study 1



LiuGong worked hard to manage the tension between home country and host country after its acquisition of the Polish company HSW.

LiuGong, based in Liuzhou, China, is a global leader in manufacturing a full line of extreme-duty equipment. It embarked on its globalization effort in 2003, motivated by increasing costs for domestic labor and raw materials and by unstable demand in China. LiuGong's "going out" has unfolded in three stages. From 2003 to 2006, the company concentrated on building an international marketing system with overseas agents, an Australian subsidiary, and new sales channels. Between 2007 and 2010, it made the transition to overseas manufacturing, establishing its first overseas plant in India in 2008.

Since 2010, LiuGong has made the strategic shift from organic to inorganic growth, acquiring overseas companies to obtain core technologies that will help it advance some of its product designs, supplement its already extensive product lines, extend its manufacturing and logistics footprint in Europe, and expand its penetration into new markets and product segments. A major milestone came in 2011, when LiuGong acquired the Construction Equipment



Division of Polish firm Huta Stalowa Wola (HSW) and its distribution subsidiary Dressta.

Acquisitions of foreign companies create a particular need to manage the tension between home country and host country. LiuGong's acquisition of HSW contained a complicating factor in that HSW was a Polish state-owned enterprise with a powerful union and work rules that were a drag on productivity.

Winning over the Polish union leaders and workers

LiuGong's initial negotiation with the Polish union was difficult, as union representatives questioned many terms of the proposed deal and opposed introducing a system of key performance indicators (KPIs) into company plants. LiuGong then invited the union leaders to visit some of its plants in China. The Polish workers were impressed by the efficiency, cleanliness, and advanced management there as well as by the diligence of the Chinese workers. The union subsequently agreed to the proposed terms for the acquisition, including the implementation of KPIs or a KPI system.

After the acquisition, LiuGong began to provide training for HSW executives and workers about the company's vision, mission, and value. It continues to promote a deeper understanding of Chinese culture by the Polish workers. Each year, outstanding employees are invited to visit LiuGong's factories in China as well as to see places of historical interest, in order to help them understand Chinese work styles and culture. LiuGong also established an exchange programme so that its engineers in China could learn from HSW's Polish engineers, even as Chinese engineers were training their Polish counterparts at HSW. This helped not only to transfer valuable knowledge, but also to show respect for the expertise of the Polish engineers, who had strengths their Chinese colleagues lacked and vice versa.

Developing global talents

In the course of its globalization effort, LiuGong has leveraged global talents to drive growth. For example, in 2007, the company recruited David Beatenbough, an American industry expert, as assistant to the president. Beatenbough was then promoted to vice-president at LiuGong in 2008, and is now responsible for research and development (R&D). Under his leadership, LiuGong has started to adopt international R&D principles and processes, which has resulted in the development of 28 new models of excavators in only four years. After the acquisition of HSW, Beatenbough was named chairman of the board of the new entity.

Source: Company interviews; literature search; Strategy& analysis

Case Study 2



Lenovo set out to balance home country and host country by creating a thoroughly global organization, identity, and governance and management structure after its acquisition of IBM's PC business.

Lenovo acquired IBM's PC business in 2004 and now it is the world's largest PC vendor. The acquisition in 2004 presented a gigantic globalization challenge. IBM's PC unit was a global market leader, while Lenovo, a Chinese brand, was not well known at the time. There were profound differences between the two companies not only in size and global stature, but also in terms of culture, management and operations, and experience with globalization. The post-acquisition integration therefore required Lenovo to focus intently on managing the tensions between home country and host country and between control and empowerment.

Building a single global culture and identity

In terms of culture, the new Lenovo faced critical questions including: How much of the Chinese and corporate culture could and should it try to retain and transmit within the new company? How could it create and foster trust and cohesion between Chinese and foreign teams? The two companies had similar views about the PC industry and market as well as similar corporate cultures and values—customer responsiveness and innovation being the most important business values for both firms. These commonalities provided a basis for creating a single, global Lenovo culture by taking the best of both companies and fusing them into an integrated whole.

Honesty, respect, and compromise were established as the guiding values for the work of cultural integration, which was to be modeled from the top by the relationship between the new Chinese chairman (formerly CEO) Yuanqing Yang and the new CEO, Stephen M. Ward, Jr., who had been an IBM senior vice-president and general manager of its Personal Systems Group. The value of mutual cultural understanding was also diffused throughout the company by events such as cocktail parties, where employees both discussed work experiences and took part in fun events to learn about things such as cuisine and etiquette in different cultures. In general, Lenovo spared no effort to integrate the new company culturally.

