

# Dancing on the Stage of a Multi-Polar World The Path to Globalization for Chinese Enterprises Executive Summary

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# Introduction

Shortly after the worldwide financial crisis broke out in 2008, globalization emerged as a major strategic issue for Chinese enterprises. Should they pursue it? If so, how? The answers to these questions would have a great bearing on Chinese enterprises' strategic orientations and modes of growth in the post-crisis era, as well as on their standing in the global economy. Our research suggests that the Chinese economy's ability to achieve so much in so short a span of time stems from the opportunities created by economic globalization and the country's relentless efforts to develop a market economy, follow market rules and participate in international division of labor. China's history of reform and opening up has been characterized by integration into the global economy. Since the beginning of the new century, the emergence of a multi-polar world and the rise of emerging market multinationals (EMMs) have altered the distribution of world economic power. Globalization moves originating from emerging markets has become a new trend. Moreover, the impact of the

global financial crisis has compelled Chinese companies to rethink their approach to driving economic growth. Chinese enterprises are on a mission to reinvent themselves and compete on a larger stage.

In the second decade of the 21st century, as global economic integration deepens, the multi-polar world is coming into sharper focus. As the world's second largest economy, China is expected to play a significant role in this new world.

Against this backdrop, Chinese enterprises must place their competitive strategies in the context of globalization. As novices in the globalization process, they should fully understand this broader stage and unfamiliar market, and explore a path to globalization that suits their circumstances and challenges. They must make the right strategic choices to continuously enhance their capabilities in locating key businesses, allocating resources and managing their overseas businesses. Only in this way can they finally become true global players.

# I. A closer look at globalization

Because globalization has become an important strategic choice for Chinese enterprises, we need to clarify what globalization is. Is an enterprise said to be global when its products are exported, or when it owns overseas assets or has established overseas branches, or when most of its products rely on overseas markets?

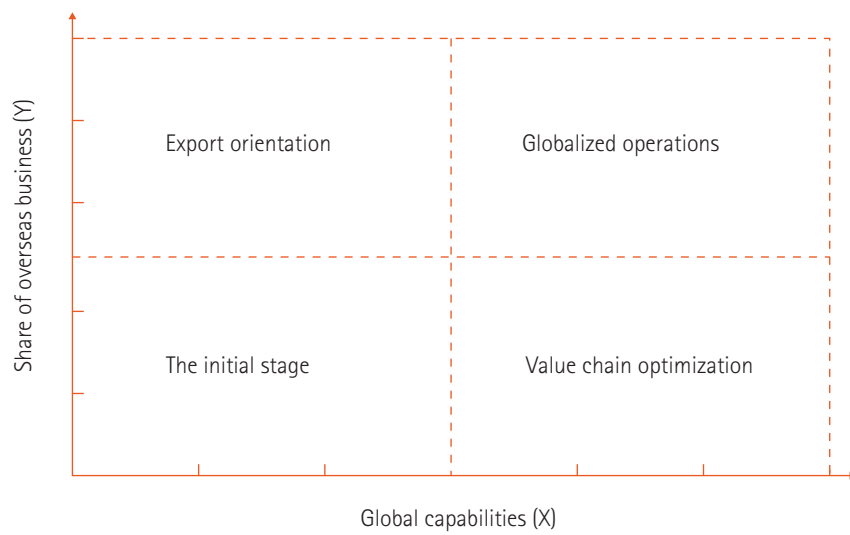
A "yes" or "no" answer to the above question would be misleading and overly simplistic. Our definition seeks to delve more deeply into the internal workings and characteristics of globalization:

**Globalization is a process in which an enterprise increasingly relies on overseas markets for its business, and acquires and enhances its capabilities in global production, distribution, resource allocation and managerial expertise. A globalized enterprise does not limit itself to the local market in its ways of thinking, formulation of strategies, decision making and corporate culture. Rather, it uses the global market as the sole context for all of these matters.**

Increasingly relies on overseas markets and capabilities are key words in this understanding of globalization. A firm's level of globalization is determined not only by the share that its overseas business has in its portfolio but also by its operational and managerial capabilities in the global market. The former reflects the enterprise's degree of dependence on overseas markets whereas the latter reflects its business distribution, resource allocation and managerial skills in the global market. Global operational and managerial capabilities include a global vision, cross-cultural communication, organizational and coordination abilities, R&D and brand management. Depending on the proportion of overseas business in a company's overall business and the firm's global capabilities, a globalizing enterprise can be classified as being in one of three stages of globalization: the initial stage, export oriented or focusing on value-chain optimization, or engaging in globalized operations (See Figure 1).



