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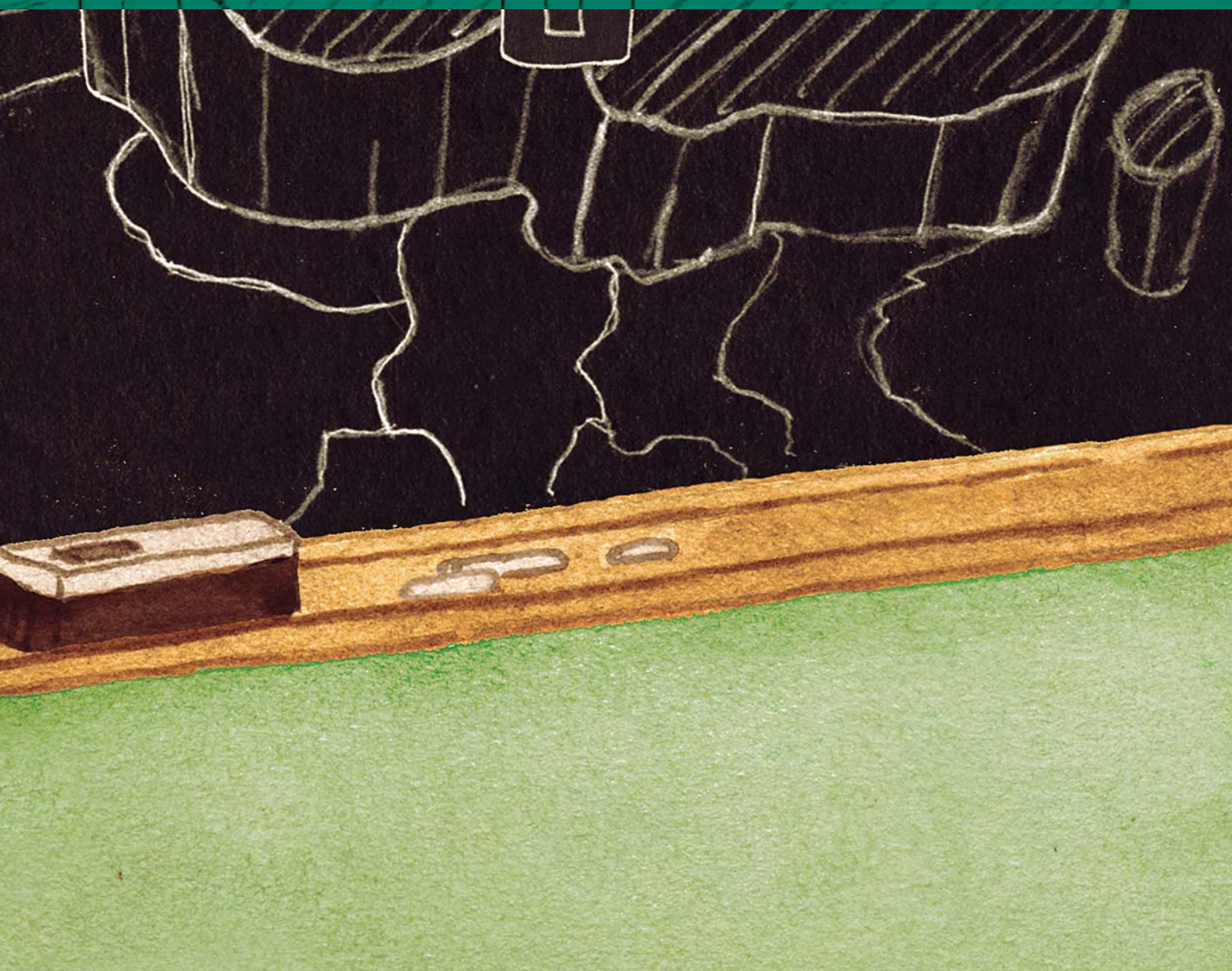
Chinese Companies' Journey

to a New Normal, Globalization, and Internet+



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AT A GLANCE

Three major trends—supply-side reform, globalization, and Internet+—are reshaping the business landscape in China and challenging Chinese companies to transform their governance model, organization design, and talent management in order to stay competitive. Despite great variation in their external and internal environments, Chinese companies share common pain points when it comes to transformation. Overcoming these pain points will enable Chinese companies to achieve sustainable growth and succeed in the new normal.

Common Pain Points on the Route to Transformation

As companies in China begin to transform their organizations, they face three common pain points. Most typical Chinese companies are accustomed to centralized governance, and they have difficulty balancing "control" and "delegation"; their traditional organization structure is too rigid to be "customer centric" and too slow to respond to new trends; and they face challenges in the transition from the "old" to the "new."

Guiding Principles for Meeting the Challenges

We suggest an integrated approach to transformation, which requires delegating some power from headquarters to the business units; creating a nimble organization that can swiftly respond to market trends and adopting an agile approach to management in order to enhance multidisciplinary collaboration; and building transformation capabilities by attracting and retaining talent, enabling the organization, and transferring "core genes."

