The Boston Consulting Group

The 2012 BCG 50 Chinese Global Challengers

End of Easy Growth

Fast-Growing Companies Face Headwinds as They Expand

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Fast-Growing Companies Face Headwinds as They Expand

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AT A GLANCE

The era of easy growth for Chinese companies is coming to a close. They need to overcome a more challenging economy at home and become more skilled at exploiting global opportunities.

BCG Chinese Global Challengers

In recognition of the rapid ascent of Chinese companies, BCG has identified 50 fast-growing and globalizing companies.

Turning Point

Over the past ten years, the BCG Chinese global challengers have expanded faster than comparable multinationals based in developed markets. But they have lower levels of profitability, and growth is starting to slow.

Next Steps

To become global leaders, Chinese companies should embrace five strategic initiatives: take advantage of megatrends such as the rise of the middle class; strengthen M&A capabilities; establish capabilities beyond cost leadership; improve productivity; and develop global organization, management, and governance practices.

The era of easy growth for Chinese companies is coming to a close. Sales growth is slowing, while margins and profitability are under pressure. To reach the next level, Chinese companies need first to overcome a more challenging economy at home, where the days of relying on low labor costs, price competition, and a giant domestic market to fuel growth are over.

In recognition of the initial rapid ascent of Chinese companies onto the global stage—and in acknowledgment of the work they have left to do—The Boston Consulting Group has assembled a list of 50 fast-growing companies with global aspirations and momentum: the BCG Chinese global challengers. These companies are at a historical turning point, balanced between the successes of the past and the uncertainty of a more perilous future.

Other companies from other emerging markets have made the necessary shift. Cemex, a large cement maker based in Mexico; Vale, a mine operator based in Brazil; and IT giants Infosys and Wipro in India have become global leaders in their respective fields. It is now China's time. Are Chinese companies ready to move outside of their comfort zone and into positions of international strength and longevity?

The days of relying on low labor costs, price competition, and a giant domestic market to fuel growth are over.

China's Globalization Landscape

China's global presence has been on a steady climb over the past ten years. Between 2002 and 2011, the value of exports rose by 22 percent annually. Foreign direct investments, excluding those in the financial sector, rose by 43 percent annually—reaching $68.6 billion by 2011—and the value of outbound M&A deals rose by 30 percent annually.

As mature markets continue to struggle with the global slowdown, China's global role will continue to expand. Foreign direct investments by Chinese companies will likely rise by 15 percent annually between 2010 and 2020, according to the Ministry of Commerce. Chinese companies are also poised to create a few million jobs overseas between 2010 and 2020. In 2010, overseas employment at Chinese companies stood at 780,000.

The BCG Chinese global challengers are not necessarily the 50 largest, the 50 most global, or the 50 fastest-growing Chinese companies. The list—created by applying both quantitative and qualitative tests—is meant to broadly represent China's globalization landscape. (For methodology, see the sidebar, "How We Selected the BCG Chinese Global Challengers.")

Some of these companies are members of BCG's list of 100 global challengers from all emerging markets, while others are not. Huawei, the leading telecom-equipment maker, and Suntech, the number-one producer of solar panels, for example, are on the list of 100. On the other hand, Mindray, the number-three maker of medical monitors, as well as BGI are new challengers. They are smaller in size but not necessarily in ambition. (See Exhibit 1.) BGI, for example, currently controls one-third of the global capacity in high-end gene-sequencing machines. All of the top-ten global pharmaceutical companies are customers, and revenues reached about $235 million in 2011, up from $180 million the prior year. About 10 percent of BGI's employees work overseas.

The BCG Chinese global challengers range in size from $180 million to $300 billion in annual sales, with 22 of them falling in the $1 billion to $10 billion range. Nearly one-half of the companies are private, while 26 of them are owned by the state. The most represented industries are industrial goods, with 11 companies, and natural resources and consumer goods, both with 8. The alternative energy, health care, and technology and telecommunications sectors have four companies on the list each.

Globalization is a work in progress at these companies. Thirteen of them generate more than one-half of their revenue from overseas, while 14 generate less than 10 percent. The rest of them fall between those extremes.

Many of these companies are successfully taking market share from incumbents in

HOW WE SELECTED THE BCG CHINESE GLOBAL CHALLENGERS

To generate the list, we initially took a close look at more than 500 companies representing a range of industries, business models, and levels of innovation and globalization. Our goal was to present a full panorama of China's globalization landscape.

