
Emerging Best Practices of Chinese Globalizers: Tackle the Operational Challenges

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.