High Performance Business in China: Pioneering the Future amidst Financial Crisis

Executive Summary
1. Accenture’s high performance business research in the time of crisis

The subprime credit meltdown in the U.S. had devastating effects and evolved into a full-blown financial crisis during the second half of 2008. This crisis was marked by the collapse of the Lehman Brothers and became the worst financial nightmare since the Great Depression. It rapidly spread to other developed markets as well as emerging markets, rocking not only global financial institutions but the entire global economy. Woven closely into the economic web of globalization, economies and institutions cannot escape the situation’s huge negative impact.

What implications does the financial crisis have for Accenture’s high performance business research? In other words, what specific issues will these research efforts examine?

Accenture’s research on high performance businesses worldwide has roots stretching back to 2003. We are particularly interested in investigating questions such as the following: What are the qualifications for high performance businesses? What are the criteria? How is high performance measured? How is it sustained? Our research, covering 6,000 listed companies across 36 industries, has thus far identified 500 of them as high performance businesses. In 2005 Accenture’s high performance research was rated by Harvard Business Review as one of the top 10 initiatives during the last 25 years.

In 2007 when we conducted our first study of high performance business in China, we wanted to know whether some Chinese enterprises obviously outperformed their peers in terms of revenue growth, profitability and total shareholder returns. If so, were they truly positioned to compete on the world stage? To what extent was their high performance sustainable? Our findings assured us of their existence, but there was a significant difference between them and the world-class high performers. Their sustainability depended on the establishment of critical management systems and business models. Regardless of how successful the Chinese high performers were, they should focus their future endeavors on the quality, rather than quantity, of revenue growth. (See Accenture report: High Performance Business in China 2007: In Pursuit of Profitable Growth.)

In 2008, 30 years after its initiation, China’s economic reform effort came to a critical juncture as benefits from reform diminished and the country’s competitiveness eroded. Also, disturbing signs in the global economic environment did not augur well for China. In such a volatile climate, it was particularly important that Chinese enterprises continue to achieve high performance. They had to undergo a transformation by “jumping over the dragon gate” and gaining a foothold among the global high performers. That was why our research on high performance business highlighted the Chinese enterprises’ historical mission of significantly narrowing the gap between them and the world-class high performers. (See Accenture report: High Performance Business in China: Jumping over the Dragon Gate.)

The global financial crisis in 2009 has added new dimensions and perspectives to high performance business research. As a result, our research has come to focus on the following four areas:

- What impact has the crisis had on Chinese enterprises?
- Given the magnitude of the crisis, do high performance Chinese businesses still exist?
- How are high performance businesses in China coping with the crisis?
- What lessons can Chinese enterprises learn from the crisis?

What is a high performance business?

A high performance business is one that has achieved enduring or sustained out-performance of peers, across business and economic cycles, often across generations of leadership, as measured by widely accepted financial metrics.
2. The financial crisis' impact on the Chinese economy

The global crisis hit the Chinese economy hard

Virtually no country has been left unscathed by the global recession. An array of statistical data indicates the damage the financial crisis has inflicted on Chinese enterprises. The country’s rapid economic growth has slowed suddenly. Its GDP growth declined from 13% in 2007 to 9% in 2008, and dropped further to 8.7% in 2009. Foreign trade remained intact in 2008, but import/export figures shrank in the first half of 2009, down 24% over the same period the previous year (26% for imports and 22% for exports). Foreign Direct Investment (FDI), which had experienced sustainable growth over the years, saw its first decline in 2009, as the FDI actually used decreased by 18% over the same period the previous year. The stock market fluctuated wildly. The Shanghai Stock Exchange Indices, which stood at about 6,000 points in late October 2007, shed 72% of their value, totaling some 1,700 points in the same period the following year. At the end of 2007, the market capitalization of the Shanghai stock market remained RMB 27 trillion. One year later, it had plummeted to RMB 9.7 trillion, or RMB 17.3 trillion (64%) in losses.

Accenture’s research findings on 206 listed companies revealed that they were losing ground financially from 2008 to the first quarter of 2009 owing to the impact of the financial crisis. (See figures 1 and 2.) Meanwhile, of the enterprises that responded to our survey, 35% revealed that the financial crisis had no impact or a minor impact on them. The remaining 65% reported a medium or above impact (11% of which indicated a very significant/significant impact). The impact manifested itself as lowered consumer demand. The other prominent consequence was that competition intensified for these firms. (See figures 3 and 4.)

The crisis has delivered an unprecedented psychological shock to Chinese enterprises

The market conditions up to October 2009 indicated that the crisis had dealt a lesser blow to China than to other markets, and had affected Chinese businesses in different ways. China will likely emerge from the recession more quickly than other economies. However, the downturn has dealt a severe psychological shock to Chinese enterprises.

Source: Listed companies’ annual reports, Accenture analysis, 2009
The subprime credit crash in the U.S. triggered the meltdown of the credit market and led to exorbitant losses in the financial system, estimated at $3 trillion. The catastrophe not only ruined investment and consumer confidence but rippled through the already ailing economy and set off a financial tsunami. The crisis was originated outside China, and the country was affected in different ways than other economies in terms of degree and the nature of the damage. For the Chinese economy, the hardship manifested itself as a sudden fall in export demand. As a consequence, businesses could not sustain production, which in turn led to closures and unemployment in the manufacturing industry. In the service sector, dwindling commercial activities worldwide, plus wariness among domestic consumers, reduced demand. In the financial sector, banks suffered some moderate cross-border investment losses.