Over the past three decades, some leading Chinese companies have stood out from their competitors or even become major players on the global stage, thanks to their strong ambition, strategic vision, hard work, and all the opportunities brought by the opening up and reform of the market.

But with the marked fluctuation in the global economy in recent years, China's economy has entered a period of a new normal, which challenges Chinese companies to develop and implement the right transformation strategies at the right time—especially building and maintaining advantages when it comes to their people and organizations in today's complex, broad, and rapidly changing competitive environment.

In this report, we analyze the potential impact of three major trends (supply-side reform, globalization, and Internet+) on Chinese companies, identify three common pain points along the route to transformation, and—based on our findings and leveraging our client experience and insights into leading companies' (especially leading local companies') best practices—propose feasible solutions that can guide Chinese companies' transformation processes in the future.

Three Major Trends That Necessitate Transformation

Three major trends in China are challenging Chinese companies to upgrade their people capabilities and transform their organization structure in order to better support new strategies required by the changing business landscape.

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A New Normal and Supply-Side Reform. It is widely known that the rapid growth of the Chinese economy in the past 30 years is mainly the result of outstanding performance on both the supply and demand side. But since 2007, the Chinese economy has slowed, and its historical rapid growth is unlikely to be sustained as demand-side drivers have weakened in recent years (for example, fewer favorable exports) and supply-side reform becomes crucial for future growth. Within this environment, some traditional players have stepped out of their comfort zone and expanded their business scope. Some others, while still maintaining a single core business strategy, are improving their customer-response capability, which requires them to develop (and continuously optimize) governance and organization models for their business units as well as acquire new talent and expand their employees' capabilities (especially when it comes to agile and accurate judgment and the ability to deliver on the demand side).

The Accelerating Pace of Globalization. In the past ten years, Chinese companies have been expanding overseas, both organically and inorganically, at a fast pace. But most of these companies still face daunting challenges after initial overseas expansion—especially when it comes to the selection, training, staffing, and retention of qualified talent. As the pressure to globalize builds, and Chinese companies develop into true global leaders, they will need to overcome many more such hurdles—for example, the complexities of managing cultural differences and integrating an international leadership team.

The Emerging Internet+. The technological revolution has brought digital transformation opportunities for traditional industry, and many Chinese companies are developing strategies such as "traditional industry + Internet." But the traditional methods of talent management may no longer be a good fit when companies integrate the Internet into their businesses and attract Internet talent. At the same time, those already employed by these companies need to update their mindsets and capabilities in order to participate in the new digital environment. Moreover, Internet companies' dynamic organization structure and close cooperation model have been widely recognized for fully supporting a fast response to customers' requirements, driving innovation, and attracting a new generation of employees, which gives these companies clear advantages over traditional companies when it comes to the war for talent.

Three Common Pain Points on the Route to Transformation

Chinese companies face common pain points when it comes to transforming their governance model, organization design, and talent management.

These pain points interweave along the transformation road of Chinese companies. Successful implementation of a customer-centric organization requires that headquarters delegate some power to the business units (in a timely way) and take steps to enhance the capabilities of talent. Those requirements, in turn, will present significant obstacles when it comes to promoting a new organization design. At the same time, the current and future organization design and capabilities of talent need to be fully considered before the transformation to a new "decentralization model" of governance.

Most typical Chinese companies are accustomed to centralized governance, and they have difficulty balancing "control" and "delegation" when scaling up.

GOVERNANCE MODEL: DELEGATING OR CONTROLLING?

Most typical Chinese companies are accustomed to centralized governance, and they have difficulty balancing "control" and "delegation" when scaling up.

When Chinese companies pursue growth strategies, however, they need to reconsider and optimize their governance model. BCG has identified six distinct governance models that companies can use in managing their business units, depending on the size and involvement of their headquarters. (See the sidebar "Six Governance Models.")

The governance model of most Chinese companies is that of a hands-on manager. And it goes against the grain in Chinese companies to grow their businesses through diversified expansion. But their old and new business arenas may differ greatly, and headquarters may no longer have the required knowledge of key suc-

SIX GOVERNANCE MODELS

The six governance models that BCG has identified, described below, range from active, hands-on headquarters' involvement in business units to a hands-off approach. The descriptions of governance models in which headquarters plays a substantial role highlight the main value that headquarters provides.

Hands-On Manager. The hands-on manager represents the most active governance strategy, with direct control over business units' operating decisions. Under this governance model, the function of business units is reduced to mere execution. The main value provided by headquarters is fine-grained planning and budgeting, strict and detailed reporting, and corporate initiatives.

Functional Leader. Under this model, headquarters defines policies and processes for, and provides key corporate resources to, the business units; it is not involved in operations. The main value provided by headquarters is to promote functional excellence and cost-efficient bundling of services.

Strategic Guide. In this governance model, a lean headquarters sets strategy across the entire portfolio of business units. Implementation is the responsibility of the business units. The main value of this approach is clear strategic vision for the businesses and the launch of strategic initiatives (for example, through mergers and acquisitions).

Family Builder. This governance model operates from a lean headquarters and has only selective involvement in the business units. The main value provided by headquarters is synergistic portfolio building and financing as well as the fostering of synergies (by setting the right context and guidelines for cooperation).