To overcome the differences in communication style between East and West, Lenovo created educational programmes for its global management team. For example, executives took a course entitled, "East Meets West", to help them understand both Chinese and American cultures. Chinese managers attended workshops to learn Western communication and presentation styles. These efforts helped to promote mutual understanding and facilitate more effective collaboration.

Developing a global governance structure

Lenovo also took a very deliberate approach to governance issues, both to advance the goal of becoming a truly global company and to control risk. It established dual corporate headquarters in China and North Carolina and four global operation centers—for the Americas, Europe, Asia Pacific, and China—supported by functional departments at the corporate level. The board is split approximately evenly between Chinese and non-Chinese directors, in order to promote integration from the top down.

Integrating at the "people" level

To speed up the integration of employees from different cultures, Lenovo took a thoughtful approach to deploying and managing Chinese expatriate employees working overseas. Expatriates were carefully selected for assignments based on recommendations from their Chinese managers and human resources (HR) review in China; most of those chosen for overseas assignments were from key functions such as finance, IT, and HR. Before a Chinese employee was sent overseas, managers in China and the host country (USA) discussed the assignment in an effort to ensure that the employee would quickly adapt to his or her new role. Expatriates were assigned to report directly to local managers, who conducted their performance reviews. Expatriates were also paid salaries matching those of American employees in the USA and provided with benefits such as housing, transportation, and family and other allowances.

Source: Literature search; Strategy& analysis

Case Study 3



Neusoft empowers local teams and helps to develop them, while insisting on data transparency to maintain control.

Neusoft is one of the largest IT solution and service providers in China. With customers in over 60 countries and subsidiaries in the USA, Japan, Switzerland, Finland, Romania, Germany, Dubai, and Peru, the company operates on a global basis. In addition to its wholly owned subsidiaries, Neusoft manages a global network of hundreds of partners and contractors, most of whom are leaders in their local countries. This organizational structure puts a premium on its ability to manage the tension between control and empowerment.

Empowering local teams with decision rights

Many of Neusoft's overseas management teams are 100% local except for one or two financial staff members sent from the company's headquarters in China. By and large, Neusoft gives full control of its overseas business to the local management team, with the corporate entity merely stipulating the strategic direction—for example, developing services for the automobile industry in Europe. At the beginning of the year, each overseas subsidiary presents its business plan to the company's management team for approval. Once a plan is approved, the local management team has full decision rights on almost all operational matters.

Developing global talent

Neusoft reinforces its strategy of local empowerment by putting great effort into attracting and developing global talent. At the staff level, Neusoft has implemented a Global Talent Development Programme aimed at developing talent with global vision and management capability. Selected employees undergo a three-year development regimen with rotation assignments in the USA, Europe, and Japan during which they receive rigorous on-the-job training and real-time mentorship. Upon returning to their local organizations, these employees have a better appreciation of cultural diversity, a better understanding of overseas markets and customers, and improved capabilities for handling complicated problems in global settings.

Managing by exception and data transparency

Once a local business plan is in place, headquarters manages by exception—that is, only decisions that go beyond the plan and budget have to go through corporate review and approval. At the same time, overseas subsidiaries must furnish headquarters with transparent financial and business data. By means of data transparency, Neusoft is able to maintain both control and empowerment with respect to its overseas subsidiaries.

Source: Company interviews; literature search; Strategy& analysis

Case Study 4



Trina Solar uses culture and governance to succeed in a volatile industry greatly affected by both global economic conditions and local policies.

Founded in 1997 as a solar systems installation company, Trina Solar specializes in the manufacture of crystalline silicon photovoltaic modules and in solar systems integration. In its first 10 years, the company developed capabilities in R&D and manufacturing in China, then went public on the New York Stock Exchange in 2006. The initial public offering (IPO) allowed Trina Solar to execute its global expansion plans, which were based on strategic cooperation along the value chain and rapidly increasing its production capacity. The company's products are now sold in more than 30 countries, and 80% of its 2012 revenues of US\$ 1.3 billion came from overseas.