To qualify for consideration, each company had to be headquartered and have major operations in China, generate annual revenues of at least $100 million, and be profitable or demonstrate financial performance that greatly exceeds that of its peers. Furthermore, each company had either to hold a top-ten market position globally or be growing significantly faster than its peers.

Finally, each company had to demonstrate either proven ability to go international or the strong potential to do so by meeting at least two of the three following criteria: overseas revenues or assets exceeding 5 percent of total revenues or assets, strong international activities over the past three years, and proven global ambitions and established overseas positions.

We sought to achieve a balance of regions, industries, and ownership structures (private versus state-owned).

EXHIBIT 1 | The 50 Chinese Global Challengers Span Many Industries

Resources

Mining and metals
- Aluminum Corporation of China
- China Nonferrous Metal Mining Group
- China Minmetals Corporation
- China National Chemical Corporation

Oil and gas
- China National Offshore Oil Corporation
- China National Petroleum Corporation
- Sinochem Group
- China Petrochemical Corporation (Sinopec Group)

Industrial goods

Machinery
- XCMG
- Sany Group
- China National Machinery Industry Corporation
- Zoomlion Heavy Industry Science & Technology Development Corporation

Parts
- China High Speed Transmission Equipment Group
- Fuyao Group
- Wanxiang Group

Power equipment
- Shanghai Electric Group

Oil services
- Anton Oilfield Services Group
- Sichuan Honghua Petroleum Equipment

Other
- China National Materials Group Corporation (Sinoma)

Consumer goods
- Bright Dairy Group
- Galanz Group
- Goodbaby Group
- New Hope Group
- Zhangzidao Fishery Group
- Haier Electronics Group

Health care
- BGI
- Mindray Medical International
- Tiens Group
- Shandong Weigao Group

Technology and telecommunications
- Huawei Technologies Corporation
- Lenovo Group
- Neusoft Corporation
- ZTE Corporation

Alternative energy
- Goldwind Science & Technology Corporation
- Trina Solar
- Suntech Power Holdings
- Sinovel Wind Group

Transportation equipment
- China International Marine Containers Group
- China CNR Corporation
- China South Locomotive & Rolling Stock Corporation

Construction
- China Communications Construction Company
- China State Construction Engineering Corporation
- Sinohydro Group

Automotive
- Beiqi Foton Motor Company
- Geely Holding Group
- Chery Automobile Corporation

Financial institutions
- Bank of China
- Industrial and Commercial Bank of China

Logistics
- Cosco Group

Conglomerate
- CITIC Group

Source: BCG analysis.

their sectors, especially heavy equipment and alternative energy. Powered by overseas acquisitions, Sany and Zoomlion, for example, both rank in the top ten globally among construction equipment makers.

Over the past ten years, the BCG Chinese global challengers have expanded faster than their global peers—multinationals based in developed markets and operating in the same industries—and the S&P 500. Between 2001 and 2011, sales growth of these companies averaged 20 percent a year, compared with 7 percent for their global peers and 9 percent for the S&P 500.

Not surprisingly, the BCG Chinese global challengers have generated strong total shareholder return over the past decade, especially between 2006 and 2010, when they chased growth—sometimes at the expense of profitability and productivity. But, as Exhibit 2 shows, the focus on the top rather than the bottom line caught up with the challengers in early 2011, when shareholder return started to trail off. TSR has remained uncertain through the second quarter of 2012.

When TSR is broken into its component parts, the weakening equity performance makes sense. Since 2009, the margins of global peers have increased slightly, while they have declined for the challengers. In 2011, the profit margin of the challengers was 11 percent, compared with 18 percent for their global peers. (See Exhibit 3.) This compression in margins is hurting equity performance. (See Exhibit 4.)

Equity analysts expect sales growth of the BCG Chinese global challengers to slow from its recent lofty levels through at least 2014. Annual revenue growth of the challengers, excluding financial institutions and oil companies, peaked at 48 percent in 2006. After decelerating during the global economic crisis, growth reached 40 percent in 2010 but declined to 20 percent in 2011 and is likely to fall further over the next two years, reaching 9 percent in 2014. (See Exhibit 5.)