Figure 1 Globalization of enterprises



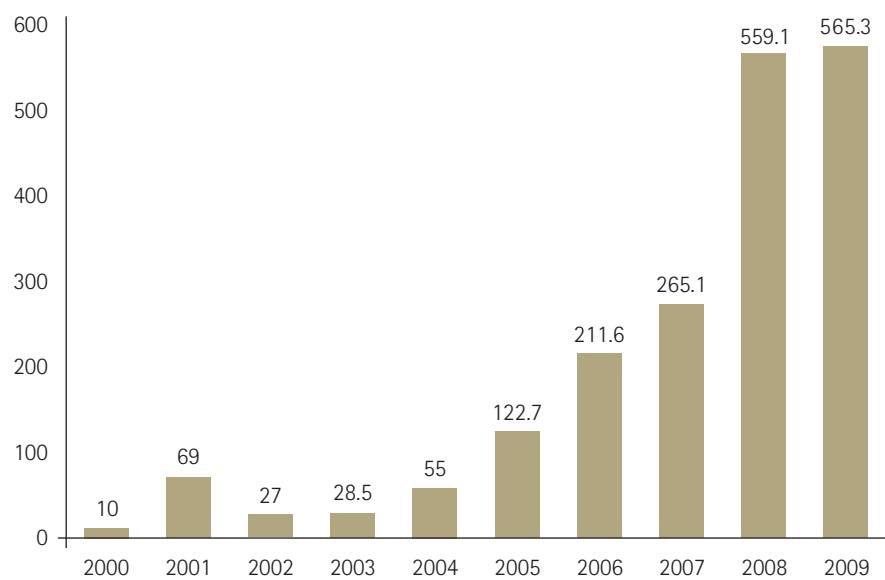
# II. Globalization of Chinese enterprises: an overview

The globalization of Chinese enterprises can be traced back to the initial stage of the country's reform and opening up. In the 1990s, the government proclaimed the "going out" strategy for businesses. However, Chinese companies did not begin accelerating their globalization efforts until after the 21st century dawned. The worldwide financial crisis in 2008 presented a key opportunity. The Chinese economy was affected much less severely than other economies by the crisis. Indeed, it is leading the global recovery while other economies are seeing only sluggish improvement. This situation has provided Chinese enterprises with a rare opportunity to flex their muscles on the global stage. Their globalization show has stunned the world. As a result, China's outbound foreign direct investment (FDI) has soared in recent years (See Figure 2).

## 1. Three stages of globalization

Globalization is a process, with each stage exhibiting distinctive

Figure 2 China's outbound FDI



■ China's outbound FDI (100 million US dollars)

Source: Statistical Bulletin of China's Outbound Foreign Direct Investment 2009, Ministry of Commerce of the PRC

characteristics. Specifically, globalizing Chinese firms pass through the following stages:

### Initial stage

An enterprise in this stage is already moving into new markets overseas,

but its overseas operations account for a small proportion of its overall operations. Also, it has modest global operational and managerial capabilities. A majority of Chinese enterprises are currently in this stage.



### Export-oriented/value-chain optimization stage

In this stage, an enterprise generates a fair share of its revenues from exports and may have begun owning assets overseas. However, it remains deeply entrenched in the domestic market. Enterprises in this stage include export processing and original equipment manufacturer (OEM) enterprises. Alternatively, a company in this stage may also globalize by moving upstream in the value chain. To do so, it acquires core technologies, marketing channels, and R&D and branding capabilities through overseas mergers and acquisitions and through strategic alliances.

### Globalized operations stage

An enterprise in this stage is truly globalized with regard to markets, people, production-base distribution and senior management. Global operation constitutes a significant portion of its total business, and the company has the capabilities needed to manage its global operations. The company no longer views domestic and overseas markets as separate. Few Chinese enterprises have reached this stage.