Abundant evidence shows that the actual damage inflicted on China's economy is smaller than that suffered by developed countries. GDP growth fell in 2009; nevertheless, at 8.7% it led the world. On the other hand, the Chinese government’s RMB 4 trillion economic stimulus package has begun paying off. Of the firms Accenture surveyed, many saw the impact of the crisis as transitory and limited because they had done more than merely survive it. According to 75% of our respondents, demand was recovering and the overall environment was improving. China is on its way to emerge from the crisis sooner than developed countries. However, Chinese enterprises, especially high performance ones, should not be content with merely getting out of the financial storm.

In fact, the impact of the global recession on China's economy and enterprises largely remains an ideological and conceptual issue. Before the crisis, mature Western markets had always served as role models for Chinese enterprises in terms of management mindset and leading corporations’ experiences and practices. As such, they inspired Chinese enterprises to catch up. But then the ailing mentors collapsed, leaving Chinese enterprises perplexed and wary. Chinese executives wondered, Should we integrate into the international business framework? Will the financial and capital markets open up further? Is a free-market economy still competitive? Is the Western management mindset still worth emulating? Can we still draw on international corporations’ experiences and practices? Are financial innovations still viable?

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**Figure 3** How to weigh the impact of the financial crisis on corporate operations

<table>
<thead>
<tr>
<th>Impact Level</th>
<th>Very Significant</th>
<th>Significant</th>
<th>Medium</th>
<th>Minor</th>
<th>No impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>11%</td>
<td>11%</td>
<td>19%</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>Medium</td>
<td>12%</td>
<td>37%</td>
<td>34%</td>
<td>21%</td>
<td>34%</td>
</tr>
<tr>
<td>Low</td>
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<td>32%</td>
<td>34%</td>
<td>21%</td>
<td>32%</td>
</tr>
<tr>
<td>All</td>
<td>5%</td>
<td>32%</td>
<td>34%</td>
<td>21%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Medium or above: 65%
No or minor: 35%

Source: Accenture survey, July 2009

**Figure 4** Among the challenges posed by the financial crisis, please identify the two most prominent from the options below (n=101)

- Lowered consumer demand: 78%
- Competition intensified amid the adverse economic environment: 51%
- Fluctuation of commodity prices: 45%
- Financing difficulties: 20%
- Rising probability of client default: 8%

Source: Accenture survey, July 2009
3. High performance businesses stand firm in the tidal wave

Unlike the research Accenture conducted in the previous two years (which showed no obvious signs of crisis, in China or elsewhere), our current high performance study was conducted in the context of the worldwide downturn. Inevitably, we focused more on how Chinese enterprises achieved and sustained high performance in the face of hardships, learned lessons from the crisis, enhanced their capabilities, and sharpened their competitiveness. In all, we wanted to see not only how they survived the storm but also how they have tried to gain a strong foothold among high performance businesses after the storm subsided.

Do high performance businesses still exist in China? The answer is a decided “yes.” Accenture's latest research surveyed and analyzed the financial data of 206 companies meeting our screening criteria for the period until the first quarter of 2009. The findings suggest that 30 of them across 14 industries consistently outperformed their peers in terms of the primary high performance metrics. These numbers reveal high performance businesses' viability and resilience in the face of hardship. When a crisis strikes, only those companies that have achieved true excellence can withstand the tidal wave and stand firm. (See figures 5 and 6.)

The data reveal that high performance businesses’ 2008 revenue growth remained at the same level as in previous years. During the first quarter of 2009, however, their revenues decreased by 11.3% over the previous year. In fact, average and low performers had borne the brunt of the crisis in 2008, seeing their revenue growth rates fall 24% and 21.8%, respectively. The same thing happened in profit-growth metrics. While high performers experienced positive (albeit diminishing) growth in 2008, low performers already suffered negative growth in that same year.

Undoubtedly, high performance businesses are more sustainable and vital than low or medium performers. Since the inception in 2007 of Accenture's high performance business research in China, we have identified 42 companies as high performers. Of these, 15 have earned the name for three consecutive years, 16 for 2 years, and the remaining 11 for one year. Of those thus honored in 2007, 85%, or 22 enterprises, successfully carried the name over to the next year. For those short-listed in 2008, 75%, or 24 companies, came to hold the name in the following year. (Note: Owing to constraints imposed by our methodology, we confined our research to enterprises across 14 industries that have been publicly listed for at least 5 years with annual revenues totaling RMB 1 billion. Currently, the financial, transport, Internet and real estate sectors, as well as non-listed companies, are not included in our study. As the Chinese economy develops further, we envision our research expanding to encompass a broader range of enterprises.

Figure 5 Revenue growth of businesses with different performance levels 2004/2007, 2008, Q1 2009

Figure 6 Net profit growth rate of businesses with different performance levels 2004/2007, 2008, Q1 2009

Sources: Listed companies’ annual reports, Accenture analysis, 2009

Sources: Listed companies’ annual reports, Accenture analysis, 2009
4. How do high performance businesses cope with crisis?