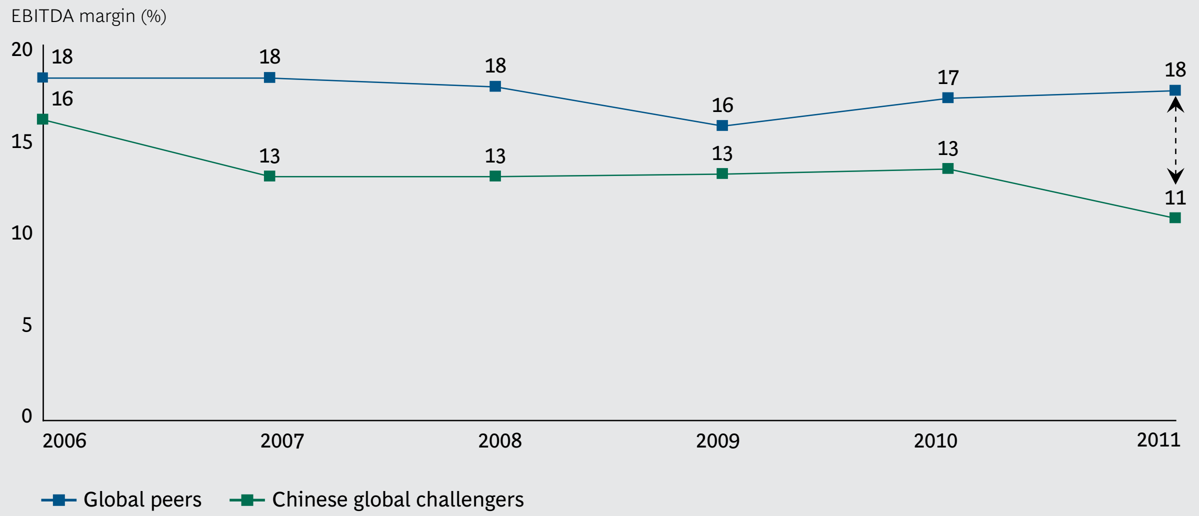
The Challenge Facing the Challengers

Facing slower growth and rising pressure on margins, many of these companies will find it hard to maintain their current valuations. This softening signals that it may be time for Chinese companies to move beyond the advantages that they have historically enjoyed. Aside from ingenuity and ambition, the challengers have bounded to success off of three springboards.

EXHIBIT 2 | Until 2011, the Challengers' Performance Was Stellar

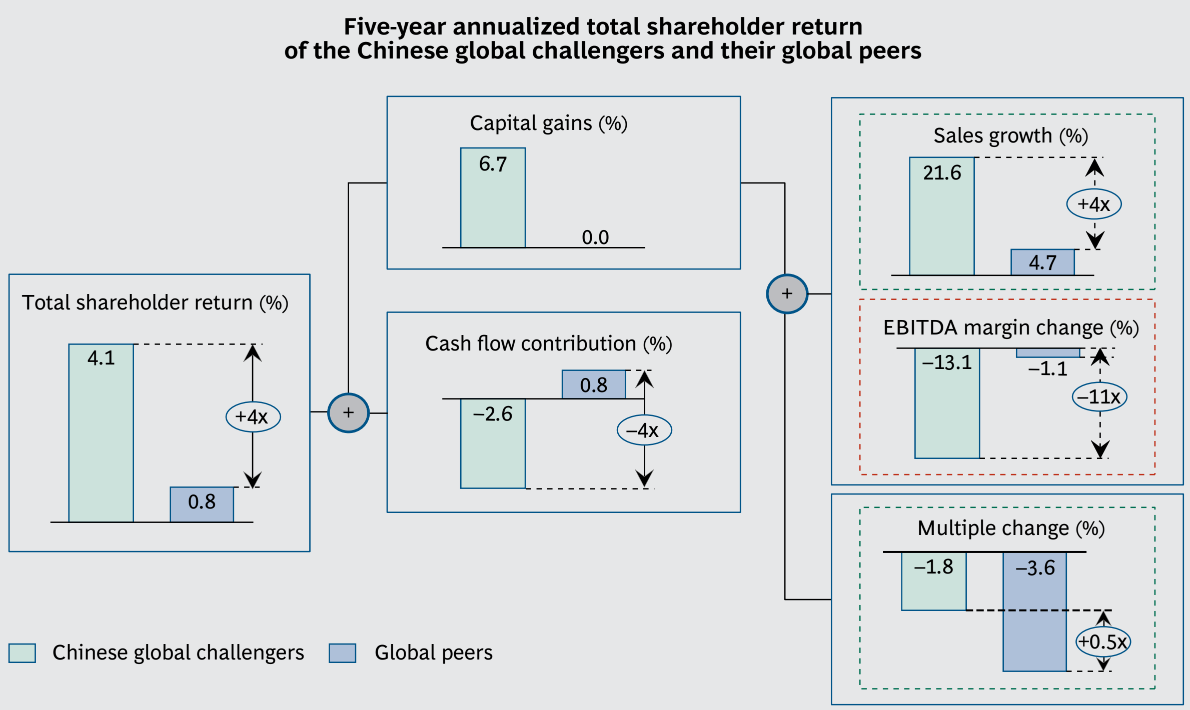
Sources: Thomson Reuters Datastream; BCG analysis.
Note: The index base was set on January 1, 2000, and the data were analyzed through June 30, 2012. All indices were weighted by the market capitalization of their constituent stocks and based on data from the 44 publicly listed Chinese global challengers. Global peers are multinational companies that are headquartered in developed economies and operate in the same industries as the challengers.