## 2. Challenges facing globalizing enterprises

Although Chinese enterprises are becoming more active than ever on the global stage, most of them are still in the initial phase of globalization. True, they have reaped tremendous gains from globalizing. However, they face numerous challenges.

First, globalizing Chinese enterprises confront cross-cultural hurdles (such as the differences in corporate governance structure, views toward intellectual property rights and the role of labor unions) raised by differences in social systems. Only by surmounting these hurdles can they advance along their path of globalization.

Second, Chinese enterprises lack sufficient talent proficient in foreign languages and versed in local cultures, international laws and international management practices. As the Chinese standard of living continues to improve and career development opportunities become more abundant, fewer managers of Chinese enterprises

want to work for their company's overseas operations. Many enterprises are having difficulty placing qualified managers in their branches in developing countries, especially if the local conditions are harsh.

Third, Chinese companies lack experiences with coordinating and managing complex large-scale global operations. When it comes to innovation, they are usually good at adopting new technologies and reverse engineering, but they fall short in creating new ideas and inventing innovative technologies. No wonder, in responding to our question of identifying key capabilities for the success of globalization, most respondents the number one choice is industry leading technology and innovative technologies (See Figure 5).

To overcome these challenges, these enterprises will need to formulate sound globalization strategies and optimize their operations.

# III. Strategic choices of globalization

In formulating globalization strategies, an enterprise needs to answer three questions: What to do? Where to do it? How to do it? The answers to these questions will depend on the company's globalization objectives and capabilities, as well as the characteristics of the industry in which it competes (See Figure 3).

## 1. What to do: value-chain extension and optimization

Executives must start by asking, "What kind of overseas business do we want to engage in? Do we want to duplicate existing businesses? Extend our industry's value chain by getting involved in design, distribution, production, marketing or R&D? Enter entirely new business areas?" The authors of this report contend that most Chinese enterprises should focus on extending and optimizing their industry's value chain.

In creating a globalization strategy, a firm should weigh its competitive advantages and strengths and

weaknesses with regard to resources and capabilities. This assessment will help executives determine which parts of their industry's value chain to extend and optimize, and develop strategies by assessing the advantages offered by different potential host countries.

Innovation is a primary consideration for most Chinese enterprises. It is the only avenue by which they can expand to the global market and move from the low end to the high end of the value chain—thereby achieving profitability and sustainable development. Amid the volatile international business environment and rapid technological advances, it is imperative that Chinese enterprises improve their managerial and innovation capabilities to evolve into truly global players.

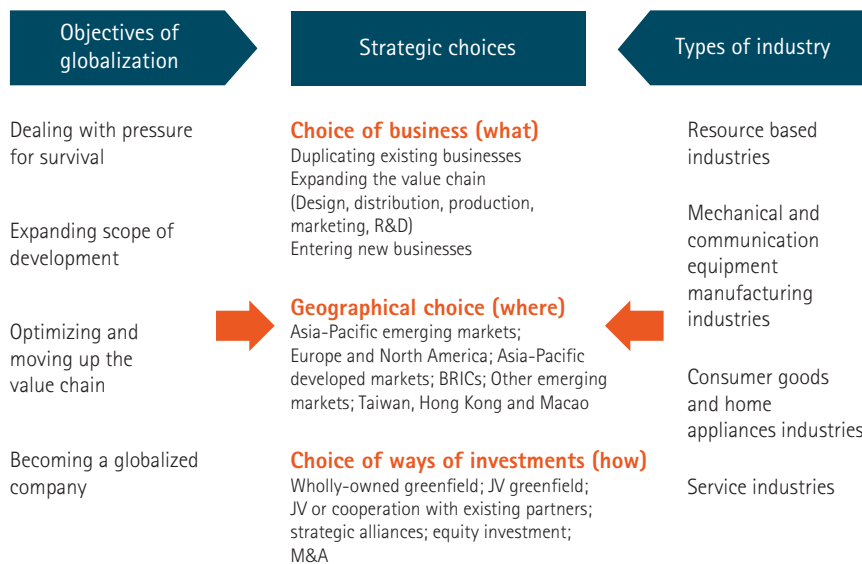
To maximize profitability, Chinese companies need to become more innovative in research and development, marketing, brand construction and other key business activities. They used to compete on cost and price, without owning

core innovative technologies or independent brands, and seldom broke into the highly profitable service sectors. Most Chinese primary equipment manufacturers, for example, were at the bottom of the global value chain, with their profits accounting for less than 5 percent of the total value of their products. At a time when the global economy and the manufacturing industry are in a critical period of recovery, Chinese enterprises need to transform their low-cost manufacturing approach so that their products are no longer "Made in China" but are "Made with China" and "Innovated in China."