Management is the key to weathering the downturn

The financial crisis is attributable primarily to imbalances present in the global economy; specifically, the high levels of consumption in developed countries versus the high savings rates in developing countries, and over-liquidity in the U.S. market versus oversupply of cheap capital in developing countries. Unchecked consumption and high leverage triggered the credit crisis, which crippled the global economy. To correct the situation for the long term, the equilibrium of the global economic structure must be restored.

The microeconomic forces behind the crisis are even more noteworthy. Mr. Zhou Xiaochuan, Governor of the People’s Bank of China, told us that such forces, centered on Wall Street, had played a crucial role in provoking the crisis. They included lax credit policies, excessive leverage, superfluous development of derivatives, chaotic design and sale of securitized assets, questionable ethics of credit rating agencies and loose governing of companies. These problems have brought to light the dangers of insufficient monitoring of financial-system players.

Microeconomic forces to a large extent emerge from management decisions and practices. Thus, in some sense, effective management is the key to weathering the financial crisis. It is the daily activities, management actions and independent management decisions that combine to collectively shape larger economic trends. To cope with the crisis, businesses should not just set their sights on capital markets, financial innovations, financial dealing, mergers and acquisitions or short-term fluctuations in stock prices. Nor should they forget that their ultimate goal is to provide quality products while making profits. They must pay far closer attention to improving their management to enhance their performance. Only then will the overall economy return to healthy growth and be protected from future economic crises.

Indeed, some enterprises excelled even as the financial tsunami raged, because through their management practices, they had put in place the three building blocks of high performance: a clear market focus and position, concentration on developing their own distinctive capabilities and solid performance anatomy (that is, a mindset and corporate culture conducive to achieving excellence in performance). Our research shed light on this—by examining how high performing enterprises view the current crisis and long-term development opportunities and how they balance short-term security and the need for long-term development. In short, we looked for evidence of how these enterprises persistently perfect their management practices to leave the crisis behind.

Chinese high performance businesses take proactive measures to counter short-term effects of the downturn

Focus

During an interview with a senior executive in the financial sector, our interviewee commented on how an enterprise should cope with a financial crisis. In his view, what really counts is not what the enterprise does during a crisis, but what it does in normal times. Smooth daily operations in ordinary times provide the strongest protection against a financial storm. As the crisis loomed, this senior executive’s company fine-tuned its operations without changing its established strategic direction. The firm’s approach to the steel industry is a case in point. Steel was hit hard during the crisis, and the company reduced loans to firms in this industry. This example shows that an enterprise with a clear set of strategies in place can stay composed even as an economic storm lashes out, and can embrace challenges with foresight and vision.

By contrast, makeshift tactics deployed in a panic are not feasible. Instead, companies must strive for excellence and good management practices. Measures taken by high performing businesses to contain the impact of the crisis include solid management centered on
anticipating and responding to risks and staying focused on the company’s strategic course.

Staying focused means sticking to well-planned existing strategies and sustaining core businesses. During times of economic growth, enterprises may have enough resources for both core and non-core businesses. In downturns, when demand for their offerings dwindles, they must narrow their focus to their core businesses and divest non-core ones through selling, downsizing or ceasing production. Through these means, they can concentrate their resources on their core businesses.

**Flexibility and speed**

By flexibility and speed, we mean executives’ ability to anticipate a crisis and take precautions before any major impact strikes. Precautions may include speedy actions that are unconventional but that minimize the impact. Flexibility and speed take the form of changes in strategies, operations, structures and personnel. In altering strategies, executives must consider matters such as current investments, product lines, geographic locations, alliances and strategic priorities. Operational changes should center on management styles, departmental functions, personnel hierarchy and training.

After the financial crisis broke out, China’s steel industry was the first to stumble, as prices for steel products, especially high end, plummeted as demand shrank. Wuhan Steel, which has always specialized in high-end offerings, had to act fast. Its management team made some proactive changes to extend the company’s niche position from international and domestic high-end markets to medium to low-end markets in Hubei Province. Executives also decided to sacrifice some profit margin for market positioning.

**Rapid and sustained cost reduction**

A direct consequence of any economic downturn is lowered income levels. Companies that fail to reduce expenses to offset the decreases in income may suffer cash flow problems or even end up in bankruptcy. As income levels tend not to rise in the short term during the crisis, enterprises should cut expenses to reduce costs.

However, they should aim for “sustained” (that is, non-detrimental) cost reduction. Executives must keep in mind that the purpose of cutting costs is not only to secure the company’s short-term survival but, most important, to enhance its long-term competitiveness. Therefore, cost cutting must align with long-term strategic goals. Those functions concerning long-term strategic development—such as R&D, innovation and future competitive advantages—should not be sacrificed easily. Cutting expenses indiscriminately is risky; it could weaken future-oriented functions the enterprise’s ability to cope with or adapt to market changes. Given current uncertainties, corporate leaders should execute speedy but sustainable cost management strategies, to lower costs without sacrificing corporate strength. For core businesses—that satisfy the most profitable customers’ needs—cost reduction should be out of the question. Indeed, the company would do well to channel more resources into these businesses wherever necessary to keep them producing.