Financial Sponsor. In this governance model, a lean headquarters conducts financial oversight and governance over the business units but has little involvement in strategy and operations. The main value provided by headquarters is cheap and flexible external and internal funding.

Hands-Off Owner. This model of governance focuses on portfolio development (selling and buying businesses). Headquarters can be regarded as having an activist-investor mindset, but its influence is limited to board control—it has no direct control over the businesses.

cess factors or the right expertise to run the new business segments. Further, it becomes impractical for a business unit to have to navigate through multiple reporting layers of an organization in order to communicate its operational details to headquarters for a decision. This process will slow response to market dynamics and customer requirements, and potentially cause the company to lose out on business opportunities.

Fortunately, more and more business executives have recognized the importance of

decentralization to a certain degree, and many are shifting from the hands-on manager model to a family builder model, in which headquarters pays particular attention to portfolio management. This shift in approach not only maximizes the parenting value of headquarters by fostering synergies that could improve overall value creation but also helps the organization respond swiftly to shifts in the market.

During the transition process, however, many Chinese companies experience obstacles, often due to the following common missteps.

- *Delegate Too Fast.* Companies may delegate decision-making authority to a business unit without considering whether the head of that business unit has the capability to make key decisions—often creating confusion and management difficulties.

- *No Process Control.* In companies that lack a supportive management system, such a shift reduces transparency in the governance process and increases the potential for operational risk.

- *Delegate the Wrong Power.* Without a clear understanding of the key value of the level of decision making that should be made at headquarters rather than in the business units, there is often an inappropriate division of power.

- *Misunderstanding of the Delegation Model.* Even when companies clearly define the delegation model, as well as the roles and responsibilities of headquarters and the business units, individual employees at various levels of the organization may interpret this information differently, leading to poor implementation of the model.

- *No Assessment of Results.* It is not sufficient to delegate authority. Companies need to have processes in place to review results and improve performance.

ORGANIZATION DESIGN: INCREASING FLEXIBILITY IN ORDER TO MEET CUSTOMERS' NEEDS AND RESPOND TO MARKET TRENDS

Chinese companies' traditional organization structure is too rigid to be "customer centric" and too slow to respond to new trends. But if these companies want to compete in the new normal, they need to reassess their organization design.

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Nowadays, in China, both B2B and B2C industries are bombarded with new customer needs: as middle-class and affluent consumers emerge and grow, they bring with them greater demands for quality and personalized products and services. At the same time, the rapid growth of e-commerce also is having a huge impact, as corporate customers focus more on personal emotional experience, prefer seamlessly integrated channels and total solutions, and look for transparency and visibility when it comes to orders and price. In short, Chinese companies in all industries have to deal with fast-changing, and a greater number of, unpredictable customer requirements that are more difficult to satisfy than ever before.

On the other side of the equation—in the context of supply-side reform and Internet+—the efficiency with which companies respond to customers' needs and the

quality of the products and services delivered to meet those needs will become a new key success factor in terms of their growth. In today's customer-centric era, those companies that can predict, meet, or even create unmet needs and continue to improve customer loyalty via quality offerings will eventually beat the competition.

Many traditional players face the following pain points as they transform their organization design in an effort to meet customers' ever-growing requirements.

- *Excessive Vertical Layers That Reduce Efficiency.* Among the complaints we have heard about reduced efficiency are the following: "We have become so huge now; at one point we had up to 14 layers." "There are so many 'managing positions,' resulting in low efficiency and a lengthy decision chain; this practice runs exactly opposite to the flat structure of Internet companies." "Our organization is beginning to experience the symptoms of 'big corporations'; there are lots of ineffective layers."

- *Silos That Hinder Collaboration.* There are many complaints about unsuccessful cross–business unit communication, cooperation, and coordination, among which are the following: "The Chinese banking industry has become increasingly market oriented, yet our middle and back offices still do not provide sufficient support to our front office." "People from different departments do not talk to each other; many unnecessary committees are in place, but people don't ultimately collaborate on a daily basis." "We are losing to Internet companies because they encourage conversation and collaboration among people in different disciplines."

Many Chinese companies face such issues. There are too many vertical layers, lengthy decision-making chains, or even redundancy (especially ineffective managers). It is also difficult to build cross–business unit teams, integrate resources, and effectively and efficiently provide offerings through close cooperation. In sharp contrast, Internet companies enjoy agile and flat organization structures.

TALENT MANAGEMENT: INFUSING THE "NEW" INTO THE "OLD" AND MAKING THEM WORK TOGETHER

Chinese companies face challenges in the transition from the "old" to the "new." But there is no doubt that competing in China's new normal business landscape demands new ways of working together and new ways of managing talent.

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Traditional Chinese companies face several constraints when it comes to talent. Their current employees understand the traditional business only and are not sufficiently forward-looking, so they lack both awareness of the business opportunities available through transformation and understanding of transformation strategy. These employees are used to staying in their comfort zone—applying the experience that has worked in the past (but may not work now)—and, as a result, they lack motivation and passion for transformation. In addition, the competencies and professional expertise of current talent is not a good fit with the direction of transformation (such as globalization and digitization). In sum, these employees lack the vision, motivation, and capability needed for transformation.