## 2. Where to do it: regional choices

To determine where to locate their global operations, Chinese firms must consider a host of factors. Enterprises whose main purpose is the acquisition of critical resources have to go where such resources are in abundant supply. Those whose main purpose is market development should go where their target markets

Fig. 3 Strategic choices of globalization



are big enough to warrant investment. Those whose main purpose is the avoidance of trade barriers need to go to third-party countries or regions through which they can access their target markets. Those whose main purpose is the acquisition of innovative technologies have to go to the developed countries that possess considerable technological strengths.

Political, cultural, social and linguistic factors, and the quality of a host country's relationship with China, should also influence a globalizing enterprise's choices about where to locate their overseas operations. Many Chinese firms identify Southeast Asia as an ideal destination for investments because it is home to a large ethnic Chinese population, which facilitates communication and management. Few attempt to do business in countries that do not have a friendly relationship with China.

Our surveys show that 20.5 percent of Chinese enterprises prefer the European and North American markets. These markets have high levels of economic development, an

outstanding investment environment, and highly developed transportation and communication infrastructure. They also have favorable market regulations as well as stable social and legal systems. In addition, these countries have huge consumer markets, marked division of labor and sharply differentiated markets.

Countries that Chinese businesses have traditionally considered unimportant for overseas investment, such as those in Africa and Latin America, have dramatically strengthened their investment environments in recent years. Thus they have begun attracting attention from globalizing Chinese enterprises.

For example, in 2008, Africa accounted for 9.8 percent of China's aggregate overseas investments, up from just 3.2 percent in 2004. In 2002-2008, Africa ranked second in the world in GDP growth. (Thirteen African countries surpassed China in terms of per capita GDP, and 22 surpassed India on the same measure.)

Brazil, Mexico, Argentina, Colombia, Chile and Peru have considerable

potential for growth and therefore have also become magnets for external investments. With a stable social and macroeconomic environment and increasing government investments in infrastructure development, these countries are enjoying stable economic growth and thriving domestic markets. They are rich in mineral resources, oil, agricultural products and renewable resources. They also have a growing, young labor force; their human capital is sufficient to sustain economic growth for 20 years to come.

### 3. How to do it: investment strategies

After deciding where to place their overseas operations, Chinese executives next ask, "What investment approaches will best enable us to achieve our globalization objectives?" In the past, China stimulated economic development by vigorously attracting foreign investment and encouraging enterprises to export. Many Chinese enterprises went global by engaging in exports. Today, however, most of them choose to enhance their global



competitiveness through mergers and acquisitions (M&A) or joint ventures with local partners.

In selecting investment strategies, Chinese enterprises must focus on avoiding host countries' market risks and building a qualified international management team. The following investment strategies have emerged, each with its own advantages and disadvantages:

#### **Incremental globalization through organic growth**

By establishing overseas production facilities or forming joint ventures with local partners, a Chinese enterprise achieves a relatively steady rate of growth and expansion. This strategy enables the company to manage its pace of investment, control risks and receive preferential treatment from local governments appreciative of job creation and contributions to the local economy. In addition, the company avoids the complexities of integration inherent in mergers or acquisitions.

#### **M&A**

Mergers and acquisitions enable Chinese firms to quickly acquire advanced technologies, brands and an international team. However, post-M&A integration of previously separate entities' organizational structures, personnel, processes, technologies and corporate cultures is daunting. Indeed, many post-M&A integration efforts fail to deliver the business value and synergies that the acquirer anticipated.

To avoid this scenario, a Chinese firm should rigorously assess risks before a merger or acquisition and analyze costs afterward. It should take stock of its own capabilities, strengths and weaknesses, and potential risks. The success of a merger or acquisition depends on the generation of cost and revenue synergies. Therefore, executives should think twice about a potential M&A if they believe that the hoped-for synergies may not materialize.