**Cash and financial flexibility**

In a recession, “cash is king,” as the saying goes. Robust cash flows provide the safest protection for any company. Take Lenovo. According to Mr. Huang Weiming, CFO, the company strived to increase its cash flows during the current economic downturn more than in other times. He pointed out that cash flow is as crucial for a company’s survival, just as blood is essential for a person’s survival. More important, healthy cash flows enable an enterprise to gain needed capabilities and other assets (for reasonable prices) through mergers and acquisitions.

Cash comes from four major sources, the first of which is an enterprise’s reserves. If a company is financially conservative (it retains a certain level of cash and liquid assets), chances are that it will be better positioned to survive the crisis. Second, a firm can generate cash through savvy management of its account receivables. Third, cash increases with prudent management of investment expenditures, which entails the abandonment of investment projects that have huge capital requirements and a long return cycle without immediate benefits. The fourth source is increased efficiency of capital use. Our analysis reveals that high performing businesses’ days of inventory outstanding had only a slight extension (an average extension of 3 days in Q1 2009, or 2.5%, over Q1 2008). Meanwhile, those of their non-high performing counterparts shot up by over 25% on average.
5. High performing businesses' vision for long-term growth beyond the crisis

Pioneering the future

Customer acquisition and retention
An enterprise cannot survive without customers and excellent performance. Our research suggests that a recession’s greatest impact on domestic and overseas consumers’ behavior is to lower their demand for products and services. Consumers’ needs and purchasing behavior also change. High performing businesses give top priority to strengthening customer loyalty. To win and retain consumers, they use the following strategies:

• Pairing better consumer analytics with sound analytical tools. With information systems and consumer databases in place for years, many enterprises possess comprehensive analytical tools. We recommend that they make proper use of these tools to better understand consumers’ desires and characteristics.

• Striving to meet consumer needs. By understanding consumers, firms can satisfy their current and future (and actively expressed or latent) needs more effectively.

• Committing to consumer-focused innovation. This means modifying existing products or services as well as introducing innovative products and services to meet consumers’ needs.

• Aligning core processes around consumers. To achieve this alignment, companies should revamp business processes such as distribution, marketing, sales and services to better serve consumers.

Intensified focus on R&D to embrace open and collaborative innovation
In the current multi-polar world, innovation centers, which previously were concentrated in developed economies, are springing up all over the world, especially in emerging markets. Through mainly government-led long-term innovations, these markets are closing the gap between themselves and developed markets. Innovations in emerging markets are usually strengthened through clustering. For instance, setting up a high-tech park to house new ventures, R&D centers and suppliers can create synergy.

One of the most effective ways to generate innovations is through an open and collaborative mindset. Whereas lower performing enterprises care more about the sharing of risks and expenses in cooperative projects, our research suggests that high performing businesses aim at acquiring better innovative resources. This is especially true when it comes to international collaborations, which give innovators access to some of the world’s best resources and skills. A case in point: Li Ning set up China’s first global design center in sportswear in Portland, Oregon (Nike’s headquarters), by teaming up with about 20 experienced experts in engineering and design of international brands. The company launched a series of new products in the fourth quarter of 2009. Another example involved a joint R&D project by Gree Electric Appliance and Japanese air conditioner manufacturer Daikin. The venture led to development of the fourth-generation inverter compressor.

Brand name maintenance and brand value maximization
A company’s brand name is at the heart of its identity and all its activities. To establish and grow their firm’s brand, executives should focus activities that most benefit consumers. As Chinese enterprises develop, they are trying to look beyond the low-cost, low-price market and establish high-value brand names. Afflicted by the crisis, enterprises with this kind of vision pay more attention to creating and maintaining brand names to overcome short-term difficulties. They know that these efforts will pay off, because the market will appreciate their commitment to consumers. Thus, they will reap double benefits when the market picks up.

While strengthening their brand value, enterprises should endeavor to align their brands with consumer needs to create synergy rather than simply carrying out marketing activities. After all, word of mouth is a powerful promotional tool. Companies can also use brand extension to increase their brand equity. In fact, consumers tend to give the same loyalty to a firm’s new product or spin-off as they do the old product. For example, Yunnan Baiyao, a well-known company in traditional Chinese medicine, extended its established, traditional brand (which centered on treatment of trauma or sprain) to a host of new pharmaceutical products ranging from bandages, capsules, and creams to sprays and even to toothpaste, shower gels and cosmetics such as facial masks.
**Investment in the future**

As they battle the crisis, high performing businesses invest in the future because they believe that seeds sown during an economic downturn will bear better fruits. While low performers panicked in the recession and took drastic measures to reduce capital expenses, our research shows that high performing businesses remained calm and kept their capital expenses at stable levels.

By investing in the future during a crisis, forward-looking enterprises will see more opportunities ahead, while others succumb to difficulties. During an economic downturn, enterprises tend to be more capable of taking strategic, though sometimes contingent, measures for their future development and growth. Although opportunities abound in normal times, it is hard to tell which of them are the most valuable or strategically important. Interestingly, it may be easier to make sound judgments during a crisis. In addition, investment costs often decrease in times of economic recession. For example, after the current crisis had struck, Xiuzheng Pharmaceutical Group did not reduce its investing activities. On the contrary, it increased spending. In March 2009, the company set up its pharmaceutical development center in Beijing. It is the company’s largest investment project, boasting comprehensive R&D functions and state-of-the-art facilities.

