



THE BOSTON CONSULTING GROUP



CHINA ENABLEMENT CENTER

# A U.S. \$10 Trillion Challenge

*A Playbook for China's Companies on Their Way to World-class Productivity*

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# A U.S. \$10 Trillion Challenge

## *A Playbook for China's Companies on Their Way to World-class Productivity*

### Executive Summary

Between now and 2030, China's annual GDP is projected to increase by more than U.S. \$10 trillion. This growth will come without a significant change in the size of China's workforce: it will be led by further investments in physical capital, and more and more by human capabilities that increase output and productivity per person. The importance of productivity is not new—but we are shifting from a first phase built on capital deepening and relatively low-skill jobs to a second phase that depends much more on capabilities. We are not at an inflection point in China's growth; we are at an inflection point in how companies will help China realize its potential. What does this broad change mean for companies? If you are running a company, what does it mean for you? It means more than just automation and training and changes on the factory floor. It means addressing the very foundations on which your company is built.

This report, based on The Boston Consulting Group's work with entrepreneurs and management teams here and around the world, identifies four capabilities that will differentiate winning companies in China in the next decade: strategic capabilities, governance and leadership models, management systems, and finally people and team capabilities.

This report launches a series of publications on key drivers for China's next decade. These reports from BCG's China Enablement Center (CEC) will build on elements of this playbook and introduce more specific topics in the future. Macroeconomic and industry implications of China's maturing economy set critical context for these lessons, but these contexts are well covered by others and we only highlight main themes. We call these reports "playbooks" because they are about specific lessons for companies that want to lead and achieve world-class status. The CEC is focused on pragmatic solutions enabling those companies.

We welcome your comments on this paper and invite companies to join our research. If you would like to get involved in the China Enablement Center, please contact us.

### Macroeconomic Contexts

Measured in 2011 U.S. dollars, China's GDP in 1980 was about \$350 billion, and its per capita GDP was just over \$350. Now in 2011, Japan released GDP figures that confirmed expectations: China had passed Japan to become the world's second largest economy after the United States. The Economist Intelligence Unit (EIU) estimates China's 2011 GDP at \$6.8 trillion, versus \$6.0 trillion for Japan and \$15.3 trillion for the United States. China's per capita GDP has grown more than ten-fold since 1980. Yet, by this measure, at just over \$5,000 per person, China still falls below Cuba, Angola, and Thailand.

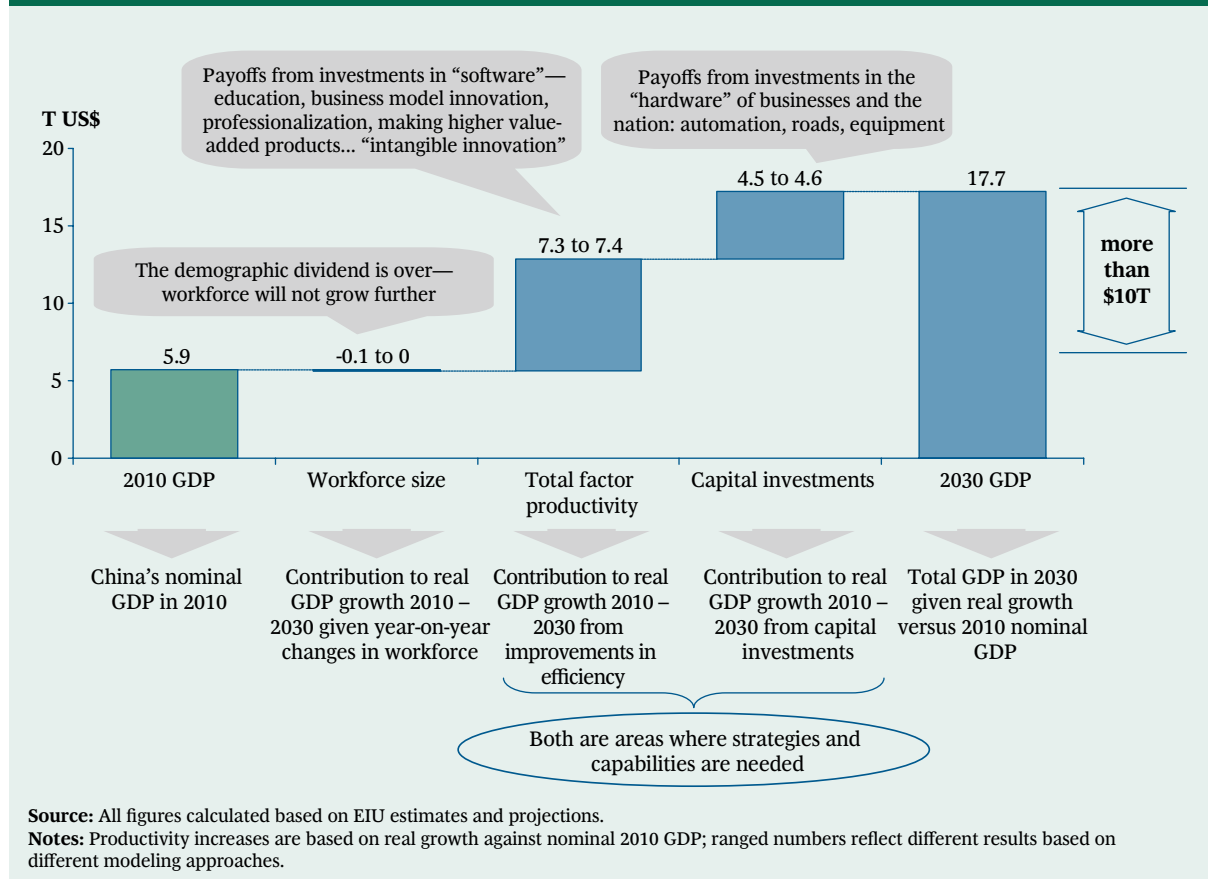
This per capita figure highlights the enormous yet-to-be unlocked potential and the challenges for China's future growth. With its large population, if China's per capita GDP today matched that of the United States, its economy would be larger than all of NAFTA and the European Union combined. And expectations for

China’s continued growth are huge. Projected real GDP growth potentially adds more than \$10 trillion in goods and services to China’s annual output by 2030. (See Exhibit 1.)