New talent (especially lateral hires), on the other hand, brings new perspectives that enable reviewing transformation opportunities more objectively and mapping a transformation path that drives the transformation process. Further, it is much easier for new talent to push for transformation because these employees are new to the organization and have the energy and passion to make the transformation happen. More importantly, new talent provides the professional expertise and skills required for transformation.

So talent renewal is very critical. This effort does not simply call for replacing the old with the new; it involves preserving the "core genes" of the organization while integrating the new. It means building the capabilities of traditional talent and avoiding their weakness, while absorbing and leveraging the advantages that emerging talent brings in order to improve the company's strategic transformation capabilities.

There will, of course, be many obstacles along the way.

- *Competing with Internet Companies in the War for Talent.* Traditional companies find it difficult to retain existing talent and attract top new talent when they have to compete with Internet companies. Traditional companies are often viewed as low profile, conservative, and steady as a result of poor brand marketing, while Internet companies are often marketed as having high growth potential. Traditional companies value their institutionalized systems, regulation, and hierarchy, but Internet companies encourage innovation, open communication, and personal commitment to fulfilling an inspiring corporate vision (such as "change the world"). In contrast with traditional companies, Internet companies use more diversified channels to attract and acquire talent—such as competitions, mergers and acquisitions, and event recruitment. Internet companies also provide long-term incentives and offer more competitive salaries, making them quite attractive to young people today. In addition, traditional talent is now more willing to work for an Internet company than ever before because of the influx of capital into these companies and the national strategy of Internet+.

- *Filling a Huge Capability Gap.* In addition, traditional companies have a huge capability gap to fill. For example, a digital transformation strategy not only sets higher standards in terms of the professional skills of the digital technology staff, it also requires that people in the business units and mid-to high-level management have a deep understanding of both technology and business as well as be able to identify and manage the cultural differences between the digital staff and the core business units—and even across the broader organization. At the early stages of such a transformation, it is highly likely that there will be huge capability gaps.

- *Seizing the "New" While Respecting the "Old."* Last, but not least, even when companies have successfully attracted top talent for new areas of their business, their long-term vision, duplicable core advantages, and corporate culture and values may be disregarded or even lost during the transition. When integrating the new and the old, differences in educational background, working styles, and ideas lead to barriers and distrust. Moreover, the people

management methods used in traditional companies—especially the incentives and evaluation mechanisms—as well as the work culture itself, may go against the grain when it comes to the development of new talent and business areas.

The Route to Successful Transformation

How should Chinese companies overcome the three common pain points along the route to transformation? Based on our work with clients and benchmarking studies, BCG proposes the following integrated solutions for rethinking companies' governance model, organization design, and talent management.

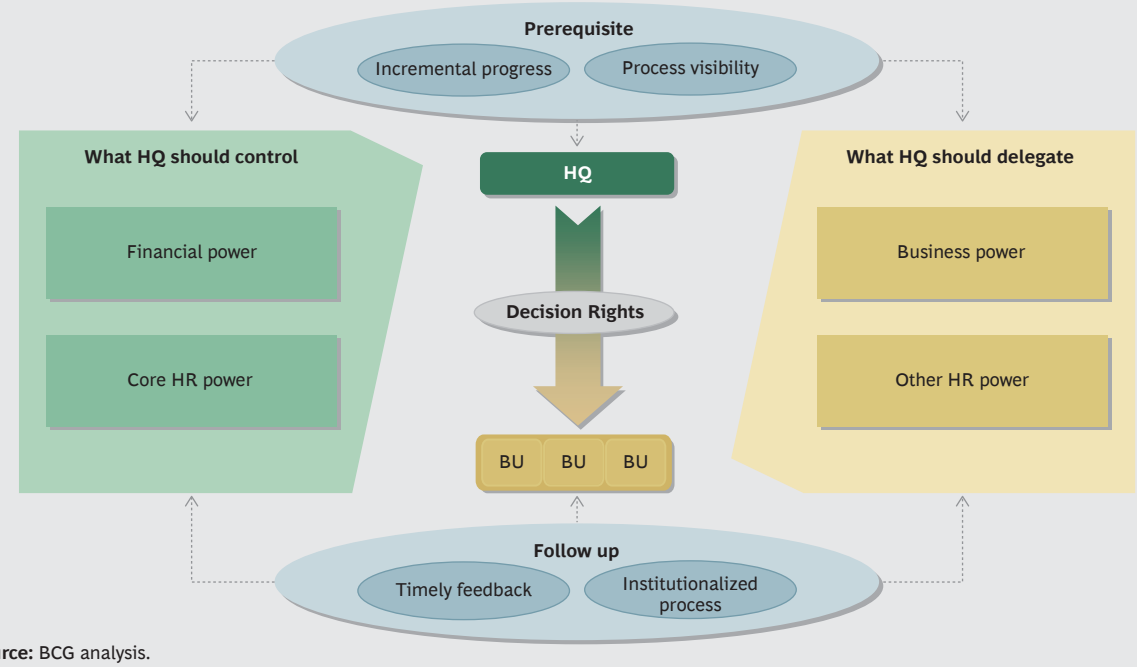
GOVERNANCE MODEL: CAREFULLY MANAGING THE DELEGATION OF SOME POWER

When it comes to governance, successful transformation requires some decentralization of power. In order to avoid the pitfalls described above, this transformation must be carefully managed.