**Becoming more durable**

**Operational excellence**

Many companies have learned a hard lesson from the financial crisis: Instead of expending all their energy on financial arrangements and operations, enterprises should get back to business fundamentals. That means developing and producing the right products, launching them into the market properly and satisfying consumers’ needs. In the process, firms must strengthen the core competencies essential for every step in their value chain—including design, production, marketing, sales, service and revenue collection. Firms achieve this operational excellence by optimizing their processes, people, technology and organizational structure for each of the link in their value chain.

Our research suggests that high performing businesses are willing to achieve operational excellence through improving internal processes or systems, which ultimately enhances staff efficiency. We expect to see this approach continue for several more years. As operational models evolve, many companies are also flattening and streamlining their organizational structure. This gives them the advantage of being responsive to the changing environment and flexible.

**Talent management**

Corporate leaders worldwide proclaim that “people are our greatest assets.” However, the financial crisis slowed enterprises’ hunt for talent. Since the recession hit, many companies in developed markets have initiated sizable layoffs and a number of measures to further cut labor costs. Yet nearly all high performing businesses take a different approach: They continue to develop a large pool of talent to support their future growth.

To be sure, in the current economic environment, it is neither feasible nor wise to keep a huge workforce. Layoffs, fringe benefits cutbacks and payroll freezes may be necessary for a company to improve its short-term performance. But these moves should be carried out strategically. For example, executives must effectively communicate the rationale behind such decisions to employees to safeguard their morale and motivation. In times of job insecurity, corporate leaders should show transparency in their decision-making processes. That means communicating with employees in a timely fashion regarding the difficulties facing the enterprise and the measures the company is taking to tackle them. Executives should also demonstrate that they understand and want to address employees’ concerns. If leaders can cultivate an atmosphere of camaraderie and care, employees will more easily identify themselves with the enterprise’s long-term development.

**Proper use of merger and acquisition capabilities**

An individual builds up a strong physique through exercise and proper nutrition. Similarly, through mergers and acquisitions, an organization can quickly add needed capabilities that would be hard to obtain through gradual development.

During an economic downturn, enterprises with a solid financial foundation would have an excellent opportunity to use M&A to establish market leadership and fuel their future development. However, in such a period, executives might overestimate the number of M&A opportunities available and underestimate their prices, which may prompt them to make hasty “bargain hunting” decisions. If the motive underlying merger/acquisition decisions is simply to snap up bargains rather than to complement or augment capabilities, they may not pay off in the end.

We believe executives should take four factors into consideration regarding their M&A efforts. First, their primary objective should be to support corporate strategic goals by acquiring missing capabilities. Second, they must identify as targets otherwise outstanding companies that are bogged down temporarily because of the overall market situation. Third, they should assess the potential synergies (e.g. in cost reduction and revenue enhancement) that a merger or acquisition could create. Fourth, they must manage post-merger integration specifically to realize those synergies.
Building up a versatile company

Readjustments of existing capabilities to adapt to a changing business environment

While an enterprise may remain steadfast and focused in turbulent times, it must also revamp its existing capabilities to adapt to the changing business environment. In response to lowered consumer demand, an enterprise can take decisive measures to shift market focus—for instance, from foreign to domestic markets, from urban to rural areas and from developed to emerging markets. In terms of its customer profile, it may shift from high end to low end, or vice versa. Also, it may change its business model; for example, by adopting or enlarging online business.

Since the current financial crisis set in, many Chinese enterprises have manifested such capabilities. Take the electronics manufacturer Midea for example. Using what it referred to as a “balancing tactic,” this firm shifted its focus from the depressed U.S. market to other markets such as Eastern Europe and Southeast Asia, as well as from international to domestic markets (including the country’s vast rural areas).

Flexible, resilient operating models

Under certain circumstances, an enterprise may have to change its operating model to adapt to the changing business environment. A company’s operating model reflects its culture, adaptability and philosophy. To construct a flexible operating model, executives must be willing to make changes in functions that closely relate to consumers, such as production, distribution, sales and customer services. Changes involving the four operating model components—that is management processes, people, technology and organizational structure—may entail restructuring, expanding, downsizing and so on. Executives determine each of these actions by taking the “marketplace’s pulse.”

Hangzhou Turbine International is an example. As the downturn retarded its growth, the company launched three changes. First, it stopped relying so heavily on the Indian market. After selling boiler feed pump turbines to the U.S. for the first time in late 2007, it entered into a two-year agreement with Doosan Group of South Korea to jointly produce boiler feed pumps. Meanwhile, it also secured contracts to supply four dual-stream turbine pumps to Indonesian and Thai power plants.

Second, to achieve a more balanced product portfolio, it chose to reduce the proportion of power-generating products in its aggregate sales. As a result, for the first time, the sales figures of hauling stock surpassed those of power-generating products to reach a 62% share of revenues.

Third, the company changed how it sold its own products. Through cooperation with foreign manufacturers, it secured orders for different products, including steam-driven turbines, from an Indian nitrate manufacturer and five industrial steam-driven turbines for use in Indian ESSAR’s refinery project with annual production capacity of 3.4 million tons. The total value of overseas contracts (including dealer contracts) Hangzhou sealed in 2008 topped $130 million—a historical record.