Exhibit 3 | The Profit Margin of the Challengers Is in Decline



Sources: Bloomberg; BCG analysis.
Note: Global peers are multinational companies that are headquartered in developed economies and operate in the same industries as the challengers. Oil companies and financial institutions are excluded from the analysis. The calculation does not adjust for market capitalization.

Exhibit 4 | Declining Margins Are Hurting Returns



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; company disclosures; BCG analysis.
Note: Calculations are based on the average of 30 Chinese global challengers (excluding financial institutions) and 169 global peers for which data are available since 2006. The five-year period ended December 31, 2011. The contribution of each factor is shown in percentage points of the five-year average annual TSR.

First, the size of the domestic market has enabled companies to acquire scale and, frequently, expertise that companies in other nations can only achieve through overseas expansion. In some heavy-equipment industries, the China market accounts for one-half of global demand. The rapid construction of new subway and rail lines in China, for example, has been a tremendous boon to China South Locomotive & Rolling Stock Corporation, the largest global maker of electric locomotives.

But this hypergrowth phase of China's economic development—which may have distracted Chinese companies from opportunities overseas—is over. Real GDP growth in 2012 is likely to settle close to 8 percent, the smallest increase since 1991.

Second, China's competitive cost position has been a strong point in winning overseas business. This is not just because of low labor costs. Scale advantages driven by the size of the domestic market and the standardization of product offerings help control costs. Chinese coal-powered-equipment companies, for example, have an estimated average cost advantage of 25 percent over established multinationals, half attributable to scale.

The nation's cost advantage, however, is shrinking, as labor and other input costs rise. Between 2012 and 2016, manufacturing labor costs are expected to rise by at least 10 percent annually, five times as fast as in many developed nations and twice as fast as in developing markets such as Thailand and Vietnam. Unit-labor costs are rising at the same time that the labor market migrates toward higher-wage positions.

Third, while state support is a well-ingrained feature of many national economies, China goes to great lengths to encourage and fortify strategic industries through

Exhibit 5 | Sales Growth Is Projected to Slow

Sources: Bloomberg; BCG analysis.
Note: Oil and financial institutions are excluded. Sales growth is calculated only if data exist for the prior year. Sales growth is based on aggregated revenue. Bloomberg sales forecasts are a consensus estimate of investment bank analysts.

standard setting, industry consolidation, export support, and financial incentives. Sany has received local government support to develop and retain talent. China National Materials Group Corporation, commonly known as Sinoma, is the largest global supplier of cement-making equipment and has benefited from the state-imposed consolidation of its industry. Favorable technology-transfer and indigenous-innovation policies allow Chinese businesses to absorb foreign technologies quickly. In fewer than five years, China has moved from importing key components for rail equipment to exporting them.