First of all, headquarters could delegate some power to the business units, and each entity needs to clearly understand its own roles and responsibilities. (See Exhibit 1.) Given the trends currently shaping China's business landscape, Chinese companies' headquarters should:

- *Control Financial Power.* Headquarters should retain control over financial performance and ensure business transparency. Headquarters' roles include

EXHIBIT 1 | Headquarters Should Delegate Some Power to the Business Units



Source: BCG analysis.

reviewing and funding investments; focusing on strategic mergers and acquisitions (with some process support to less-strategic mergers and acquisitions); setting high-level financial targets; and engaging in capital management, tax management, and investor relations.

- *Control Core Human Resources Power and Delegate Other Human Resources Power.* The objective is to minimize risk when it comes to critical positions in new business units while balancing the need for flexibility. Headquarters' roles include developing overall strategic human resources directions and appointing business unit leadership. Headquarters would delegate control over other human resources processes (except those related to core personnel) to the business units.

- *Delegate Business Power.* Headquarters' expertise may not be up to date when it comes to new business areas, so delegating power to business units in these new areas can enhance their agility. Headquarters' role focuses on defining the company's overall strategy and the objectives of portfolio synergies. Only when headquarters has business expertise in new business areas does it get involved in business units' strategy development and performance evaluation; it does not intervene in detailed operations.

The transition of control needs to be managed carefully, according to the following four principles: incremental progress, process visibility, timely feedback, and institutionalized process.

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- *Incremental Progress.* Headquarters should delegate power incrementally in order to test whether the business unit has the required capability to take on its new role. Headquarters should plan the timeline—making it clear when it will delegate what power—and execute the transition in steps.

- *Process Visibility.* It is important, during the transition process, to enhance the transparency of the financial and risk management systems, so that headquarters knows how the business units are operating without having deep involvement in the business units' operations.

- *Timely Feedback.* Timely feedback—supported by audit, internal audit, and compliance processes—is essential in order to review and track delegation results and prepare for optimization.

- *Institutionalized Process.* Even when a new model is clearly defined, interpretation of the model by individuals may differ. So it is necessary to support the new model with an institutionalized process in order to ensure consistency in execution.

For example, China Resources achieved aggressive growth over the past ten years through multiple mergers and acquisitions. CR leveraged its 6S strategic-management system and its 5C value-oriented financial management system in order to achieve a diversified and professional profit center–driven growth path. To support better delegation, CR adopted a business unit system integrating all separate profit

centers into seven strategic business units under the professional management of diversified holdings.

During the delegation process, CR managed its business units more from the perspective of industry development and a product portfolio. Its headquarters focused on financial power (centralized management of capital, funds, and assets) and core human resources power (appointment of strategic business unit management and primary profit center management), supported by other management systems (such as strategy, IT, risk management, and finance).

Delegation in CR helps its business units to better respond to market and customer requirements. It also helps headquarters to better focus on value-added areas. For example, in the area of talent management, headquarters launched a top-talent development plan to improve senior leadership and established a corporate university to train first-line and middle-level talents across business units. In capital operations, headquarters allocated investments based on its strategic development plan and capital optimization requirements, and it achieved sustainable growth in value through optimized allocation and dynamic adjustment of capital, funds, and assets. And in the area of innovation and incubation, headquarters led incubation and capital injection and explored (and then implemented) potential mergers and acquisitions to expand the business.