An open mind

An open-minded organizational culture enhances a company’s ability to adapt to hard times. Open-mindedness facilitates collaboration with all stakeholders who have a vested interest in creating mutually beneficial outcomes. These stakeholders include customers, the public and innovation partners.

Corporate leaders can set the tone for open-mindedness in their organizations, by demonstrating candor and vision and by forging links with other entities to expand the firm’s networks. The best leaders show concern for business partners, consumers, the communities where their company does business and government entities. They take their company’s social responsibilities seriously and strive to create long-term advantages for all stakeholders, without sacrificing the future for instant benefits.

High performing businesses place even more emphasis on cooperation between upstream and downstream parties to create win-win situations. This fact was confirmed during our interview with a corporate leader who described the relationships between parties along his company’s value chain. The interviewee, the general manager of a mechanical manufacturer, explained how the manufacturer shared information on consumers’ changing needs in real time with its parts suppliers. In this way, it realized cost savings through modifications of machine and parts designs, and shared the savings well as the cost burden of its machines with its suppliers.

Growing prudently

Preemptive actions

By preemptive actions, we mean steps executives take to predict future volatile situations, prepare for them and take precautions to weather financial storms. The only way to do this is to expect hardship and hone one’s awareness of the bumpy road ahead.

Luthai Textile Co. Ltd is an apt example of a firm that excels at taking preemptive actions. Luthai has long guarded against exchange-rate risks; for instance, by using foreign-exchange hedging, long-term settlement, reasonable arrangements for settlement periods, exchange-rate lockup agreements and foreign currency loans to avoid exchange losses. Lingrui Pharma is another example. Executives there had maintained a strong sense of the possibility of crisis before the global downturn occurred. By integrating its marketing channels in 2007, the company significantly reduced the number of dealers it worked with. In addition, it shifted from credit to cash sales and, starting this year, has required customers to pay for their purchases in advance. Through these means, the company markedly improved its operational efficiency while reducing its operational risk. By 2008, the company had maintained relatively high cash reserves, with book value never dropping down below RMB 100 million.
Strong risk-management systems
The global financial crisis made executives around the world sharply aware of the importance of corporate risk management. Accenture’s global research reveals that only 8% of managers believed their enterprises were extremely well prepared for the crisis. Risk management can give companies a competitive edge and increase the odds of excellent performance even under the most turbulent conditions.

Accenture’s survey of more than 250 senior executives from various industries (among them global chief financial officers, chief risk officers and other risk-management executives), when managers understand the importance of risk management, they seek to build a risk-management system, tailored to their enterprise, that will also enhance business performance. Accenture’s experiences in helping enterprises enhance their risk-management capabilities suggests that the following practices can help managers build risk-management systems that drive excellent performance:

- Establish a comprehensive risk-management system: Institutionalize it and align it with your company’s operational system.

- Improve the quality of risk data and reporting frequency: The fundamental goal of your risk-management system is to quantify risks so managers have access to the right data at the right time for making the right decisions.

- Adequately measure risk management: While an enterprise performance measurement system helps managers recognize outstanding business performance, they should not overlook control of risk while evaluating organizational performance. On the other hand, too much caution in containing risk may crush any entrepreneurial spirit in an organization. Use performance measurement to encourage risk control but also to support entrepreneurship within the enterprise.

- Enhance the role of risk management in value creation: The objective of risk management is not only to ensure that an enterprise complies with rules and regulations, but also to create value for different stakeholders.

Expanded financing channels
Another important way a company can fuel growth is to expand its financing channels. Traditionally, the financing channels available to Chinese enterprises are rather limited, with heavy reliance on bank loans. Stock and bond markets, especially direct financing from bond markets, represent a small share of the channel picture. Given this configuration, any market disturbance will prompt banks to tighten the money supply, which will create capital shortages and thus prevent sustainable development for many enterprises. To ensure undisturbed cash flows, companies must expand financing channels by identifying new means of obtaining financing and new types of sources available under the existing financial monitoring framework.

In recent years, the financing instruments used by Chinese enterprises have become increasingly diverse. Also, China’s financial regulatory institutions encourage enterprises to adopt direct financing, particularly bond financing. By broadening financing channels, companies can promote a balance among bank loans, equity financing and debt financing. According to our research, high performing businesses tend to opt for public offerings to raise funds. If conditions allow, enterprises may experiment with combining internal and cross-border financing. Also, they may obtain financial support from non-traditional sources, such as the government’s economic stimulus programs, dividends suspensions or reductions, strategic investors, support from parent companies or mutual assistance with business affiliates, or divestment of non-core assets.
Opportunities for learning and participation

Crisis offer rare opportunities for learning. The irregularities and imbalances in the economy overall, the chaos in companies’ management teams, the lack of business ethics by entrepreneurs, the negligence of duty on the part of market intermediaries and regulatory bodies’ inaction all offer important lessons for Chinese enterprises and the Chinese government. Companies can gain additional insights by analyzing why some entrenched industry giants collapsed in the downturn while others in the same industry stood firm.

The financial crisis also presents an opportunity for Chinese firms to participate in formulating and modifying business-game rules governing such matters as state reform programs, international settlements and monetary structures, commodity price negotiation mechanisms, technical standards of products, management frameworks and best practices.