However, few Chinese businesses possess a dedicated team for managing overseas M&A deals. Usually, they hire investment bankers for these endeavors. As a consequence, they tend to focus too much on deal making and are ill prepared to manage the broad range of issues that arise during post-merger integration.

#### **Strategic alliances**

In strategic alliances, a Chinese company and an overseas player form a mutually beneficial entity to explore overseas opportunities. Their partnership is based on shared goals and strongly complementary capabilities and resources. As long-term cooperative arrangements between enterprises, strategic alliances are arguably the best way to maximize benefits for both players. Indeed, most Chinese enterprises cannot afford to go global on their own. Strategic alliances enable them to reap the fruits of globalization.



#### 4. Industry characteristics

The type of industry in which a Chinese enterprise competes also influences its strategic choices regarding globalization. Industries centered on natural resources are characterized by high risk, capital intensiveness and use of advanced technologies. Therefore, most Chinese players in these industries are state-owned enterprises. The availability of natural resources is a primary determinant of these companies' decisions about where to do business. They acquire overseas natural resources mainly through mergers and acquisitions.

In earlier times, most Chinese mechanical and communications equipment manufacturers took the OEM approach to participate in global competition. They possessed substantial processing capacities but were deficient in R&D and innovation. In the initial stage of implementing the "going out" strategy, these enterprises went global mainly through exporting. More and more of them have realized that only by enhancing their operational efficiency and innovation

capability can they own prestigious global brands and independent intellectual property rights. Therefore, some have chosen to establish overseas production bases or research and development centers for the purpose of accessing local high-tech talent and information technologies.

In service-based industries—such as retail sales, financial services, catering, tourism, advertising, rentals and agency services—companies globalize to achieve economies of scale and improve their international competitiveness. But to go global, these businesses must carefully coordinate human resources, materials and business processes—a difficult feat. Chinese financial services companies seek overseas expansion mainly through mergers and acquisitions and establishment of facilities in host countries.

Because Chinese companies' globalization strategies are shaped by their unique objectives, internal capabilities and industry characteristics, they vary from enterprise to enterprise. For instance:

- Huawei Group and ZTE Corporation (telecommunications equipment) first established a solid foothold in Africa and Latin America and then extended their reach to Europe and North America. By contrast, Haier Group (home appliances) started in the toughest market—North America—and then expanded into emerging markets.
- Zoomlion Heavy Industry (construction equipment) has preferred joint ventures and M&A, while Sany Group (also construction equipment) has opted for independent green-field development.
- Hangzhou Donghua Chain Group (chains, sprockets, tooth gears and power transmission products) retains the original business and management of companies that it acquires and does not interfere in their day-to-day management. Meanwhile, Wanxiang Group (universal joints, bearings and CV joints) transfers its manufacturing back to China and retains R&D and sales overseas.

# IV. A global operating model

To achieve their globalization objectives, Chinese businesses must build the right global operating model. Below, we examine steps for constructing such a model and consider the defining characteristics of a successful model.

## 1. How to construct a global operating model

After defining its globalization strategy, a Chinese enterprise must focus on executing the strategy—putting it into action through everyday business processes and operations. Without execution, even a well-informed strategy will not deliver value. Key to execution success is building a global operating model that best supports the company's globalization strategy.

Accenture maintains that a company's global operating model comprises five elements: leadership, people, organizational structure, processes and technology, and performance

metrics. The first two elements are "soft" (centered on human resources); the last three are "hard." In a successful global operating model, these five elements work together to support the enterprise's globalization strategy (See Figure 4).

Chinese enterprises have some advantages in the "soft" elements of the global operating model framework, such as leadership determination, employee motivation, discipline, work ethic, willingness to sacrifice and ability to learn quickly. However, most of them fall short in the "hard" elements. They therefore should prioritize the development of the right organizational structure, standardization of processes and technology, and defining of performance metrics so their global operating model meets international standards.

Below, we look at each global operating model element in closer detail.