China’s growth in the past decades reflected smart policy choices by Beijing and local governments, the daring of many entrepreneurs, and some measure of luck. But the fundamental basis of China’s development must change for these great expectations to become realities. Will the next decades live up to the precedent that has been set?

There is a simple reason the basis of China’s growth must change: easy access to surplus labor will fade soon. For the last 30 years, extraordinary gains have been possible by moving people from low-productivity rural work to cities and into factories. With reform and opening under Deng Xiaoping after 1979, China started on a path from isolation to where it is today. Inside China, liberalized internal migration permitted people to move to the coasts and take jobs in factories and offices. At the same time, with the lingering effects of a Mao-era baby boom, China enjoyed a low dependency ratio—allowing young people to migrate with less immediate concern for family obligations. Practically, for companies, this has meant that the next unit of output could basically be had for the cost of an additional person—that is, by scaling business and production models rather than adjusting them.

### Exhibit 1. Decomposing China’s Growth Engine to 2030



Today, China has roughly 815 million workers. Based on projections from the United Nations and China's National Bureau of Statistics, this figure is expected to fall by about 1 percent in the next five years, then rise by about 2 percent to 827 million in the middle of the next decade, and then start a sustained decline. At the same time, China's total population is increasing—meaning that the ratio of wage-earners to dependents will grow as the generations born in the 1950s and 1960s retire. Coastal factory jobs no longer offer dramatically higher wages than alternatives. China is a more integrated, more mobile society than it was thirty years ago. But China's great migration and demographic dividend are coming to an end.

What is left? China's growth can and must be built on sustained increases in productivity per person. Achieving this will come partly through further investment in economic “hardware”—including roads, railways, telecommunications, utilities, and production equipment. More importantly, it will have to come through greater investment in economic “software”—the capabilities of individuals and the processes that define how teams get work done. Economic models that take apart these two effects point to the increasing importance of “total factor productivity,” a measure of the effectiveness of people, tools, and processes. EIU projections above in Exhibit 1 show U.S. \$7.3 to 7.4 trillion in new GDP by 2030 coming from this effect. At a macroeconomic level, this means that China will move up the “value curve”—from lower to higher value-added production of goods and, increasingly, into service industries and knowledge work.

The 12th Five-Year plan emphasizes this change: structural reform of the economy is seen as critical to further growth. China is approaching a turning point, and can choose to follow a path of further economic efficiency, or one of wage inflation and stagnation at a middling level of per capita income. But while the government can show the general path in its plans, concrete change will have to be built on many small actions. The future of China will reflect choices that are being made in executive suites and boardrooms today. It will also reflect future innovations that come from individuals and teams on shop floors and in local sales meetings.

Many executives know that it takes many smart investments across different productivity levers to build truly sustainable competitive advantage. They will use the hard lessons learned in similar transitions in other places and other times to gain experience. And they will as well see where paths in China must be different. The past decade has been a “gold rush”—a grab for position and share in China and from China. But easy games built on scaling up successful models are now ending.

What does the change mean for microeconomic actors—managers, management teams, and companies? What does it mean for your company? There are several basic opportunities and risks ahead. Managing these is critical both to long-term success and also to your company's survival.

### Four Capabilities for the Next Decade

Our work with companies in China and around the world points again and again to a single factor for success when companies, industries, and economies hit inflection points in their growth: *capability*. Capability, at a company level, is the sum of many individual capabilities built into management systems, into how people are developed, and into leadership and governance processes. It is *inner strength* in all of these things. It is inner strength spread through an organization so that the whole can respond, endure, and thrive in the face of change.

Enabling an organization—building capabilities and inner strength—is not a mysterious thing. It is practical work that is difficult only because it requires the effort and persistence to take many small steps and stay a

course in the face of setbacks. From our work, we have found that there are four capabilities that will mark those companies that reach world-class status in the next decade. The capabilities are :