At the same time, however, multinationals are getting better at competing against Chinese companies. In the telecom equipment sector, one of the first advanced industries to fall victim to these advances, Western competitors have battled back. At Nokia Siemens Networks, 55 percent of employees are now based in emerging markets, double the total five years ago. Ericsson's acquisition of some of Nortel's wireless-equipment businesses solidified the company's position and helped prevent Chinese competitors from making a bold move in North America. Ericsson has focused on building its revenues from managed services, a business in which Chinese competitors are not as competitive. While these telecom-equipment makers still face tough business challenges, they are in better shape than they would be had they stood still.

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The message is clear. BCG Chinese global challengers—and companies aspiring to similar success—urgently need to develop novel ways to compete in this new environment. Few Chinese companies have established world-class capabilities and skills to match their ambition. They need to become more adept at exploiting global opportunities by maximizing the benefits of productivity and scale, developing innovative products tailored to overseas markets, acquiring and integrating companies, creating global organizations and brands, and developing deep talent pipelines.

The Right Stuff

Many of the Chinese global challengers have already started to reorient their strategy, operations, and practices toward the future. At least five strategic initiatives will help these companies become global leaders in their industries: taking advantage of megatrends favorable to Chinese players, strengthening M&A capabilities, establishing capabilities beyond cost leadership, improving productivity, and developing global organization, management, and governance policies.

Taking Advantage of Megatrends

At least four prevailing shifts present opportunities for farsighted companies: the rise of the middle class in emerging markets, the building of the "new world" through massive infrastructure projects, the increasing scarcity of natural resources, and the growth of new trade routes through China and other emerging markets.

The Rise of the Middle Class. Over the next 20 years, billions of people will join the middle class in emerging markets. This group will make up 30 percent of the global population by 2020. There will be nearly 1 billion middle-class consumers—some 320 million households—in China and India by 2020.

Many middle-class citizens still have markedly lower incomes than their counterparts in Europe, Japan, and the U.S. In China, for instance, we define middle-class households as those earning from $7,300 to $23,200 per year in 2010 dollars. But these households have middle-class aspirations, and their growth is fueling demand for previously unattainable products, ranging from home furnishings to health care to financial services.

Many Chinese companies should have a head start in reaching these overseas emerging-market populations. The needs and buying patterns of these consumers are similar to those of the growing middle class in China, which they have served for the past ten years.

Middle-class growth is fueling demand for previously unattainable products, ranging from home furnishings to health care to financial services.

Members of the new middle class have shown a particular desire to take care of their health, and Tiens Group, one of the world's largest nutritional-supplement companies and one of the 50 challengers, has tapped into this opportunity. The company has branch offices in about 70 nations, mostly in Asia, Africa, and Eastern Europe. Revenues have been growing by 12 percent annually since 2007, reaching $4.5 billion in 2011.

Building the "New World." Emerging-market cities need better housing and infrastructure—including transportation, water, sanitation, and electricity. These needs will require an estimated $30 trillion to $40 trillion in spending by 2030—roughly 60 to 70 percent of the total global investment in infrastructure during that period.

Sany and Zoomlion have made use of the spending thus far to become the sixth and seventh largest global construction-equipment manufacturers. Sinoma has acquired a 40 percent global share in the cement equipment market by helping developing countries to build their cement-production capability. The company has partnered with leading research institutions, has developed efficient manufacturing processes, and has taken advantage of government-backed loans.

The Scarcity of Natural Resources. A voracious user of energy, China is committed to both acquiring new sources of traditional energy and developing alternative sources to feed its economic growth. Largely through acquisitions, major Chinese energy players are trying to create a global footprint to compete against competitors. In July, for example, the China National Offshore Oil Corporation offered $15 billion for Canada's Nexen, which has proven reserves in the Gulf of Mexico, the North Sea, and Canada. Sinochem Group has also been completing smaller deals over the past decade.

The government wants to increase the share of nonfossil fuel to 11.4 percent of total energy consumption and to reduce carbon dioxide emissions by 17 percent per unit of GDP. Goldwind, the second largest global maker of wind-power equipment, has been growing annually by 43 percent since 2007. In 2010, it signed a $6 billion line of credit with the China Development Bank to finance overseas expansion and global growth. International sales made up 9 percent of revenue in 2011, up from 2 percent the prior year. It is building large wind farms in Australia, the U.S., South Asia, Latin America, and Africa.

The Development of New Trade Routes. While Europe and North America will continue to be important trade destinations for China, volume to Africa, Latin America, and Southeast Asia is growing more swiftly. Exports to these regions, as a share of total exports, rose 5 percentage points to 19 percent between 2006 and 2011, while exports to mature economies fell.