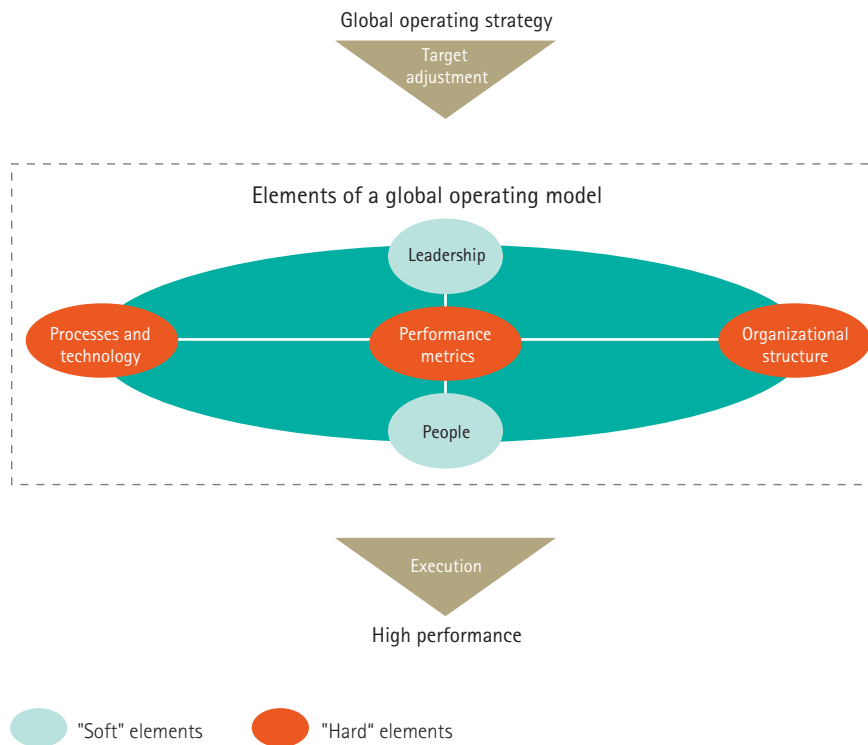
### 1.1 Leadership

To execute its globalization strategy, a Chinese company needs a senior leadership team capable of managing global operations. The team should be committed to the enterprise's globalization objectives and possess globalization knowledge and skills as well as a global mindset.

How to build such a team? First, clarify the company's leadership strategy, which depends on its global business requirements and plans for future development. Second, define criteria for successful leadership. Our survey respondents believe that leaders of a globalizing enterprise should possess, above all, a global mindset.

For example, the CEOs of some Chinese enterprises are able to envision both the enterprise and the local market and make sound decisions regarding global strategy and operations. According to our surveys, managers of a Chinese enterprise's global businesses tend to have more

Fig. 4 Global operating model



Source: Accenture Research Institute for High Performance, 2009

decision-making authority over marketing, day-to-day operations, hiring and budgeting than they do over financing, strategic decision making and appointment of senior managers. The company's core leadership team retains decision-making power in these latter areas. This demonstrates that senior leaders have made globalization a top priority. However, it also reveals that managers in charge of global business are not yet part of the core team.

Chinese enterprises should establish a leadership team with a global vision and ensure that a fair percentage of the team's members have overseas educational background and overseas work experience. Members who are not in charge of global operations should also be willing to learn about the outside world.

### 1.2 Global talent

A multinational corporation needs four types of talent:

#### Business managers

To achieve global scale, efficiency and competitive advantage

#### Regional managers

To understand and respond to local market demand

#### Functional managers

To transfer specialized knowledge across national borders and integrate host countries' resources and capabilities

#### Senior managers at headquarters

To take responsibility for overall planning as well as selecting, developing and coordinating the first three types of managers.

All globalizing Chinese companies should make recruitment and retention of qualified global talent a priority. An enterprise acquires global talent through recruitment, internal development, mergers and acquisitions, the hiring of consultants or cooperation with consulting firms. A company should select a method for acquiring global talent that suits its globalization progress, management capabilities and resources. However, internal development of talent should always be accorded priority; otherwise, the enterprise will not be able to compete favorably in the global market in the long run.

### 1.3 Organizational structure

A globalizing enterprise should establish an organizational structure that includes unified business standards and service philosophy, common goals and interdepartmental cooperation, as well as a mechanism for resource sharing. These structural elements must align behind the company's strategic requirements and unique characteristics.