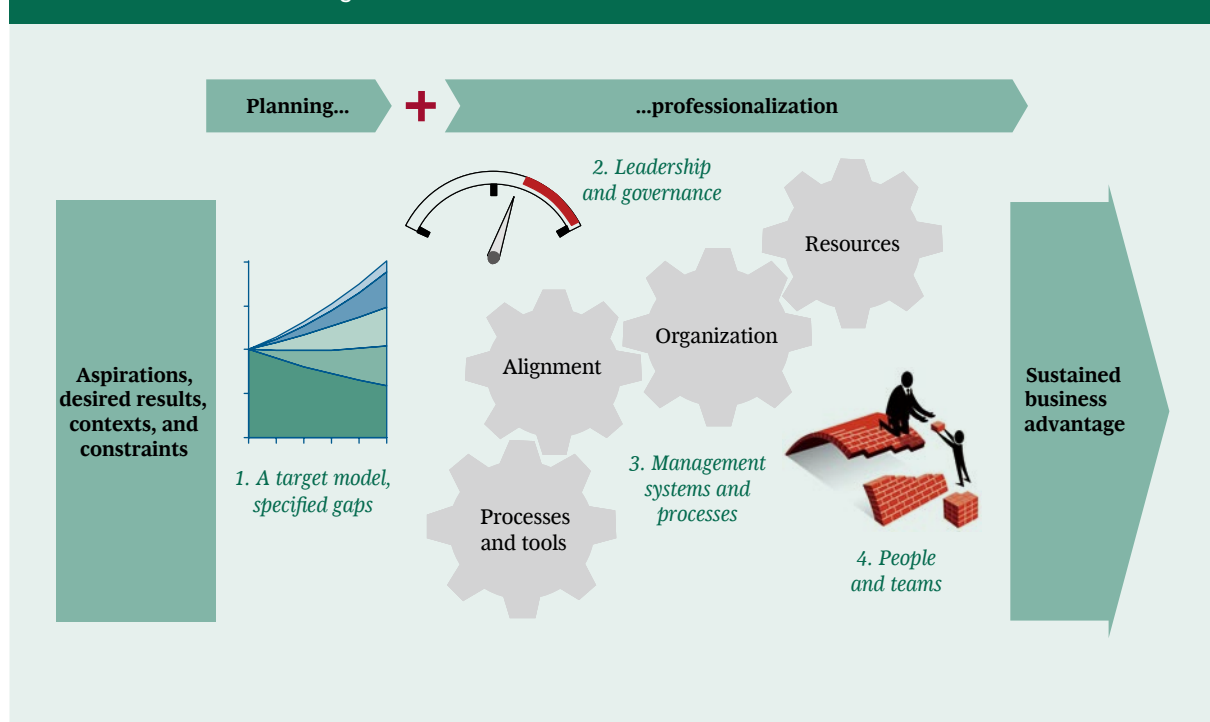
- ◇ Systematic planning for competitive advantage
- ◇ Leading and governing for flexibility and focus
- ◇ Creating and maintaining strong management systems
- ◇ Developing productive and innovative people and teams

The first capability is foundational: the ability to systematically plan business growth towards a target business model that delivers competitive advantage. How much growth will come from scaling what you do now to more markets and new geographies? How much growth will come from innovation and new business approaches? What concrete steps are needed to put the elements in place?

The other three capabilities are about building the engine that combines leadership and governance, management systems, and people and teams to execute for competitive advantage. (See Exhibit 2.) Building this engine is a process of *professionalization*. It needs to be strongly linked to the first capability: if companies just develop their management systems or people capabilities according to some generic “best practices”, they will fail as soon as their advantage is not based on cost any more.

## Exhibit 2. Defining an Execution Engine and Tuning it to Purpose

Four Dimensions for Enabling World-class Performance



We phrase these four capabilities in a positive light because they will distinguish future winners—as they have set apart winners in the past. But they could equally be treated as negative lessons, and there are companies that have failed or had near-death experiences because they did not have structured, forward-looking playbooks ready when it mattered.

On a global level, sustainable competitive advantage in leading companies brings together a combination of capabilities. Some examples:

- ◇ General Electric combines a sophisticated governance and management system with strong approaches to talent development.
- ◇ The success of BASF, the global leader in chemicals, is based on strict adherence to well-defined processes and a “Verbund” business model that integrates across business units.
- ◇ Toyota over many years built its leading position by innovative management systems and strict governance systems applied from plant floors to management suites.
- ◇ Cemex, a leader in the cement industry, anchors operations and leader behaviors to a “Cemex Way” that has ensured alignment across geographies as that company has grown.

Many global leaders have developed capabilities and adapted them to specific situations and sources of competitive advantage over decades. China’s companies are just starting to become more sophisticated. An accelerated path to world class is based on three pillars:

- ◇ Understanding in detail how global leaders’ practices work: how do they plan, how do they govern their business, what processes and tools do they use, and how do they develop their people? This requires a willingness to invest in benchmarking and learning.
- ◇ Then, as importantly, customizing solutions to your company’s specific situation. This requires a willingness to invest in projects that build solutions based on a deep understanding of your company and its strategy, competitive threats, and where you need to be better-than-best-in-class.
- ◇ And finally, systematic plans and resolve to create the necessary capabilities through the whole organization. This final step requires strong project management and investment in your people and teams through formal training and learning-by-doing.

Often in China, such transformational investments in change are made only when an IPO is planned, when a large M&A requires changes, or when a relevant government agency sets new policies or KPIs. But a look at global leaders shows that they continuously work on and invest in transformation. Bigger changes are triggered by large events, but on-going improvement is programmed into these company’s ways of working.

These companies ensure three success conditions are always met:

- ◇ The capabilities are customized—as mentioned above—to fit how your company can and should grow and reflect your fundamental strategy rather than local optimizations.

- ◇ The process of customization is treated as a collaborative, learning experience led by people who will own processes.
- ◇ This process of developing new capabilities enables individuals and teams to self-perform the processes they have learned through defining.

This last point bears reinforcement. As China's economy matures and its companies grow and get to world class, most will necessarily outgrow models that may work today. Where direct, hierarchical control and single dimensions for optimization are good enough for now, tomorrow they will be recipes for failure because they do not allow innovation and do not cope with complexity well. We will come back to this aspect at several points below as we describe each element of the playbook in more detail.

### Capability #1: Systematic Planning for Competitive Advantage

As China's gold-rush phase ends, competitive advantage based on position and capabilities grows in importance. The bases of advantage are increasingly defensible because it is no longer as easy for others to imitate by hiring people and throwing up a factory. Labor markets are less defined by new migrants and first-time entrants. Scale matters more. Position in now-established industrial clusters also matters more. End markets and brand perceptions are less fluid. Facing this new landscape, companies must do *specifically* something that they have done *loosely* in the past: make links between market and operating strategies. For all the reasons listed above, scaling existing operating models and organizations on an as-needed basis will no longer be possible or sufficient.