The expansion of these routes provides an opportunity for companies excelling at logistics and other trade-related services. Cosco, which has a large container fleet and is the biggest dry-bulk carrier, visits more than 1,600 ports and owns 32 terminals worldwide. Increasingly, it is focusing on providing value-added services to customers, not just carriage. Its container capacity has been expanding 11 percent annually since 2007.

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Strengthening M&A Capabilities

Chinese companies have followed a wide variety of approaches to build a global business. Their choices can be placed along two dimensions: whether they initially started expanding in emerging markets or mature markets and whether they have relied primarily on organic growth or M&A transactions. Geely, Goodbaby, and Mindray all entered mature markets first but by different means—Geely through acquisition, Goodbaby through organic growth, and Mindray with a blend of both. China State Construction Engineering Corporation has focused on organic growth in emerging markets, while Sinochem has relied on M&A.

Increasingly, expansionary Chinese companies will need to rely on M&A to achieve some of what they want to accomplish overseas. In many markets, it takes too long to build a business organically because of strong legacy commercial relationships that are difficult to penetrate. And Chinese companies have specific needs for technology and capabilities that M&A can address.

To date, however, few Chinese companies have developed a mastery of the M&A and postmerger integration processes. Executives of many large companies in mature markets understand the typical process or pattern of strategic preparation, execution, and integration required for success. But for many Chinese executives, dealmaking and deal integration are still foreign concepts. Their deals frequently fall short of their original goals.

At least four constraints have limited the dealmaking ability of Chinese companies. First, they suffer from a lack of experience. Many Western companies have spent 30 or more years developing capabilities in evaluating, executing, and integrating deals.

Second, cultural differences have impeded Chinese companies in integrating and running foreign companies. English is not spoken widely in the executive suites of most Chinese companies. Many of these companies are unaccustomed to international management practices and have consequently promoted Chinese natives into top positions of their foreign businesses.

Third, government approvals in mature markets have prevented some deals proposed by Chinese companies, especially state-owned enterprises. The failure of these deals reflects three realties: the inability of Chinese companies to build respected global brands, the limited trust that policymakers and executives have in Chinese companies, and the failure of Chinese companies to build strong ties with global stakeholders.

Finally, a lack of transparency—which is linked to the prior point—creates uncertainty among potential partners and targets in mature markets and leads to increased government scrutiny of large-scale transactions.

Chinese companies are starting to take a "leave and learn" approach—leaving the acquired business alone and trying to learn best practices from it.

Learning from their earlier mistakes, some Chinese companies are starting to take a "leave and learn" approach. They increasingly leave the acquired business alone and try to learn best practices from it. "Geely will continue to be Geely, and Volvo will continue to be Volvo. They can't be integrated and must be separate," said Li Shufu, chairman of Geely after its acquisition of the Swedish automaker.

Minmetals followed this approach when it bought Australia's OZ Minerals of Australia, the second-largest zinc-mining operation, in 2009. OZ had zinc, lead, and nickel mines that Minmetals lacked. Minmetals promised to let the Australian mines operate independently, leave the strong OZ management team in place, allow the sales force in Australia to set local prices, and establish the headquarters of the merged entity in Australia. Minmetals executives also tapped into the knowledge and expertise of their new Australian colleagues in operating large mines and sought their help in evaluating a Minmetals copper-mine project in Peru.

While the leave-and-learn approach is starting to allow Chinese companies to acquire critical overseas capabilities and outposts, many of them will eventually need to integrate operations in order to garner the benefits of global scale and reach and leverage their combined advantages. Leave and learn also only works when the target is healthy—it is an expensive tactic when the acquired company is troubled.

Establishing Capabilities Beyond Cost Leadership

China is commonly associated with low costs of both goods and labor. This perception is built on a reality that is quickly fading. While parts of China will continue to have lower labor costs than mature markets for many years, rising wages are eroding China's advantage as an exporter. The manufacturing of computers and electronics, for example, is already starting to move from China to other low-cost locations.