Trina Solar Chairman and CEO Gao Jifan has long believed in corporate culture as the foundation of the company's competitiveness. To promote the core values of "Customer Focus, Open-mindedness, Respect and Collaboration for Win-Win, and Pursuit of Excellence" across the global organization, the company established a cross-functional Culture Promotion Committee led by the CEO himself and the Chief Human Resources Officer (CHO). Trina Solar has also established various communication platforms to diffuse the corporate culture throughout the organization—such as its Core Values Bulletin Board System, an electronic platform through which employees around the world can discuss their understanding of the core values and share relevant experiences.

Finally, the company conducts an annual 360-degree survey that evaluates employees on their adherence to the core values as well as on job competencies, helping them to gain a better understanding of the core values and to improve their performance in relation to them.

To maintain a global vision and effective governance for the company in a complex and volatile global environment, Trina Solar has developed a senior leadership team with both international and industry experience. The company's five independent directors have all had overseas working experience, and 9 out of the 10 executive officers have had experience outside of China.

The global outlook of Trina Solar's senior management team served the company well in 2007. After years in which annual revenue was more than doubling, on average, Trina Solar planned to make some major investments to further expand the business. Some independent directors, however, sensed a looming crisis from the meltdown of mortgage giants Fannie Mae and Freddie Mac in the USA. When, at a board meeting at the end of 2007, these directors brought up their concern about an impending financial meltdown and urged caution about major new investments, hours of heated discussion were followed by a board decision to cut certain investments, including a US\$ 1 billion polysilicon project in Jiangsu, to maintain sound cash flow. Thanks to this decision, Trina Solar was able to weather the ensuing global economic downturn, during which the solar industry was suffering from overcapacity and bad debts.

Source: Company interviews; literature search; Strategy & analysis

Case Study 5



Tasly is emphasizing standardization and risk control to prepare itself to compete in developed markets.

With annual revenues of roughly US\$ 1.8 billion in 2013, Tasly is a leading Chinese pharmaceutical company specializing in traditional Chinese medicine, chemically based drugs, and biologics. Founded in 1994, it began globalizing by establishing a sales network in 40 countries, primarily in South-East Asia and Africa. Most recently, Tasly has begun trying to enter the mainstream and more lucrative markets in developed countries, including the USA. One of its key products has completed its Food and Drug Administration (FDA) Phase II trial in the USA and is now undergoing FDA Phase III.

The pharmaceutical industry in developed markets is highly regulated, with complex rules that pose major challenges for a Chinese player like Tasly. Back in 1997, Tasly closely studied FDA regulations on new drug development to understand how to close the gap between USA standards and its own, from R&D to manufacturing. To meet the higher standards in developed markets, Tasly decided to put standardization and risk control at the core of its globalization effort.

In keeping with this strategy, Tasly has made a huge push to standardize its systems and processes so as to meet international standards all along the pharmaceutical supply chain, from herbiculture to manufacturing to distribution. In the area of risk control, Tasly's North American subsidiary has a cross-functional Risk Management Committee that assesses risk factors in daily operations, advises on risk control measures at different levels of the company, reviews and approves risk management strategies and plans, and reports any significant risk issues to corporate headquarters in a timely fashion. This risk control mechanism provides crucial support for the company's efforts to enter challenging pharmaceutical markets such as that in the USA.

Source: Company interviews; literature search; Strategy& analysis

Case Study 6



Huawei has balanced consistency and innovation, control and empowerment, and home country and host country to become one of the most successful Chinese globalizers.

Huawei is a leading global Information & Communications Technology (ICT) solutions provider. Founded in 1987, Huawei spent its first 10 years focusing on the Chinese market and developing strong capabilities in R&D and low-cost production. The company did not begin globalizing until 1997, when it set up a joint venture in Russia. Its globalization strategy has been to initially enter markets with less competition and then move into more developed ones such as Western Europe and the USA. With products and solutions now deployed in over 170 countries, serving more than one-third of the world's population, Huawei has become an enormously successful globalizer through both a well-designed strategy and the thoroughness of its approach to achieving excellence in global operations.

Promoting globally consistent core values in accordance with the globalization strategy

In 2008, with the company undergoing significant global expansion, Huawei developed a set of core values to support its globalization strategy: Customer First, Dedication, Continuous Improvement, Openness and Initiative, Integrity, and Teamwork.

Huawei makes a special effort to institutionalize a consistent global corporate culture. First, training in corporate culture is mandatory for new employees. Second, Huawei has developed various employee communications platforms, such as an online community bulletin board and magazines, where employees, no matter where they are based, can openly give suggestions on anything from proper business conduct to management optimization. These platforms offer a good illustration of Huawei's efforts to promote the core values of "Continuous Improvement" and "Openness and Initiative". Lastly, Huawei has embedded core values into its management system and processes. For example, the company's performance review system, talent development plan, and incentive system are all designed to promote the core value "Customer First".