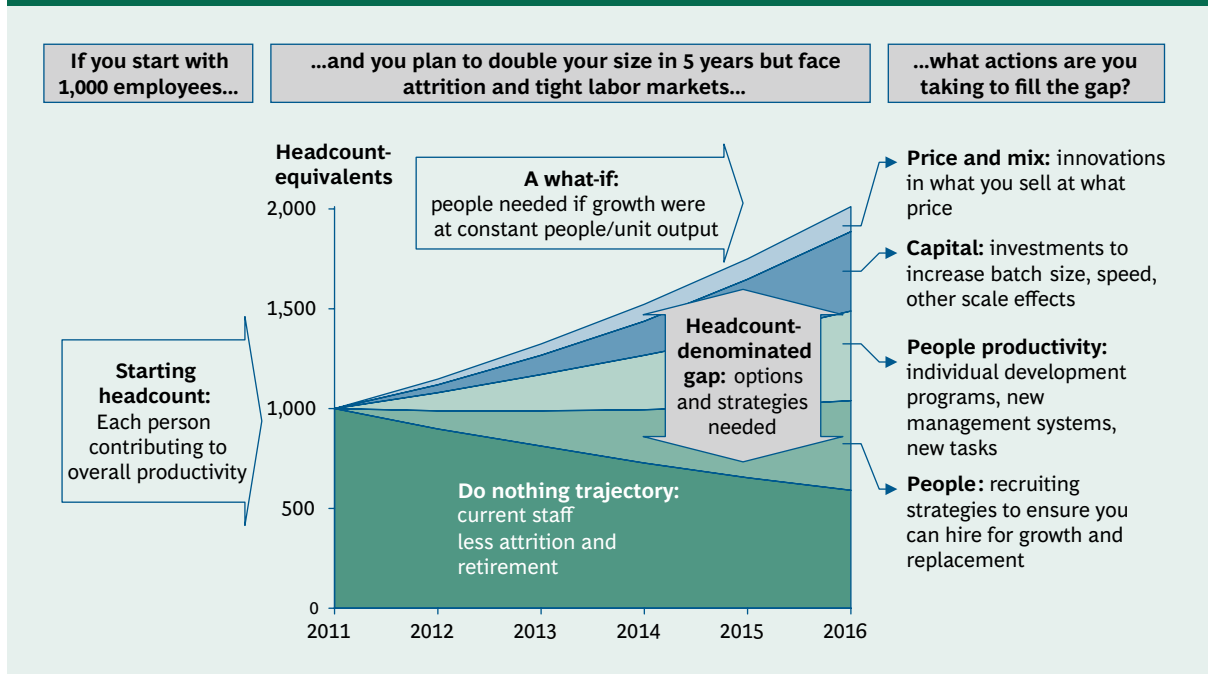
As economists and policy makers look into China's future and calculate what can and will drive GDP growth, each company needs to do the same. When a company makes its first investments in a market or segment, it typically recognizes that investments across physical plant, people, and market access need to be managed as a program. If you are a successful entrepreneur, you may have done this intuitively and out of immediate necessity. You knew different aspects of building your business needed to be coordinated: developing infrastructure, hiring people, finding partners, and getting systems in place. But once a business is running, growth management is often less coordinated. Companies may have strategic plans but lack blueprints for balanced builds. Too many companies in China today have a clear plan for the next six months, a grand vision for the future, and nothing in-between. A simple exercise helps set out what is required to fill this gap. (See Exhibit 3.)

Assume your company starts with 1,000 employees and aspires to increase sales by 15 percent per year. If you expand while holding a constant ratio of headcount/sales, in five years you need to employ 2,000 people. This assumes that you enjoy no benefits from scale, and that each salesperson sells just as much as before, and so on. This is a useful calculation because many companies fund but do not detail out business plans. At the same time, it sets up the following questions:

- ◇ Can your current business model grow to meet expectations, or do you need to define a new target model that will be capable and efficient when you operate at two times current sales?
- ◇ Of your growth, how much will come through innovation in what you sell and the price you sell it at?
- ◇ Of your growth, how much can come through new capital equipment and economies of scale from innovations in production technology?

### Exhibit 3. A Simple and Useful Analysis

Planning on a Per-capita Basis



- ◇ Of your growth, how much will come from increasing the skills of individuals, the capabilities of teams, and innovations in management systems?
- ◇ Of your growth, how much will be achieved by hiring more people (or reducing attrition)?
- ◇ Are you sure that you have the right balance of contributing factors and that you are making timely investments and innovations now to enable this productivity when it will be needed—or will uneven growth create hidden strains, inefficiencies, and complexities that reduce your company's potential?
- ◇ Is organic growth realistic, or do you need to consider mergers and acquisitions to acquire people and productivity—or contrarily, can you see an organic path that avoids the complexities and premium costs of M&A activity that you had anticipated?

Talking about growth in terms of headcount forces consideration of how much productivity per person you need. In turn, this forces choices of specific actions to enable productivity. Given population dynamics in coming decades, this is not an academic exercise. In one company we recently worked with, the headcount denominated gap to be filled was some 20,000 people worth of productivity—far exceeding the number of qualified workers who could feasibly be hired and far exceeding existing plans for developing the organization's capabilities. This forced definition of a portfolio of actions across all of the above levers, from new hiring programs to focused M&A.

Being able to address the above questions in a systematic and timely manner is not ensured by a few strong leaders with enough experience, but requires strategic planning capabilities that many Chinese companies are just starting to develop. This includes market and competitive intelligence, regular strategic planning cycles, scenario building capabilities, and open strategy discussions between the diverse parts of a larger organization.

### **Capability #2: Leading and Governing for Flexibility and Focus**

The second element of the playbook is perhaps the most difficult. Leading and governing for flexibility and focus means simultaneously optimizing on different dimensions and to multiple timelines.