Looking beyond cost as their primary source of advantage, farsighted companies have started to create strengths in R&D, manufacturing, products, distribution, and branding. Mindray, the maker of patient monitoring devices, was founded in 1991. The company recognized that it could capture share by delivering comparable quality to existing products at a much lower price by keeping its development and distribution costs low. Rather than compete against established companies at the high end, Mindray sold to midsize and small hospitals and clinics by undercutting its rivals' costs by up to 40 percent.

In 2008, Mindray shifted its approach and acquired Datascope, an established U.S. brand at major hospitals, in order to broaden its product offering, distribution channels, and customer base. Mindray is now building a direct sales force in the U.S. and several European nations. It is also meeting specific customer needs with customized products. Since 2007, sales have increased 32 percent annually, with overseas sales moving from 51 percent to 58 percent of the total. Huawei has also moved up the ladder by focusing on both R&D and product development. The company is committed to devoting at least 10 percent of annual revenues on R&D. But money alone cannot create advantage. In the late 1990s, the company began to focus on the product development process. R&D, sourcing, production, and sales were segregated, so that the people developing products had very little awareness of what the market wanted. To cure that deficiency, small teams with representatives from each department were formed. These teams have successfully created products that have been much better received in the market.

Goodbaby, the largest global maker of baby strollers, has moved beyond costs by focusing on product, brand, and line extension. Founded in 1989, the company initially tried to enter the U.S. baby-stroller market on its own but was unsuccessful. It switched gears and started to partner with more established companies and to sell cobranded products. In the U.S., it teamed up with the Dorel Juvenile Group, an established Canadian company. The partnership began in 1996, and by 1999, it was the leading seller of strollers in the U.S., with a 28 percent market share.

Many companies have started to focus on improving productivity through the adoption of lean management and manufacturing processes.

About ten years ago, Goodbaby developed a private-label brand. It also began sinking 4 percent of revenue into R&D, about twice the average in the toy industry. Today, the company has created a full range of juvenile products, including car seats, bassinets, and playpens. Its strollers range in price from $30 to $600.

Improving Productivity

Recognizing the limits of low cost as a competitive advantage, many Chinese companies have started to focus on improving productivity through the adoption of lean management and manufacturing practices. There are four critical elements to creating a lean organization.

First, companies need to instill lean business requirements, setting the right ambition and operating model, supported by explicit targets. Cosco, for example, has created targets to reduce the cost of parts by 8 to 10 percent, to improve port turnaround times, and to lower energy costs.

Second, Chinese companies also need to institute performance governance measures to ensure that overall corporate objectives are met. Chinalco, the mining company, has created a centralized worker-management system that helps to address fluctuating demand and employee downtime.

Third, companies need world-class business processes. These processes will generally support standardization and an end-to-end view of the business. XCMG, a heavy-machinery manufacturer, spends more than $3 billion on procurement. A single product may consist of more than 100,000 parts from more than 1,000 suppliers. The company created a centralized IT-procurement tool that provides clear data on each part and supplier and enables XCMG to take advantage of its size and scale. In 2011, the system generated about 20 percent in savings.

Finally, productivity depends on employee engagement. Employees are frequently the best source of efficiency ideas. High-performance organizations keep a finger on the pulse of their people, regularly measuring engagement levels and actively managing engagement during reorganization and large-scale change efforts, when it is likely to fall. For example, Cosco employees from every department are encouraged to provide productivity improvement ideas in its "Lean cost and high efficiency—You and I should be involved" campaign.

Developing Global Policies

A company can have vast overseas operations and still not be a global company. Because of their historical cost-leadership position, many Chinese companies have been able to build overseas sales without creating a global operating model, global organization, and global worldview. They are still rooted in their home market.

Many companies have been able to build overseas sales without creating a global operating model, global organization, and global worldview.

Companies from mature markets are struggling with the same challenge, but the Chinese have much further to go. They should be focusing on three broad elements that will help unify many ambitious local and regional efforts.

Create a global organization. Organization design can help companies improve execution and achieve strategic goals. A well-designed structure should emphasize what matters most to an organization. It is impossible to accommodate all dimensions—regions, business units, and functions—equally. A company focusing on future performance in key markets, for example, might organize businesses by region rather than channels. Its executives would, then, need to take careful steps to ensure that channels were receiving proper support even though they did not form the dominant axis in the organization.

A corporate center can both help and hinder globalization campaigns. Two extreme patterns of management behavior can upset the balance between the center and overseas units—and derail efforts to realize sustained performance.