Developing consistency across global operations

For years before Huawei began to globalize, it promoted consistency and control through its storied "Basic Law". The efficacy of the Basic Law as a "comprehensive framework for Huawei's employees to think about complex management issues as the firm moves forward" has been called instrumental to the company's success in learning to "catch up to and compete with multinationals"⁷.

Huawei has worked hard not only to achieve consistency, but also to bring its processes up to global standards. When Huawei began to globalize in the late 1990s, it lagged far behind global competitors in operational efficiency. To close the gap, Huawei initiated its "IT Strategy and Planning" project in 1997, hiring IBM to re-engineer its business processes and develop an IT support system. The project optimized business processes such as product development and supply chain management, and these processes are now standard across all of Huawei's operations, including its overseas subsidiaries. The process of upgrading to global standards did not stop there, however. Since that time, Huawei has worked continuously with world-leading consultancies to enhance its management capabilities and establish processes and systems driven by customer demand.

Giving a voice to the local teams

As Huawei underwent significant global expansion, tight control from the corporate center became increasingly burdensome. Company founder and CEO Ren Zhengfei has repeatedly stressed "letting the front-liners make important business decisions", since local teams are closest to Huawei's overseas customers.

As part of its efforts to strike a balance between local empowerment and corporate control, Huawei hired world-leading consultancies to develop a companywide authorization system based on parameters for gross margin and cash flow. For example, within a local operation with a cash flow up to a certain amount, the local team has complete authority but is accountable for realizing profits. Decisions outside the scope of authorization, however, need to go through a review-and-approval process. This system minimizes bureaucracy and improves operational efficiency.

Since the beginning of its globalization effort, Huawei has gone to great lengths to establish a global IT-enabled communications network to facilitate proactive collaboration between different subsidiaries and business units. The network has now been deployed across more than 300 Huawei branches in over 100 countries, making

communications across regions easy. For example, employees in Africa can pick up the phone and call colleagues in South America to ask for support without any coordination by corporate headquarters. The global network also enables the rapid relay of information across time zones and between different units.

Developing local teams and leveraging global talent

Talent strategy has been a crucial part of Huawei's global expansion. To develop its global talent, Huawei sends selected employees to underdeveloped regions overseas, based on a belief that people will grow faster in a tougher environment. Expatriates receive good compensation and benefits. Yet Huawei also strives for a high level of localization, stipulating that recruiters in host countries should hire local people first. In 2012, the overseas localization rate among Huawei mid-to-senior management, all management, and all employees was 22%, 29%, and 73%, respectively. Huawei provides development opportunities for local employees such as classroom training and e-learning.

Huawei also leverages a global talent pool to service its global operations. In 2013, it opened its Global Finance Centre of Excellence in London to manage the company's global financial risk and ensure the highest international standards in its financial management. London was chosen as the location for the centre to leverage the financial expertise and capacity so readily available there. For R&D, Huawei has established centres in places where the local talent provides competitive advantage: for example, its R&D centre in India specializes in software development, while the one in Russia specializes in algorithms.

Source: Company interviews; literature search; Strategy& analysis



Appendix 1 Methodology and Selection of Case Studies

We conducted desk research to develop hypotheses about best practices in global operations for Chinese globalizers. Specifically, we used public data on companies' overseas revenue, assets, and employees to study the relationship between globalization effort and output.

We then designed a survey that was sent to a wide range of Chinese companies including:

- Companies leading their industry in revenue or profit;
- Companies growing significantly faster than their peers;
- Companies that have developed a significant global presence; and
- Lesser known companies that have been active and ambitious globalizers in recent years.