As stated above, many of China's companies are facing turning points in their development as the sources of growth in China's overall economy are shifting. Entrepreneurs and teams that have built companies must professionalize and simultaneously change their business models. At the same time, China's growth and global opportunities require continued risk-taking and the ability to make intelligent bets on the future. Following the right paths involves smart choices about

A. Which type of leader is needed (and how he or she leads), and

B. How the right governance of investment decisions is ensured

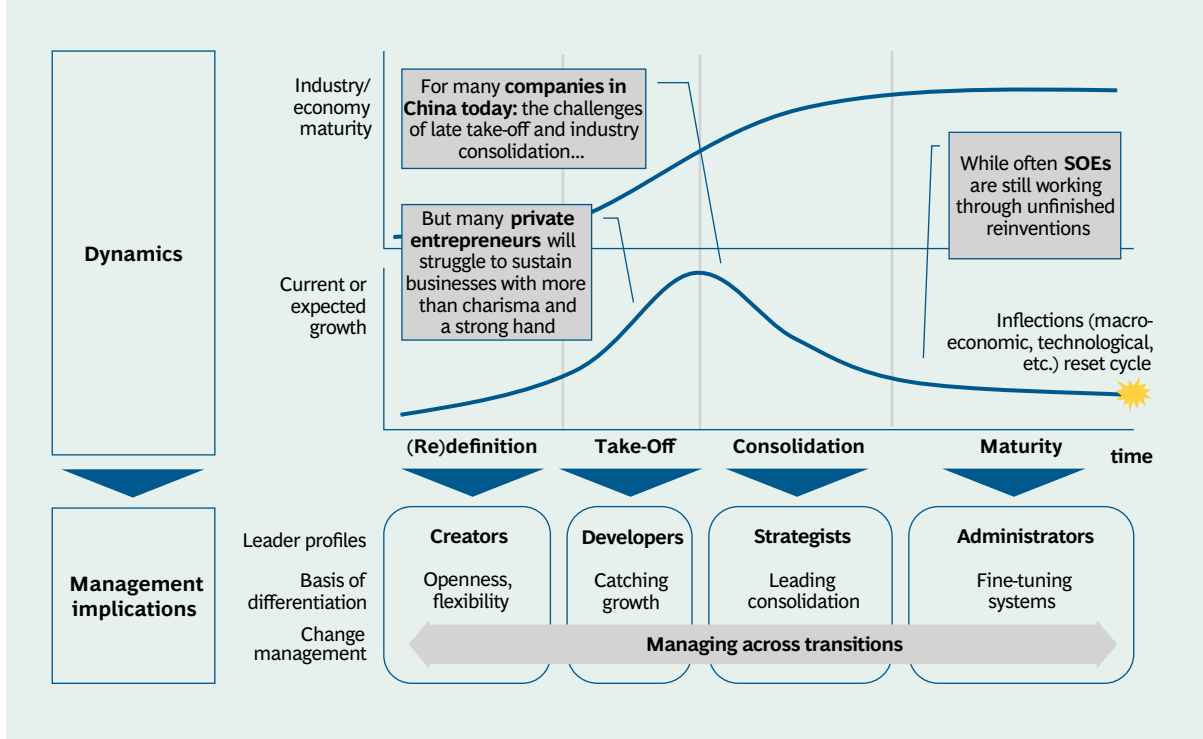
#### *A. The type of leaders*

As China grows and its economy matures, new kinds of business leaders are called for. There is a simple-to-state-but-tough-to-practice lesson to be learned from those that get growth right: remember that leading the work of building a business is not the same as directing ongoing operations. Establishing or extending a company's capabilities is as much a process as an objective—and leadership in building is a critical differentiator. What does this mean, practically? There are several questions to ask.

- ◇ If you and your team have successfully built your company, are you and your team the right people to take the company to the next level?
- ◇ Are high-risk gambles needed, or do you need a steady hand and managed growth?
- ◇ Are high-risk bets right for part of your business while careful, tightly controlled daily results are needed in another?
- ◇ Are you consolidating market share and rationalizing operations in Shanghai while challenging a local player and expanding in Chengdu?

A misstep many companies make as they mature is keeping “builders” in charge for too long. Many of China's private companies are still in their first leadership generation, and success has been founded on the behaviors and risk-tolerance needed to create and grow something new. Building is unpredictable, messy, and project-oriented. By contrast, many of China's State-Owned companies are led by “operators”, who are oriented toward stabilizing and scaling established business through systems and behaviors that make success replicable. (See Exhibit 4.)

**Exhibit 4. What Dynamics Mean for How to Manage**



The right answer for the leadership in any company is a balancing act between behaviors that need to be controlled by common organizational standards and culture, and behaviors that need to be responsive to the environment. Explicit planning of leadership types and respective leaders’ succession is key.

*B. Strong governance of investment decisions*

Governing growth fundamentally means defining formal, structured approaches to taking risks and facing uncertainty. This means putting in place a “radar” that registers opportunities and risks early. It means governance systems and processes that inform and guide risk-taking. The stakes normally only get higher as you have more resources to place bets on organic or M&A-driven expansion. Faced with uncertainty and temptation, growth for growth’s sake can take over from business logic.

There is a specific temptation to avoid: trophy growth. “Trophy growth” is when a company invests or acquires outside its core business for the wrong reasons. Many companies and entrepreneurs in China are flush with cash and emboldened by past success. Expansion (including expansion beyond a current businesses area) is not necessarily wrong—but it can be led by temptation rather than business logic. Just as a luxury car or an expensive watch can be a visible marker of wealth and success, buying a company, building a new headquarters in a first-tier business district, or expanding rapidly can be driven by the excitement and publicity of doing deals and conspicuous growth rather than by long-term business value.

There are new buildings and districts in China today that will never serve a productive purpose that justifies their cost. There are companies that are hollow behind a veneer of marketing materials and expensive addresses. False-starts and mistakes are part of a dynamic economy—but these should reflect calculated rather than speculative risks.