Opportunities for competition

In our multi-polar world, economic power has spread out from the traditional locus of Western developed markets to include new markets, and multinatinal corporations have become more localized. These developments have lowered entry requirements, a situation that offers Chinese enterprises opportunities to join the competition. Indeed, 65% of our study’s respondents said they believe they will enjoy greater competitiveness after the financial crisis.

For example, Huawei, the Chinese networking and telecommunications supplier, once suspended its operations in the North American market, which, as a mature market, was difficult to penetrate. However, the financial crisis reversed this situation. Although some telecom operators suffered cash-flow shortages, these established equipment suppliers, decimated by the crisis, were unable to adjust their prices accordingly. In contrast, Huawei’s low-cost advantage became attractive.

In another example, the CEO of a major rail equipment manufacturer revealed during an interview with us that despite the decreasing number of orders placed by the hard-hit U.S. and European markets, demand from developing countries remained stable. The manufacturer’s total orders for the first six months of 2009 increased by roughly 60% over the same period the previous year. Many third-world countries are still using railway and vehicular equipment from the colonial era because they lack the funding to invest in newer assets. (A locomotive could cost up to $3-4 million.) In the past, such countries’ railway operations were supported by financing from European and U.S. banks. Although these banks are now fraught with problems, their Chinese counterparts are generally in a good shape. And that presents a good opportunity for Chinese enterprises to join hands with Chinese banks to establish a presence in these markets. While the majority of China’s exports in the past consisted of mass-market commodities, they now include more machinery and equipment.

Opportunities for transformation

An innovation-driven business model

The financial crisis has pushed Chinese enterprises to ponder where to go next and what choices they should make. In the post-crisis era, they will face a new business environment, as older business models become obsolete. They will not be able to do business as usual in the economic recovery. Many astute executives already understand how the rules of the game have changed, and they will be the ones to forge ahead. The crisis offers Chinese enterprises an opportunity to transform their conventional model centered on low-cost product manufacturing to an innovation-driven business model.

In our interview with the leader of a major metal company, he pointed out that the crisis had helped his company focus more sharply on innovation. Since the crisis, prices of most of this firm’s products dropped drastically, except for those carrying independent intellectual property rights. Demand for such products as hi-tech rollers and needle coke remained stable. The raw material commonly used to make needle coke is tar, which costs just a few hundred yuan per ton. However, the finished product is worth as much as 13 to 14 thousand yuan per ton. The lesson learned is to focus on a series of hi-tech value-added products carrying independent intellectual property rights.

Industry consolidation

While innovation can transform an enterprise, consolidation can transform an industry. Both are market-driven. China is a huge but scattered market with low geographic concentration of industries. Over the years, market fragmentation, poor infrastructure and local protectionism have hindered industry consolidation. The financial crisis prompted a reshuffling of players within many industries and showed that industry consolidation could help create a more rationalized and efficient economic structure. Our survey found that accelerated industry consolidation is the biggest benefit Chinese companies have gained from the financial crisis. Specifically:

• The crisis brought into sharp relief the necessity and feasibility of integrating export- and domestic-oriented economies.
The resulting consolidation fostered a unified national market by eliminating internal trade barriers and market fragmentation. A unified national market is a prerequisite for globalization.

Though consolidation has occurred mainly in China’s resource-intensive industries, such as mining and metallurgy, and the government is still the major driver of this effort, we may see more spontaneous, market-induced consolidation happening in consumer goods industries in the future.

### Moving upward along the value chain

Moving upward along the value chain presents an additional opportunity for transformation of industries in China as well as of the country’s overall economic structure. It thus will play an important role in enhancing China’s economy. However, two issues need to be clarified. First, industry upgrading by moving toward design, branding and distribution is in no way equivalent to giving up manufacturing. Rather, we should try to strike a balance between the two. After all, the manufacturing industry is an indispensable link in many companies’ value chain. Second, upward movement along the value chain further enables consolidation.

Opportunities for globalization

Those Chinese enterprises relying heavily on the domestic market were relatively unaffected by the crisis. The financial industry also suffered minor losses, as it is relatively nascent and subject to stringent regulatory control. This situation prompted us to ask: Is globalization necessary for China’s businesses? Does China need to further open up its financial and capital markets? Should Chinese companies draw on Western market rules and economic systems? In short, is globalization the right path?

In our view, globalization is an irreversible process. Nevertheless, China still lags behind in the process. In September 2009, the Association of Chinese Enterprises unveiled the list of the top 500 Chinese enterprises. According to analysts, the domestic sales revenues of these companies represented 70% of China’s GDP. By contrast, the Fortune 500 represent merely 38% of the United States’ GDP. These figures suggest that the top 500 in China are far behind their American counterparts in terms of globalization.

Once a company formulates a globalization strategy, it should prepare to implement them—by cultivating a globalization mindset, acquiring the right talent and developing globalization capabilities (especially related knowledge and expertise in such matters as language, culture, customs, legal systems, personnel management and labor). In addition, owing to the relatively short history of China’s market economy and the immature market, Chinese enterprises’ globalization process contains weaknesses, for example, a weak economic institution, lack of market economy mindset, insufficient understanding of the world business mechanisms, and unsatisfactory manpower reserve. Chinese enterprises, caught up in the globalization rush, did not recognize these weaknesses. As a result, some made a number of serious mistakes and suffered major setbacks, including having to suspend their globalization efforts.