In the initial stage of "going out," many Chinese enterprises established an international business department as an independent entity. Our surveys show that most companies in China still do that rather than integrating their domestic and overseas businesses. With the expansion of overseas business and the resulting linkages between domestic and overseas operating environments, the original international business department will evolve into a matrix structure defined by functional departments, products, markets, geographical regions and customer groups. The international department or overseas strategic business unit (SBU) will fade away, replaced by



a structure that connects Chinese businesses to the rest of the world. When an enterprise has become fully globalized, it needs to distribute its resources globally, integrate its operations and extend its value chain—hence the need for the organizational matrix structure.

However, many Chinese enterprises lack such a structure to support and coordinate their global business. As they expand overseas, their existing organizational arrangements become inadequate. For instance, most firms in China are inclined to manage their overseas business by geographical location rather than through integrated management.

Every globalizing business needs a cross-cultural management team. The team facilitates management of and cooperation between different parts of the business. To understand the local markets where it is operating, the enterprise should place the best of its managers in these markets to carry out localized operations.

#### 1.4 Processes and technology

Multinational corporations build the right business processes and acquire advanced technologies to create competitive advantage. They use these processes and technologies to coordinate activities in different locations—such as strategic planning, resource allocation, knowledge management, innovation management, customer relationship management and supply chain management.

Standardization of global systems and processes, combined with regional flexibility for certain processes, maximizes the benefits promised by globalization. For instance, companies should create global standards for such processes as strategic planning and resource allocation. By contrast, processes with distinctive local characteristics, such as human resource management and customer service, should be tailored to local realities.

Global and local processes can be combined in accordance with technological requirements, cost factors and distribution of markets to

save costs and realize extension of the value chain.

#### 1.5 Performance metrics

According to Accenture research, to achieve high performance, a globalizing enterprise should set clear strategic goals and a roadmap for achieving them, establish an organizational structure and business processes on that basis, and define a detailed plan for executing its globalization strategy. The right performance metrics assess, incentivize and manage how well the organization and employees are executing the global strategy. Performance metrics influence employees' work priorities and behaviors and should cover aspects of performance such as profitability, costs, global market share, speed of new product launches on the global market and the number and profitability of new products.

As Chinese enterprises have advanced along the path to globalization, they have realized that a performance metrics system plays an indispensable role in improving the management

of their global business. This is particularly true for companies involved in overseas M&As. Management of a merged or acquired company through strategic planning, goal setting and performance metrics has proven to be effective.

## 2. Hallmarks of a successful global operating model

A successful global operating model has three defining characteristics:

### Localized operations

A company becomes a true global player by adjusting to the external business environment (social networks, partnerships and consumers) while also tailoring its internal management elements (leadership, people, management methods and corporate culture) to the local settings where it is doing business.

### A globally unified system/structure

The company develops a unified market, talent system, distribution system and management team to support its global operations. The company's governance structure and management process flow smoothly across regions.

### A global mindset

Executives fully understand and value the realities of doing business globally.

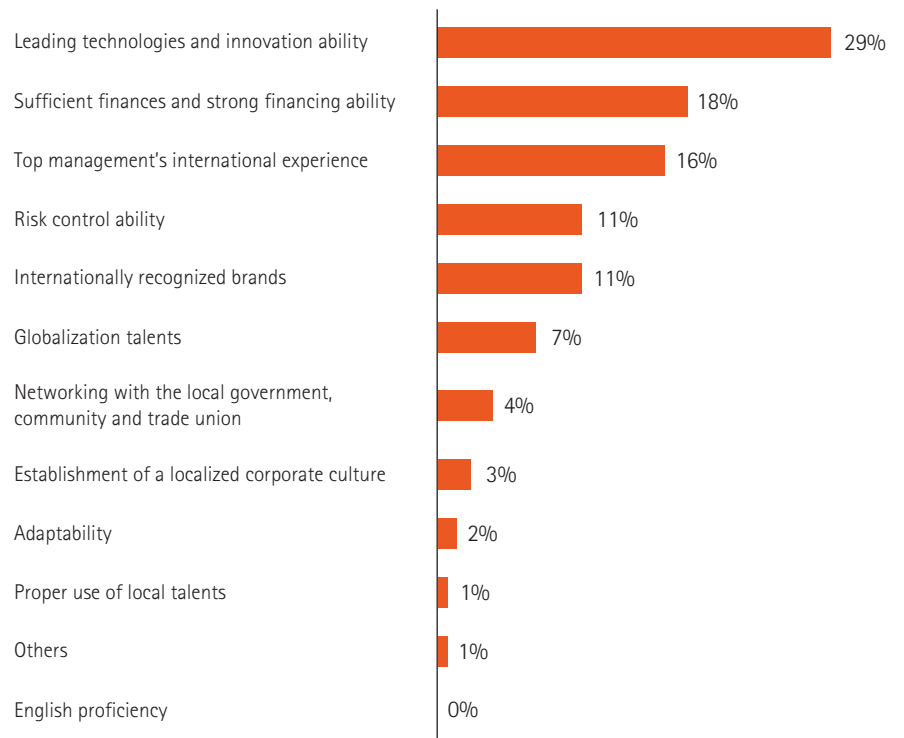
Characterized by the right leadership approach, talent, organizational structure, processes and technology, and performance metrics, a successful global operating model enables an enterprise to translate its global vision into reality and thus enhance its competitiveness. Though some Chinese enterprises have hesitated to go global because they are concerned about their deficiencies in management and operations, they will strengthen their global operating model as they gain experience.