At one extreme, the center overregulates local operations and fails to adapt to local markets. At the other extreme is the common mistake of overdelegation to local businesses. Between those two extremes lies another misstep that companies often make: an ad hoc approach to each market with no coordinating structure.

By contrast, a strong and focused—yet lean—corporate center can help to create competitive advantage. Successful globalizers such as Unilever and General Electric are managing multiple business models and striking the appropriate balance between the global benefits of scale, standardization, and coordination and the local imperatives of empowerment, speed, and innovation tailored to local priorities and circumstances. Their centers also serve as knowledge hubs, gathering the best ideas and practices of local operations and informing other parts of the company.

Minmetals has started to achieve a global organization by reducing the number of layers and clarifying the relationships among its main business, the operation of mines, and the necessary support functions, such as real estate, finance, and research.

Develop a diverse talent pipeline and understand cultural differences. Recruiting and retaining talent have always been a struggle for companies with global aspirations, and today the challenges are larger than ever. As more companies go global, the demand for talent increases at the same time that the retirement of the baby boom generation in the West shrinks supply. With demand rising and supply dwindling, companies are finding that talent, especially in emerging markets, is one of their most critical challenges. Chinese companies will need to raise their investment in talent management, treating human capital with the same rigor as financial capital.

Talent is an especially critical issue for Chinese companies. Language and cultural barriers often steer them toward hiring Chinese natives and promoting from within. They frequently do not exhibit the diversity in talent or delegation of authority needed to manage a complex, global organization, and they often base decision making solely on trust and experience.

In overseas markets, Chinese companies need to be especially sensitive to cultural issues. Cosco, the shipping company, faced cultural resistance when it took over Greece's largest container port in 2009. Greek workers initially opposed the takeover and declared a strike. Cosco responded by listening to worker grievances and improving both working conditions and the overall skill level of employees. By working closely with its Greek employees, Cosco eventually was able to improve the port productivity by a factor of six.

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Talent issues often get thrust upon a company as a result of M&A. Lenovo's acquisition of IBM's personal-computing business in 2005 required the company to start managing talent globally. "We can't simply copy the process we developed for the China market to other emerging markets. That won't work," said Chen Shaopeng, the former senior vice president and president of emerging markets at Lenovo in 2010. "Instead, we need to be highly localized in those markets, provide high flexibility and autonomy to the local management teams so that they can develop the local markets according to the local market characteristics."

Lenovo has tried to encourage local managers to manage local businesses rather than control decision making from headquarters. In local markets, executives are encouraged to take initiatives and to customize product offerings.

Improve corporate citizenship and stakeholder management. As companies grow larger in size, so does their influence over commerce and society. A company is not an island unto itself. Senior leaders need to start managing the business with a longer view, playing a positive role in key industry, economic, and societal issues. In many markets, a galaxy of stakeholders, such as nongovernmental organizations, play a role in business activities.

Some Chinese companies, including Huawei and Trina Solar, have become active participants in global standard-setting bodies. Their participation signifies both the growing technological sophistication of China and the willingness of Chinese companies to participate in—and abide by—global rule making. Cosco has been active with ten international ports to improve safety and efficiency, reduce waste, and develop "smart" ports through advanced logistics measures.

Act Now!

The BCG Chinese global challengers were selected based on past success. Their future success will depend on how well they improve profitability amid declining growth rates and if they can achieve their global ambitions. "Globalization is very essential to Sany. Whether the globalization strategy succeeds or not will determine the success of Sany," said Liang Wengen, chairman, in 2010.

Although they have made great strides in the past five to ten years, Chinese companies still have a long way to go. While their overseas revenue levels are rising rapidly, asset and employment levels remain low, suggesting that these companies are still in the process of reshaping their organizations. Some of them, such as Suntech, have started to acquire significant asset bases overseas, but few of them have large numbers of employees that would force them to actively manage businesses that span several countries. And fewer still are working on global brand development, global talent pipelines, global innovation strategies, and global governance.

The globalization campaigns of most companies around the world, not just in China, are closer to the start than the finish. The difference is that Chinese companies have a cleaner slate than many mature-market companies with legacy assets and traditional business models. But time is a wasting asset. The companies that move swiftly and smartly, by taking advantage of the five strategic initiatives outlined above, will win.

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