If growth-for-show absorbs the time and energy of talented people and other resources, it can take your company off a slower, steadier, and less exciting path to world-class. The role of corporate governance at any time is to provide checks-and-balances that ensure a company is being run in the long-term interest of the owners and other stakeholders of a business. This should be a role of a board, but it should also be engineered through a professional corporate development team as well as investment approval processes that gate-keep expenditures.

There are two moderating mechanisms that companies need to have in place to be sure mergers, acquisitions, and organic investments are driven by sound logic and do not take the life out of the main business.

- ◇ First, M&A and other large investments need to be managed as a distinct activity: defined policies, rules, processes, tools and experienced people need to drive it to ensure high quality execution.
- ◇ Second, governance systems need to allow some decision making at the point in the organization where the knowledge is strongest. Organisations which take major decisions based only on top-down inputs limit the breadth of knowledge which is needed to fully consider benefits and risks.

### Capability #3: Creating and Maintaining Strong Management Systems

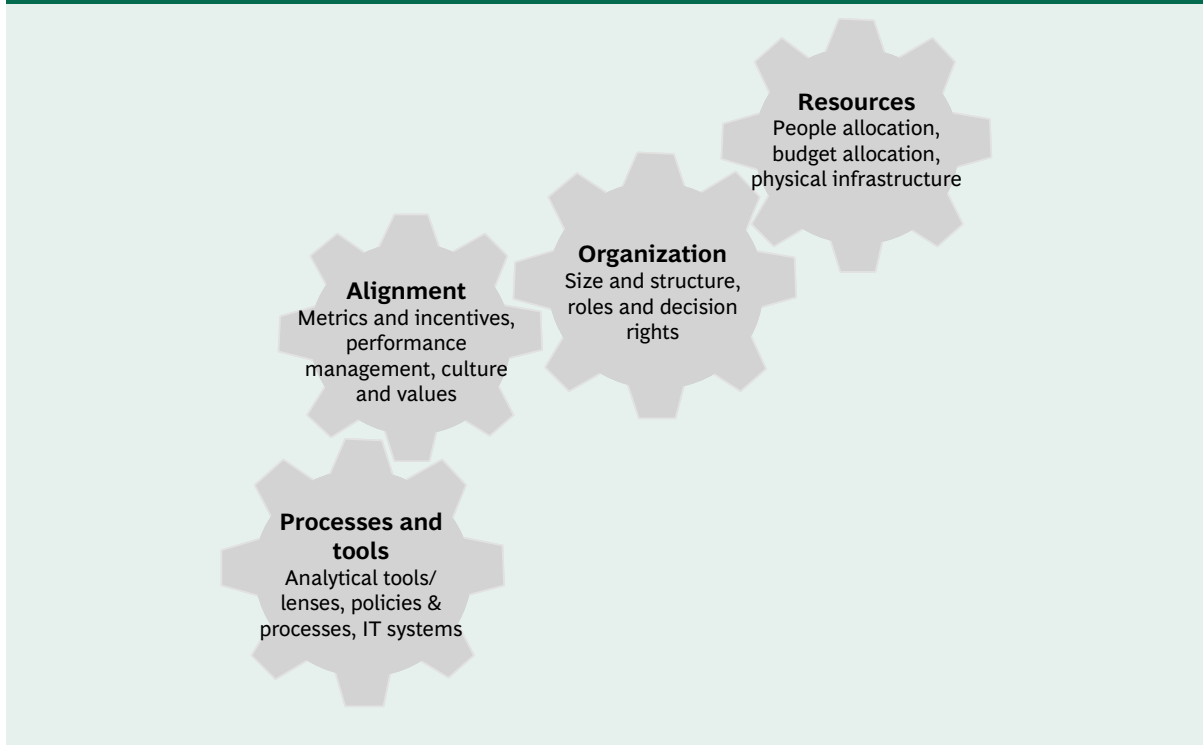
Tools, organization designs, resource allocations, and accountabilities together define how work gets done in a company. In a larger context, a “professional” is someone who is technically proficient in a specialized area and who shares norms and standards with others who work in that area. We use “management systems” for norms and standards across a company. These norms and standards govern expectations for individuals. They also set expectations for interactions across teams and departments in a company. They are partly built into formal communication routines up and down hierarchies, but they must be more than that.

Given China’s rapid growth and diverse markets, companies must have people and teams who can respond quickly and appropriately to local opportunities while hewing to company objectives. This means that as companies grow, the importance of a professional culture increases. Many business school case studies of world-class companies focus on their distinctive, differentiating operating cultures. At their peaks, DuPont’s management system and Hewlett-Packard’s “Way” set these companies apart. More recently, BASF’s *verbund* system, “lean” at Toyota, and Apple’s “eco-system” have made these companies world-beaters. In common, these companies put together strong management philosophies, a clear sense of purpose, and business systems based on formal processes, shared expectations, and defined degrees of freedom.

How these companies win is not a secret. They can be open about how their businesses work because their recipes are so hard to replicate. But there is nothing mysterious about them. They are built on years of hard work. These companies combine systems advantage with people and governance approaches that reinforce ways of working embodied in four aspects of a management system (See Exhibit 5.):

Each of these aspects requires careful individual design. Often, though, companies attack a perceived problem through a reorganization or investment in one aspect without anticipating the dynamic impacts

## Exhibit 5. Management Systems and Processes



of changes on the others. These four elements are the “gears” of an execution engine—and it can be more valuable to have a flawed gear that meshes well and moves dynamically with the others than to have perfect elements that are out of synchronization.

A process of balanced growth is one of many small investments in the horsepower and efficiency of these gears *as a system*. There are many examples of multi-million dollar IT projects that have consumed resources in implementation and then been of limited value in operation. Why? Because they falsely assumed other elements of the engine would work in harmony with the new infrastructure. A central challenge for the management systems of China’s companies increasingly is how to manage complexity—but adding more complexity is not the escape from complexity.