ORGANIZATION DESIGN: DELAYERING AND ADOPTING AN AGILE WAY OF WORKING

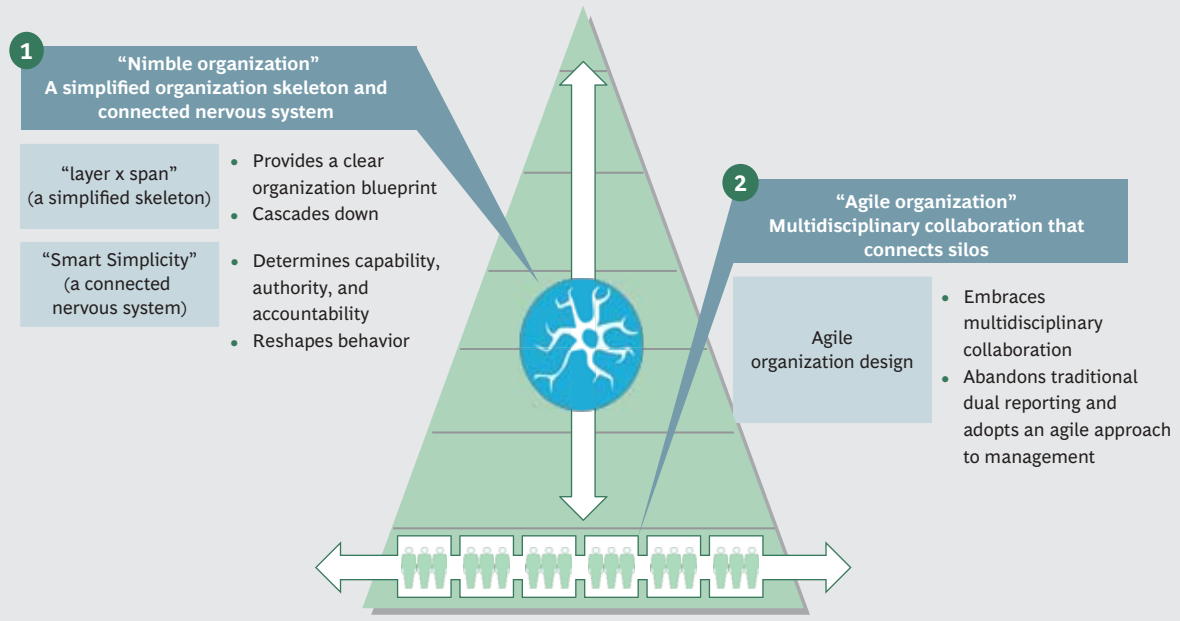
Streamlining the organization and adopting an agile way of working that enhances multidisciplinary collaboration are both key to competing in the new normal business landscape.

BCG's Delayering™ tool can help streamline the organization structure, shorten the decision-making chain so as to improve organization efficiency, and speed up responsiveness to customer requirements. (See Exhibit 2.) After streamlining, the organization will have more decision makers than analysts, and employees will be empowered with broader responsibilities and capabilities.

To design a nimble organization structure, it is critical to clearly define a "layer x span" (a simplified skeleton) and cascade down (that is, implement level by level within the organization). Specifically, this can be achieved through the expansion of a manager's span of control (by merging teams) and through the elimination of unnecessary management layers (by adopting flat management).

In addition, BCG's Smart Simplicity tools can enable companies to connect the nervous system so as to reshape the organization's culture and implement a nimble structure, while ensuring that the alignment of capability, authority, and accountability remain in place. The traditional view of company transformation focuses on changing employees' mindsets, feelings, and values in order to encourage behavior change under the support of external contexts (for example, leadership, people and development, or organization and process design). Under BCG's Smart Simplicity model, desired behaviors spontaneously emerge when a company adequately changes the context—that is, changes in mindsets, feelings, and values will naturally follow.

EXHIBIT 2 | Nimble Organizations Shorten Decision Chains and Agile Organizations Enhance Collaboration



Source: BCG analysis.

For example, several years ago, a leading global bank successfully redesigned its organization, as part of a worldwide operating-model transformation, to a globally run set of businesses and functions. The program spanned more than 50 countries and three regions—a large-scale and highly complex change process involving hundreds of thousands of full-time equivalent employees. At the time, the bank was challenged in its responsiveness to customers—excessive management layers meant slower decision making and contributed to inefficient use of resources.

In partnership with BCG, the bank developed a focused set of design principles and global blueprints for the businesses and functions in order to create a new, more nimble structure that optimized organizational layers and span of control bankwide. The new structure and operating model was rolled out to the regions and countries under a structured, consistent, and disciplined global program over an 18-month period—thereby transitioning the bank to a new way of working. In addition, Smart Simplicity surveys, interviews, and workshops were employed to solicit employee feedback in order to further enhance the softer aspects of organization change.

This program remains one of the largest and most successful organization transformation programs in the industry—delivering substantial tangible impact through significantly improved efficiency, while minimizing business disruption, across many regulatory jurisdictions worldwide.

In addition to creating a nimble organization, BCG also recommends that companies abandon traditional dual reporting and adopt an agile approach to manage-

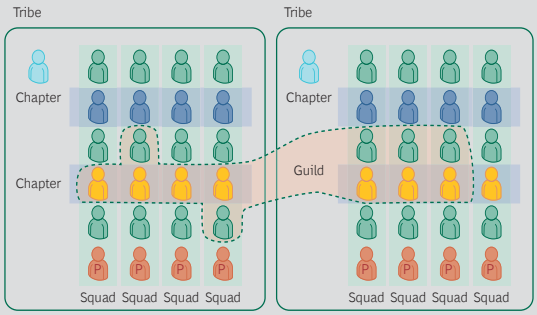
ment in order to connect silos through enhanced multidisciplinary collaboration—another effective way to achieve customer-centric transformation.

Inspired by the agile organization of Internet company Spotify (see the sidebar "Scaling Up Agile at Spotify"), ING Netherlands launched a transformation to an

SCALING UP AGILE AT SPOTIFY

One example of a typical agile organization is Spotify, an online music platform based in Sweden. Within Spotify, it is believed that community is more important than structure, and the company has established an organization in which squads (autonomous units consisting of collocated multidisciplinary teams with a clear and specific long-term mission) are at the core. The squads are surrounded by three other organizational building blocks: tribes (a collection of squads that work on related areas), chapters (groups of people with the same expertise), and guilds (a virtual community of knowledge whose purpose is to share code, tools, and best practices across the whole organization). (See the exhibit "Spotify Created an Agile Organization" for more details.) Spotify's agile organization is not a classic matrix organization; the product owner (or leader) of each squad focuses on delivering great products on the vertical dimension (what to build next), and the chapter lead focuses on technical excellence on the horizontal dimension (how to build well). Spotify is widely seen as a best-in-class example of how to scale up an agile way of working.