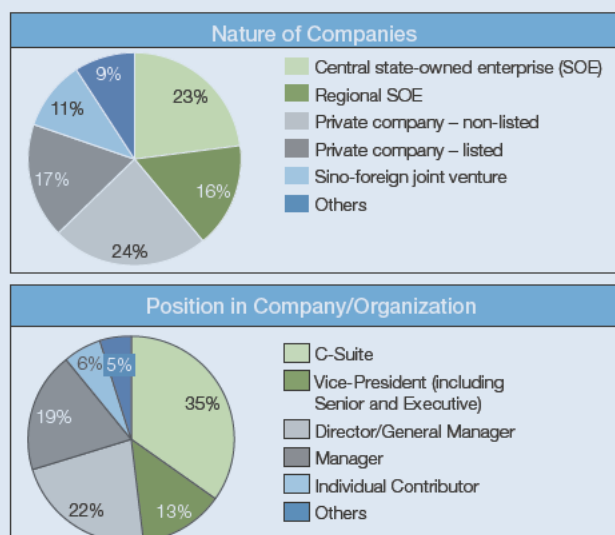
We then looked at the answers from the 125 companies that responded to the survey to the statement: "Your company is a successful globalizer compared to domestic competitors" (see **exhibit A1** for a breakdown of company respondents by type of ownership and of individual respondents within these companies by position). Those companies agreeing with this statement whose self-evaluation was backed up by peer review and our own

benchmarking were classified as "champions", while companies disagreeing with the statement were classified as "others". We then compared the responses to the other survey questions by these two groups to determine best practices in globalizing operations.

Finally, we interviewed individuals from selected companies that completed the survey to substantiate our survey findings.

The companies for which we have written case studies were selected so as to collectively represent different industries and stages of globalization.

Exhibit A1
Profiling of 125 Surveyed Companies



Characteristics of Participants

We conducted surveys and in-depth interviews with Chinese globalizers

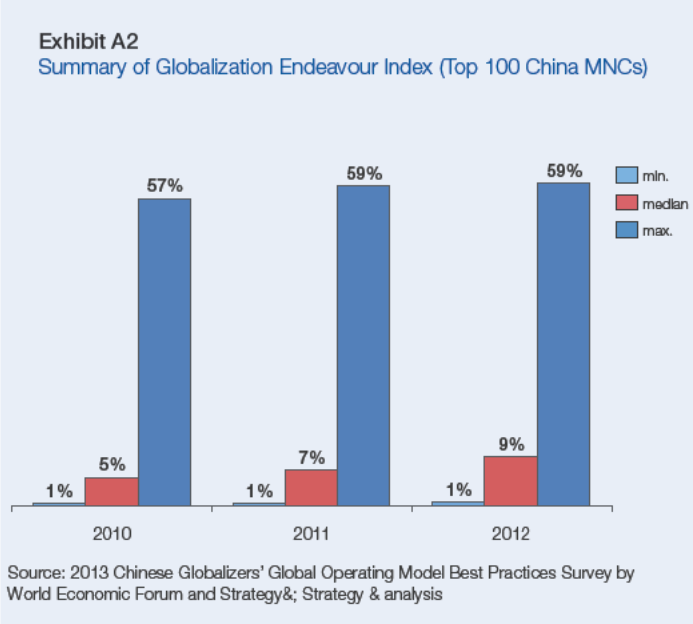
- Companies leading their industry in revenue or profit;
- Companies growing significantly faster than their peers;
- Companies that have developed a significant global presence; and
- Lesser known companies that have been active and ambitious globalizers in recent years.

Source: 2013 Chinese Globalizers' Global Operating Model Best Practices Survey by World Economic Forum and Strategy&; Strategy& analysis

Appendix 2 The Globalization Endeavour Index

The basic formula we use for the Globalization Endeavour Index (GEI) is as follows:

Average $\left(\frac{\text{overseas assets}}{\text{total assets}}, \frac{\text{overseas employment}}{\text{total employment}} \right)$



The larger the resulting number, the more effort we deem a company to have expended on globalization. Our data shows that for the period 2010-2012, the median GEI scores for the top 100 Chinese MNCs, though rising, are still below 10%—suggesting that there is room for most companies to exert still more effort, which we expect them to do (exhibit A2). (The disaggregated data also shows both overseas assets and overseas employment highly concentrated in the top 10 companies in each category. The top 10 companies in overseas assets as a percentage of total assets in 2012 account for over 60% of the overseas assets of the top 100, and the top 10 in overseas employees as a percentage of total employees in 2012 account for exactly 60% of the top 100.)

Endnotes

¹ A list of the top 100 Chinese MNCs is published annually by the China Enterprise Confederation.

² For a description of the survey and its methodology, see appendix 1.

³ For a more detailed explanation of how we have constructed the Globalization Endeavour Index, see appendix 2.