Consider a typical company history. At first, everything is simple. A small organization with few products or services and a limited geographic scope innovates, sells, and grows. This company can organize on a clear dominant dimension—based on products or sales channels or geographies. With growth comes the need to face greater external complexity. Different markets move at varying speeds and require different products and marketing approaches. Within China, working in the next province or even the next city may require different approaches—as well as additional work managing partner and government relationships.

To cope with this new complexity, the company hires more people. Increasingly complex communications require new rules and processes. Added one at a time in response to immediate needs, these structures

and systems make sense locally but collectively build a patchwork of information flows and unresolved tensions. Critically, they consume more time and focus teams on internal rather than external challenges. Sometimes a merger proves a Trojan horse that introduces crippling complexity into an organization. In a rush to integrate, a company patches together two business models, compromising both. Individuals lose their ability to see and act against market needs. Hoping to escape this dynamic, executives try to matrix the organization to balance competing demands, but the result is more internal coordination meetings and not more external actions. Inside battles consume the organization and more nimble competitors take the market. Numerous ills set in, such as, strategic mistakes, inertia, delayed decisions, flawed execution, bureaucracy, over-escalation, declining productivity and morale.

Companies in mature economies are realizing that a series of seemingly smart steps in their development have led them into this trap. Each step along the way made sense—improving coordination by adding a new dimension in the matrix, enhancing control by adding performance indicators to “balanced scorecards”, fostering collegiality in some decisions by setting up a committee—but the combination builds into a cumbersome array of obstacles to agility and execution. These companies are now launching various simplification efforts to escape from the trap.

The complexity trap is not particularly related to cultural drivers, whether corporate or national. A BCG survey of 1,050 respondents working in the U.S., France, Germany, the U.K., Italy, and Spain, in more than 300 companies, showed no specific correlation between nationalities and the internal complexity of companies. The trap is rather systemic in character: it results from the combined effect of piecemeal solutions that each make sense individually according to management “best practices” but collectively suffocate the organization.

Can you escape the trap? Can you avoid it entirely? There are several alternative paths:

- ◇ A first option for avoiding complexity is stopping it at the door—staying focused on a single approach, and using that approach where it works rather than trying to adapt internally to distracting external demands. This can be a dead end. But it can also be resolute focus. A company needs to judge whether signals from outside reflect shifts in the market or noise.
- ◇ A second option is to adopt a BU or a matrix organization, managing tradeoffs and balancing incentives between business and functional (or other) dimensions. As noted above, this can be a tortuous path. On paper, a matrix should allow market focus while also providing scale and leveraging expertise across multiple business areas. In reality, it is a struggle.
- ◇ A third option is to apply rules for “smart simplicity” that set clear interfaces and buffers between different business models. This requires careful, conscious design of structures and interactions in a way that ensures clear accountability for business results, pushing choices to market interfaces while coordinating from a minimal center.

#### **Capability #4: Developing Productive and Innovative People and Teams**

Professionalizing includes equipping people with the tools needed to drive productivity and training them to use these tools. More fundamentally it includes developing self-directing individuals and self-performing teams that are enabled to innovate. Innovation is an outcome of responses people and teams have to customer and technical opportunities, not an outcome of mandates to innovate. People development is a productivity strategy *and* an innovation strategy.

### *A. Developing people's productivity*

Why does this matter? Part of an engine for sustainable growth is made up of development paths that go beyond technical competencies needed at hire. There are three non-immediate benefits. First, companies that show a commitment to development are better able to retain the people that they invest in. Second, direct and word-of-mouth external communication of these commitments is a differentiator in recruiting the best people. And third, these commitments motivate individuals and teams to drive your company's growth. There are three elements of developing people's productivity: attracting and developing top people, training up less experienced people, and creating affiliation of people:

- ◇ Top graduates of universities here in China enjoy a wealth of employment options and continue to enjoy a sellers' market even after they've placed a first bet. The kind of job-hopping seen only in high-technology industries in the West can be found here broadly as companies poach talent even at the operator level. This carries dramatic challenges for people management. Talent management processes in China must be strong in branding and reputation management. Just as a consumer goods company will actively position its brand on the store shelf, so must companies think about their reputation as employers.
- ◇ Secondly, China's workforce will continue to be characterized by shortages of experienced *and* broadly educated people. While many of the older generation of experienced people lack capabilities in modern technologies, foreign languages or management tools, the younger generation lacks management experience. Offering training curricula much beyond what a typical non-Chinese company would do is therefore an important part of driving productivity.
- ◇ Finally, job markets in China will continue to offer many opportunities for employees, keeping attrition rates high. Having an attractive value proposition for the diverse types of employees requires offering regular career steps, rising responsibilities and a positive work environment. To increase the motivation and productivity of their employees, companies will have to invest more into this.

### *B. Enabling people to develop innovative solutions*

The importance of innovation to China's growth and continued trajectory toward higher value-added activities is a routine but under-specified element of macroeconomic plans. A common error is that grand plans are built on and measured by financial investments in innovation. Innovation comes from encounters between people and problems, not from line items in budgets.

For companies in China, enabling innovation means enabling local responsiveness to problems. This means giving individuals and teams freedom to innovate. It means equipping individuals and teams so they can realize the potential of new local solutions against broader problems.

How this can work is illustrated by considering the importance of innovative application engineers and technical salespeople to China's next phase of growth and the success of companies. A double opportunity for companies that sell equipment, systems, and supplies reflects a simple fact: these companies directly or indirectly sell "productivity". Materials, machinery, and systems sold by companies contribute to the productivity of their customers. Per person productivity is increasing in importance for all companies in China. As this happens, companies increasingly scrutinize material and capital inputs to understand how these affect the efficiency of their own processes.