Spotify Created an Agile Organization



Squad
- An autonomous unit consisting of a collocated multidisciplinary team
- Highly specialized, with a clear and specific long-term mission (e.g., Playlist Squad)
- Maximum: 9 people

Tribe
- A collection of squads that work together on related areas (e.g., backend infrastructure)
- Objectives include resolving specific business issues and providing an environment in which squads can excel
- Maximum: 120 people

Chapter
- A group of people with the same expertise (e.g., quality assurance)
- Responsibility includes setting the guiding principles for how tribes deliver services
- Maximum: normally 7 people

Guild
- A virtual community of knowledge
- Shares code, tools, and best practices across the whole organization
- Everyone can join

Sources: Spotify, *Spotify Engineering Culture, part 1* and *Spotify Engineering Culture, part 2* (publicly available videos); BCG research.
Note: P = product owner.

end-to-end agile way of working. The objectives of this transformation were to better meet fast-changing customer requirements, break down organizational silos, improve work efficiency, and attract digital talent. (See The Digital Financial Institution: The Power of People in Digital Banking Transformation, BCG Focus, November 2015.) This project is an inspirational example for traditional large companies thinking about undertaking a transformation in order to adapt to a new normal—driven by technological innovation and an increasingly complex world—by becoming more flexible and agile.

With the support of BCG, ING Netherlands derived lessons from Spotify's organizational agility and cooperative culture, and designed agile squads and tribes in the customer experience, enabling, and customer service arenas—taking its own culture and organization into account. This effort helped to improve ING Netherlands's work efficiency by more than 20% and greatly increased customer satisfaction, employee engagement, and internal innovation.

ING Netherlands's transformation provides important lessons for traditional companies with similar needs. To succeed, companies have to ensure that their ambitious executive management team is fully committed to the transformation and that their employees (from the top down) are engaged and motivated by a shared transformation goal. In addition, transparent communication, detailed explanation of the agile concept at different levels of the organization, and a smooth feedback channel through which to collect insights during the pilots are also crucial. It should also be noted that transformation is easier for those companies, such as ING Netherlands, that have prior transformation experience. ING Netherlands had successfully conducted a transformation project to increase agility within the IT organization and later extended the scope of the project to the business organization (for example, marketing and product management), creating true multidisciplinary teams. But an organizational transformation by itself is not enough to change the culture of a company. In that regard, ING Netherlands had not only successfully built a simplified "skeleton" but had connected it with its "nervous system" (for example, performance management)—continuously fostering desired employee behavior and strengthening corporate cultural standards under its new structure.

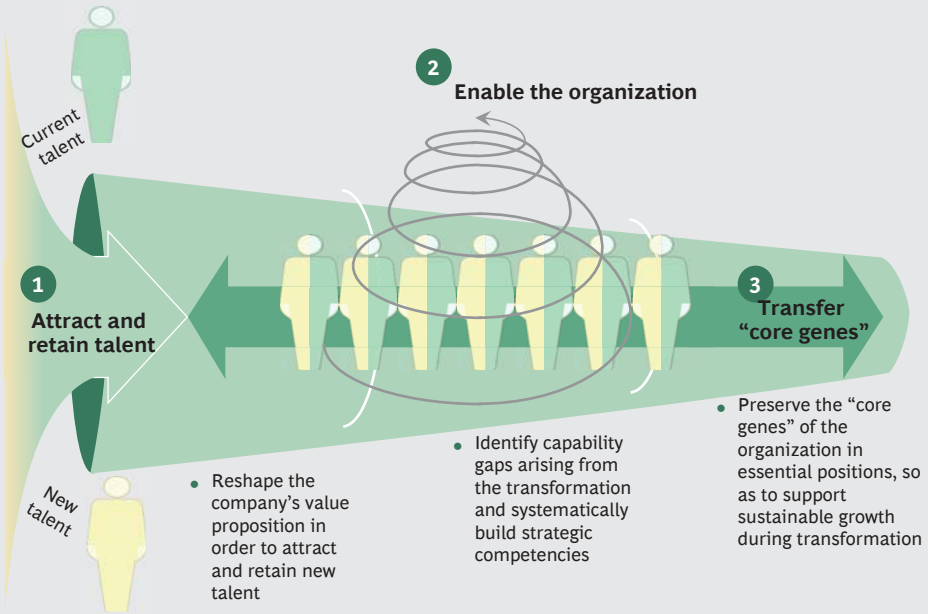
TALENT MANAGEMENT: ATTRACTING, ENABLING, AND TRANSFERRING

In addition to rethinking the governance model and organization design, Chinese companies need to reassess talent management, which is essential to successful transformation.

There are three critical steps involved in the process of talent renewal and capability building required for transformation: attracting and retaining talent, enabling the organization, and transferring "core genes." (See Exhibit 3.)