Our surveys suggest that many Chinese enterprises consider leading technologies and innovation ability, financing capability and an internationally experienced top management team keys to globalization success (See Figure 5).

Figure 5 Key capabilities for successful globalization

(Weight the three options selected in order of importance: most important =0.5, less important=0.3, lest important=0.2

Divide the total score for the options by the overall score=percentage)



Source: Accenture and China Enterprise Confederation surveys, May-August 2010

**Globalization is not an easy undertaking for Chinese enterprises. They lack experience, innovative capabilities and cultural influence. As a consequence, their path to globalization is fraught with challenges. However, a disciplined approach will help them advance along that path. As Hsun Tzu said, "Unless you pile up little steps, you can never journey a thousand miles; unless you pile up tiny streams, you can never make a river or a sea." We hope that Chinese enterprises will keep moving forward, step by step, along the road to globalization.**

## Accenture Institute for High Performance

This report was jointly produced by the Accenture Institute for High Performance and the China Enterprise Confederation. The Accenture Institute for High Performance creates strategic insights into key management issues and macroeconomic and political trends through original research and analysis. Its management researchers combine world-class reputations with Accenture's extensive consulting, technology and outsourcing experience to conduct innovative research and analysis into how organizations become and remain high-performance businesses. For details, please contact Peng Yali at [yali.peng@accenture.com](mailto:yali.peng@accenture.com).

## China Enterprise Confederation

The China Enterprise Confederation was established in March 1979 with the approval of the State Council as China's first national enterprise association. Dedicated to the service of enterprises and entrepreneurs, the CEC serves as a bridge between the government, enterprises and entrepreneurs. Also, as the representative of Chinese employers and enterprise organizations, it participates in third-party mediation mechanisms for labor relations of the government, trade unions and enterprise organizations, as well as in International Labor Organization third-party meetings.

The CEC undertakes research on enterprise reform and management, represents enterprises and entrepreneurs (employers), and provides suggestions on the

formulation of national laws and regulations related to enterprises. It provides training and management consulting services to enterprises and entrepreneurs (employers). It provides media, publishing, information and network services to enterprises and entrepreneurs and organizes activities recognizing outstanding enterprises and entrepreneurs. It conducts exchanges and cooperation with overseas enterprises and entrepreneurs (employers). It participates in related activities of the UN, the ILO and the International Organization of Employers and conducts exchanges with employer organizations of other countries. It assists in the establishment of third-party mediation mechanisms for labor relations and participates in labor-relations mediations.

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Accenture has conducted business in Greater China for more than 20 years.

Today, it has more than 5,300 people working in Greater China, throughout offices in Beijing, Shanghai, Dalian, Guangzhou, Hong Kong and Taipei. With a proven track record, Accenture is focused on leveraging local best practices and successes, and is dedicated to delivering premium client value and results. Accenture helps clients define strategy, streamline business processes, integrate systems, promote innovation and enhance overall competitive advantage to ultimately attain high performance.

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