⁴ This scatter plot shows no correlation between the Globalization Endeavour Index score of the top 100 Chinese MNCs for 2011 (the x-axis) and overseas revenue growth from 2011 to 2012 (the y-axis). In more than 300 such analyses, similarly uncorrelated results for overseas or Chinese revenue growth (2012 over 2011, 2011 over 2010, CAGR 2010 to 2012) demonstrated that globalization effort has little or no impact on these indicators of business success.

⁵ Source: <http://www.neusoft.com/about/1271/> (accessed 16 March 2014).

⁶ Huawei's "Basic Law" is a document consisting of 103 "articles" covering everything from basic company objectives and core values to strategy, functions, policies, and codes of behaviour.

⁷ Xudong Gao, "Effective Strategies to Catch Up in the Era of Globalization: Experiences of Local Chinese Telecom Equipment Firms," *Research – Technology Management*, January–February 2011, on the website of the Industrial Research Institute, http://www.iriweb.org/Public_Site/RTM/Volume_54_Year_2011/Jan-Feb2011/Effective_Strategies_to_Catch_Up_in_the_Era_of_Globalization.aspx (accessed 19 March 2014).

Acknowledgements*

We would like to thank the following people for contributing their insights and time.

Chai Xinjian, General Manager, Wuxi Little Swan Co. Ltd
Chen Feng, Chairman of the Board, HNA Group Co. Ltd
Cui Zhiping, Vice President, Shanghai Fosun Pharmaceutical (Group) Co. Ltd
Serge Dumont, Chairman, Asia-Pacific; Vice-Chairman, Omnicom Group Inc.
Gao Jifan, Chairman and Chief Executive Officer, Trina Solar Ltd.
Guo Zhenxi, Director, Business Channel, China Central Television CCTV-2
Tom Hsu, Vice President, HTC-VIA
Ken Hu, Deputy Chairman, Huawei Technologies Co. Ltd
Hua Hua, Chief Information Technology Officer, China Investment Corporation
Li Rongrong, Chairman (2003-2010), State-owned Assets Supervision and Administration Commission of the State Council (SASAC)
Liu Jiren, Chairman and Chief Executive Officer, Neusoft Corporation
Liu Jinsong, Deputy Director-General, Department of International Economics, Ministry of Foreign Affairs of the People's Republic of China
Ma Weihua, Chairman, WING LUNG BANK LTD
Cherie Nursalim, Executive Director, Giti Group
Imrhan Paruk, Executive, Corporate Development, African Rainbow Minerals Ltd (ARM)
Peng Huagang, Director-General, State-owned Assets Supervision and Administration Commission (SASAC)
Shang Jin, Chief Information Technology Officer, Vice President, Opzoon Technology
William Xu, Chief Executive Officer, Huawei Enterprise Business Group; Executive Director of the Board, Huawei Technologies Co. Ltd
Xu Weibing, General Manager, DMG
Yan Kai, General Manager, Tasly Pharmaceutical Group Co. Ltd
Yan Xijun, Chairman of the Board, Tasly Holding Group
Zeng Guangan, Chairman, Guangxi Liugong Machinery Co. Ltd; President, Guangxi Liugong Group Co. Ltd
Zhang Ling, Executive Director, HNA Group Co. Ltd
Lifen Zhang, Associate Editor, Financial Times; Editor-in-Chief, FTChinese.com
Kelly Zong, President, Hangzhou Wahaha Group Co. Ltd
Zou Bo, Senior Vice-President and General Manager, Global Public Affairs, Legend Holdings Limited

* 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.
Unless otherwise specified, the location is the People's Republic of China.

Project Team

Sarah Butler, Partner, Co-Managing Director Greater China, Strategy&

Huchu Xu, Partner, Co-Managing Director Greater China, Strategy&

Olivier Schwab, Executive Director, China, World Economic Forum

Steven Veldhoen, Partner, Strategy&

Wayne Liu, Head of Business Engagement, Greater China,
World Economic Forum

Tiger Shan, Senior Advisor, Strategy&

Carrie Liu, Project Manager, World Economic Forum

Danielle Sheng, Associate, Strategy&







**COMMITTED TO
IMPROVING THE STATE
OF THE WORLD**

The World Economic Forum is an international institution committed to improving the state of the world through public-private cooperation in the spirit of global citizenship. It engages with business, political, academic and other leaders of society to shape global, regional and industry agendas.

Incorporated as a not-for-profit foundation in 1971 and headquartered in Geneva, Switzerland, the Forum is independent, impartial and not tied to any interests. It cooperates closely with all leading international organizations.

World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org