As a simple example, maintenance cycles will matter more as labor costs make maintenance more expensive. So each hour of a maintenance worker's time needs to drive more uptime. If your company sells

paint used to coat aircraft, for instance, the value of longevity is increasing with every upward tick in labor costs. Or if you sell a lubricant that extends machine life by 20 percent, other factors being equal your sell will get easier every day. Differentiating product and service offerings in the next phase will require the ability to assert differential productivity advantages.

Delivering on this promise will depend most critically on technical salespeople and application engineers. Arguably, these positions will serve as *the* engines of China's continued growth. They are the connectors that will help companies identify and act on opportunities to innovate and apply better solutions that allow more production without more cost.

The specific role of these categories of employees draws out a more general phenomenon. People who work at "interfaces"—between organizations, between technologies, and between industries—are uniquely positioned to see unexpected connections and new ways of combining things and systems to innovate. These interfaces are not at headquarters—they are at boundaries. A people strategy that distributes ownership and accountability for innovation to the very edges of an organization enables people to develop innovative solutions.

### A Summary: What to Focus on Today to Guarantee the Future

Do you want to double your company's productivity in the next five years? As more Chinese companies take places among the top companies in the Fortune 500, will your company be one of them? These are questions that may be easy to ask and (on paper) to answer. The harder question to answer is this: "Do I have a smartly defined, led, and governed program for taking my company and our capabilities to world-class?"

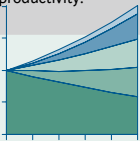



At the heart of the required program is a managed process of professionalization. The actions needed around this process are individually small but, if managed well, are collectively transformational. An *enabling* process of *professionalization* builds an operating model into a company's way of working—that is, into the way things get done on production floors and in conference rooms alike. It builds the inner strength of your company, your teams, and your people. It is through these processes that business strategies become commitments to both objectives and means. A professionalized organization distributes authority and pushes the ability to respond and innovate in response to markets far below executive teams. It creates the capacity to respond and innovate for a more complex future.

Paths to professionalization and world-class productivity are multi-year commitments. They require many projects, managed effectively in isolation and coherently together. Starting a professionalization process requires stepping back and asking whether your company is on the right path for the future. The most important questions make up a checklist for getting started. (See Exhibit 6.)

In our work supporting companies defining and taking these professionalization paths in China, people often think that the output of the effort is a report or a training manual. This is a mistake. The output of enablement is capability. It is what people say about their work. It is how teams behave. And it is how the company performs in the face of challenges that cannot yet be fully predicted.

There is one final point to reinforce: yes, "enabling" means creating abilities in individuals and teams. It means increasing the freedom allowed to all parts of an organization to make decisions. But this should

### Exhibit 6. Checklists for Getting Started Across the Four Dimensions for Enabling World-class Performance

Planning		Professionalization	
A target model, specified gaps	Leadership and governance	Management systems and processes	People and teams
<ul style="list-style-type: none"> <li><input type="checkbox"/> Can my current business model grow in line with my growth aspirations?</li> <li><input type="checkbox"/> If not, what is my target business model? Of my growth, how much will come through...</li> <li><input type="checkbox"/> ...pricing and sales mix?</li> <li><input type="checkbox"/> ...new capital equipment and economies of scale?</li> <li><input type="checkbox"/> ...increasing the skills of individuals, the capabilities of teams, and the effectiveness of management systems?</li> <li><input type="checkbox"/> ...hiring (or reducing attrition)?</li> <li><input type="checkbox"/> Am I sure that I have the right balance of factors and that I am making timely investments now to enable productivity?</li> </ul> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do I have a smartly defined, led, and governed program for taking my company and our capabilities to world-class?</li> <li><input type="checkbox"/> Are my team and I the right people to take the company to the next level?</li> <li><input type="checkbox"/> Are high-risk gambles needed, or do I need a steady hand and managed growth? Or both?</li> <li><input type="checkbox"/> Are high-risk bets right for part of my business while careful, tightly controlled daily results are needed in another?</li> <li><input type="checkbox"/> Do I have builders to lead building and operators to lead operations?</li> <li><input type="checkbox"/> Do I have governance mechanisms in place to ensure the risks I am taking are right?</li> <li><input type="checkbox"/> Do I have a strong enough hand on complexity?</li> </ul> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do the elements of my business system move together well, or are there skips and frictions?</li> <li><input type="checkbox"/> Am I making balanced investments in total system performance, or gold-plating components?</li> <li><input type="checkbox"/> Do I have an informed sequence of investments and innovations planned?</li> <li><input type="checkbox"/> If I am not sure that my investments are balanced or sequenced well, why not?</li> </ul> 	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do I know how I will do a better job of attracting people than my competitor?</li> <li><input type="checkbox"/> Do I know what prospective or current employees value?</li> <li><input type="checkbox"/> Are these values consistent with the values of my company?</li> <li><input type="checkbox"/> Are the values, norms, and shared commitments of my organization strong enough to ensure close organization alignment?</li> <li><input type="checkbox"/> Do people operating at the edges of my organization have permission to innovate?</li> <li><input type="checkbox"/> Do I have mechanisms that ensure that insights and innovations will realize commercial value for my company?</li> </ul> 

not mean losing control. Sometimes, in the interest of creating a more flexible and engaged organization a company will declare that one of its values is “empowerment” and tell managers to “empower” employees and teams. It will allow many local initiatives and local decision making without ensuring that there is clear alignment to a common strategy and objectives. Every step must be tightly linked back to strategic objectives, agreed choices of a target business model, and an understood path. Any IT project, operational effectiveness program, HR initiative, or business decision that cannot be clearly linked and justified against this common context is out of control.

Three decades of opening and reform have transformed China and the world, unlocking the potential of hundreds of millions of people. This is a well-known story, but it is not yet over. To continue, change has to be a part of the plotline. Those companies that want to take part need playbooks for enabling and professionalizing, and they should start following these playbooks now. More than U.S. \$10 trillion in future productivity is at stake.

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