Given the distinguishing characteristics of the Chinese market, including its immense geographic area, huge workforce, imbalanced development, differentiated competitiveness and versatile socio-economic culture, China can accommodate a diverse array business and operating models. Such diversity is valuable.
7. What lessons can Chinese enterprises learn from the crisis?

Our findings suggest that attitudes toward the global downturn differ in China. Some people hold that Western management ideas are scarcely better than their own, given that certain multinational corporations that used to be models for Chinese enterprises to emulate were bogged down in the crisis. These entrepreneurs insist that a crisis of similar proportions did not occur in China because it had maintained its own management styles and systems. Indeed, some Chinese enterprises were proudly ranked among the global Fortune 500. They no longer had to rely on advanced Western management styles and practices. Some Chinese even began to doubt the vitality of the market economy, and lost interest in state-owned enterprises (SOEs) reform.

During the financial crisis, some Chinese enterprises chose to keep a low profile and follow the “less is more” strategy. They remained inward looking and did not craft a long-term vision. They are content with keeping themselves intact with minimal losses. They will remain dormant until the crisis has subsided.

Yet many Chinese entrepreneurs engage in deep self-reflection. They focus on the lessons that can be learned to avoid future crises. They also search for new opportunities to forge ahead and build their own future. They will proactively seek out greater development after the crisis. Reflecting on the nature of globalization, they contributed to both management philosophy and practices by taking part in formulating the rules of the game.

While China did not cause the financial crisis, there were reasons the Chinese economy and Chinese enterprises shared in the suffering that the downturn has inflicted. For example, industries had relied too heavily on exports, investments, high savings rates, and high consumption of low-cost energy. Years of rapid growth have masked problems in corporate strategy, organization, management and efficiency that have impeded the long-term, healthy development of enterprises. China should now seize the opportunity to speed up macroeconomic reform including structural upgrading, as well as reform of state-owned enterprises, to ensure sustained healthy economic growth. Otherwise, Chinese companies will have difficulty achieving sustainable profitable growth.

On the other hand, China’s nascent financial markets and relatively low degree of globalization buffered it from the worst of the global recession. However, as the opening up of financial markets and globalization are both irreversible, inaction and complacency among Chinese companies may mean that China will not fare as well in the next crisis.

Chinese executives need to be willing to derive lessons from the crisis, remain composed, combat complacency, discern the opportunities and pitfalls in the recession, deepen reform and improve management. Among the three building blocks for high performance identified by Accenture’s research on high performance, performance anatomy reflects managers’ mindset and culture, which the competitive of their companies’ strategies. We believe that if Chinese executives avoid complacency, transcend self-protection and learn the right lessons, while persisting in reform and accumulating global management experience, they can circumvent setbacks sustained by their international counterparts and build their own future.

They should also keep in mind that not being badly affected by the crisis does not necessarily mean that they have done everything right. Therefore, transformation should continue. From a long-term point of view, international management experience and best practice are still relevant for Chinese businesses. Looking beyond the crisis, Chinese executives should proactively infuse proved local ideas and practice into the global management knowledge base, and participate in developing sound management theories.
8. Looking beyond the crisis – concluding remarks

As we developed this report, the National Bureau of Statistics revealed that China’s GDP growth for 2009 reached 8.7%. China’s economy is heading toward a “post-crisis era.” The fact that China’s economy led the global recovery has garnered worldwide attention. At this critical juncture, seizing opportunities to revitalize China’s economy and ensure a smooth and sustained recovery is of vital importance. We recommend that Chinese enterprises do the following:

1. Understand the potential difficulties that could arise in the initial stages of recovery. For some industries, these early stages will be extremely difficult. They may even face greater risks than they did during the crisis.

2. Regularly review your responses to the crisis. Strategies designed to sustain competitiveness should be transformed into long-term strategies. On the other hand, moves that were made to ensure survival and maintain operations but that are detrimental to long-term development should be rectified as soon as possible, so they do not impede long-term sustainable growth and competitiveness.

3. Assess your industry’s value chain. Today’s market competition no longer takes place between individual enterprises, but between different business ecosystems and sectors. Enterprises must take steps to ensure that the industry ecosystems they lead are intact and ready for market competition.

4. Rethink consumer needs. The global financial crisis has affected consumers in complex ways, including prompting changes in consumer demand, purchasing behavior and available financial resources. Understand these changes, but also anticipate what consumer desires and behaviors will look like during the recovery. As a new growth cycle dawns, you can take the lead in developing strategies to differentiate your company from your rivals.

5. Embrace new challenges during prosperity. As the economic downturn eases, new challenges will arise, such as a general increase in operating costs caused by inflation, higher borrowing costs and financial costs induced by higher interest rates, lack of financing channels (especially for small and medium sized enterprises) and intensified competition for talent. Take precautions against all these possibilities.

An in-depth review of Chinese enterprises’ efforts to tackle the current financial crisis—including how they respond to challenges, how they overcome the short-term impact for long-term development, how they seek opportunities, and what lessons they should learn—will have far-reaching benefits. These include a stronger Chinese economy, more dynamic Chinese enterprises and China’s ability to become a world leader in innovation and management ideas. We believe that through profound reflection by Chinese enterprises, the government and every party interested in China’s economic development, this vast nation will embark on the path to greater economic development and become a major contributor to the global economy.
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