In order to attract and retain talent, Chinese companies should first reshape their value proposition for employees and potential employees. The key elements of such an employer value proposition include a company's reputation, work environment, compensation package, and employee growth opportunities. In particular, to win the ongoing fierce competition for millennial talent, companies should increase

EXHIBIT 3 | The Key Steps for Transformation Are Attract, Enable, and Transfer



Source: BCG analysis.

the attractiveness of their employer value proposition to young people by treating them as customers and by replacing the current talent-recruitment mindset with a marketing approach to job vacancies. Also, nowadays, young people are looking for work/life integration rather than work/life balance, and they would prefer a cooperative instead of competitive corporate culture. Companies seeking to attract millennials should design and implement employer branding strategies and develop an appealing employer image targeted to these young people's preferences and demands. As for the methodology, in addition to traditional print media and public relations activities, traditional companies can leverage social networking sites, charity events and volunteer work, and competitions in order to strengthen their visibility, reputation, and recruiting efforts.

For example, COFCO Trade and China Merchants Holdings set up a new joint venture, Liangdawang, in order to expand their business through e-commerce. To support the growth of their new e-commerce platform, the joint venture required not only the traditional capabilities held by all stakeholders but also a new team of talent with Internet expertise. Therefore, the joint venturers created an employer value proposition for potential employees that was more like that of an Internet company than that of a traditional state-owned company. They agreed on strategic targets for Liangdawang but did not interfere with its daily operations (in order to create an independent and innovative environment). They also developed flexible key performance indicators to reflect their focus on a successful pilot of the business model and the achievement of major milestones, created an open channel to

attract talent from diversified backgrounds, and promoted an enthusiastic, innovative, and energetic corporate culture with competitive compensation for employees that was benchmarked to compensation in Internet companies.

Next, in order to enable the organization for strategic transformation, companies should identify capability gaps arising from the transformation and systematically build strategic competencies.

Traditional training programs are not sufficiently targeted or strategically oriented enough to serve in this capacity. Only by closely combining talent building with strategic capability building can companies create maximum value. To begin with, companies need to clearly identify their enablement requirements, based on their strategic priorities, by undertaking a strategy maturity diagnosis or using other assessment tools.

After the assessment is complete, companies should conduct training based on a modular design, which not only covers soft skills (such as self-awareness, communication and collaboration, team building, empowerment, and coaching) but also develops strategic business capabilities in multiple areas (such as strategy development and implementation, value creation, change management, risk control, digital transformation, and globalized operations). Specifically, companies need to develop competencies in business model innovation, creative thinking, an innovative culture, and customer-centric innovation, so as to meet growing (indeed booming) requirements with regard to innovation capabilities. They should also provide employees with opportunities to put what they have learned into practice (such as self-reflection, superior coaching, and embedded learning) in order to better align training with adults' learning habits. Further, they should leverage digital measures such as apps or social networking platforms in order to lower the cost and increase the attractiveness of training.

For example, with the help of BCG, a leading pharmaceutical manufacturer in China pinpointed gaps in leadership as a big challenge to implementing its strategic priorities. To fill such gaps, the company designed a 21st century leadership competency model—identifying six development priorities, precisely tailored to its business, with the ongoing support of BCG. It later kicked off a six-month program to strengthen the leadership capability of top executives, inspire their self-awareness, improve their strategic thinking, develop their proficiency in managing strategic projects, and build strategic consensus and synergetic cooperation among them. BCG also helped the company to implement a leadership development program for 100 mid-level managers and design a blueprint for its corporate university, from a systematic perspective, with a view toward expanding the company's talent base and training next-generation leaders who will be essential to future transformations.

The third step in successful talent management is to preserve the "core genes" of the organization in essential positions so as to support sustainable growth during transformation.

It is clear from the above discussion about Liangdawang, that Chinese companies

highly value the preservation and transfer of a company's "core genes" during the capability building that accompanies business transformations. For example, Liangdawang's CEO, finance director, and human resources director were carefully selected from within COFCO Trade or China Merchants Holdings. They are not only familiar with Liangdawang's parent companies' culture and values, but they have demonstrated the ability to learn quickly, to adopt the "Internet spirit," and to project leadership charisma—making them the best positioned to pass down the parent companies' core genes and to lead the business transformation. The parent companies also set up a board of directors in order to ensure control over human resources and financial matters, to predict and address new business risks through planning and budgeting, and to support Liangdawang's stable growth.

It is well recognized that in the new normal business landscape, sustainable growth depends on companies' ability to transform their organizations and to build their people capabilities. Therefore, Chinese companies should clearly identify the impact of the current three major trends—supply-side reform, globalization, and Internet+—on their people and organizations, and they should fully commit to the transformation and change required to remain competitive. At the core of such change is balancing delegation and control, adopting a nimble organization and an agile approach to management, and building people capabilities by taking three keys steps (attract, enable, and transfer) as an integrated approach to transformation. Transformation is the steppingstone to sustainable growth. We do hope Chinese companies can seize the transformation opportunities, grasp the nettle, and achieve great success in the new normal.

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