ACCOUNTANCY FUTURES ACADEMY

China's next 100 global giants

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 91 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT ACCA'S GLOBAL FORUMS

To further its work, ACCA has developed an innovative programme of global forums which bring together respected thinkers from the wider profession and academia around the world.

www.accaglobal.com/globalforums

The Accountancy Futures Academy

The Accountancy Futures Academy contributes to ACCA's research and insights work with powerful visions of the future. It provides a platform to look forward, to tune into the emerging trends and discussions in the global business and policy spheres and the latest reforms facing the world of finance.

By looking to the future it helps the profession stay at the cutting edge. The Academy's work fosters fresh thinking and innovative discussions, identifies the barriers to and facilitators of tomorrow's successes, and identifies the potential strategies that will enable business and finance to navigate the choppy waters that lie ahead.

www.accaglobal.com/futures

A growing number of Chinese businesses are moving from dominance of domestic markets to global growth. This report identifies 100 emerging businesses that are not yet well known outside China but will be competing globally over the next three to five years.

Faye Chua
Head of Future Research, ACCA

Faye Chua is ACCA's head of future research and leads ACCA's global research and insights work that focuses on the future directions of business and the accountancy profession across a range of subjects. She has over 10 years of experience in research across different sectors of the economy and has worked in North America, Asia Pacific and Europe.

Contents

About the authors

Professor Andrew Atherton
Deputy vice-chancellor at Lancaster University

ANDREW ATHERTON

Andrew Atherton is a professor of enterprise and deputy vice-chancellor at Lancaster University and an expert in SME policy and China. He joined Lancaster University in January 2013 from Lincoln University where he was senior deputy vice-chancellor and led on major university initiatives on employer engagement and enterprise. This included establishing the first new School of Engineering in the UK for more than 20 years, in partnership with Siemens.

He worked at Durham University from 1995 to 2002, latterly as head of department and before that as director of the Policy Research Unit within the Small Business Centre, Durham University Business School. He has advised national and regional government as well as major bilateral and multilateral agencies on policy development and implementation, and has led major projects to establish enterprise development centres in Central and Eastern Europe and China. Professor Atherton has degrees from the School of Oriental and African Studies, University of London and Yale, and publishes on enterprise, SME development and related areas of economic development and regeneration in leading international journals and policy publications.

HUANG QIHAI

Dr Huang Qihai is reader in Entrepreneurship and Innovation and head of department of the institute of Entrepreneurship and Enterprise at Lancaster University. He has published extensively on industry and consumer dynamics in China.

ZHAN GAO

Dr Zhan Gao is lecturer in Accounting and Finance at Lancaster University Management School. He published on global finance, including equity and earnings value and growth.

Foreword

It's no secret that China's businesses have been the ones to watch in the global sphere. The rapid advancement in technology in this part of the world has been key to it becoming what it is today.

Europe and North America have increasingly had China on their radars for global competition in various business sectors. Now is the time for them to develop and strengthen their ties with Chinese business and work together to create global businesses.

It is also time for China to embrace its notoriety and turn those businesses on the edge of international expansion into global giants. ACCA has always endorsed the notion that smaller and less well-known entities are the pinnacle of the business world, and so need to be nurtured as much as possible to go from SMEs to large and then global businesses.

ACCA's report on the matter is very timely and, as chairman of the Accountancy Futures Academy, I have been looking at the future of the accountancy, and finance professions as a whole, in great detail.

Finance professionals must keep up-to-date with the ever-changing world around them, so they can be at the forefront of discussions about the developing business world.

China's rise to the highest ranks of the business world is something to definitely take note of, and the 100 businesses identified in this report as having the potential to become global giants clearly show the robust business models they have in place.

China is on the cusp of realising its abilities and the realities of becoming a global giant. I, for one, am looking forward to seeing it develop.

Ng Boon Yew FCCA
Chairman, ACCA Accountancy Futures Academy

Executive summary

A growing number of Chinese businesses are going global by entering new markets. The 2012 CNN/Fortune Global 500 identified 73 Chinese businesses in its top 500, of which three were in the top 10 worldwide. In 2006, only 28 of the Global 500 were Chinese, and none was placed in the top 10.

Well-known examples of major Chinese businesses include Lenovo, which acquired IBM's PC business, and Haier, a manufacturer of household goods such as fridges and freezers that now has 10% of the world's major appliances market.

Not all these globalising companies are manufacturers. Alibaba.com, for example, issued what could be the world's largest initial public offering (IPO) in April 2014. And large enterprises active in agriculture, mining and extraction have acquired significant holdings worldwide.

Many of these businesses were already very large before they went global, securing major market shares in the domestic Chinese market. Government support and funding has often helped these businesses to expand domestically and internationally.

An increasing number of less well-known enterprises, not always state-owned or state-sponsored, are now internationalising. These new entrants into global markets operate across a range of sectors and have different growth strategies. Typically, they have developed a successful business model in China and are adapting this model to markets outside China.

This report looks at these emerging Chinese businesses and how they are developing into major competitors in international markets. Most have strong and in some cases dominant market share in their niche areas. They are expanding rapidly into markets outside China and look likely to continue on this path.

Over the next few years, many of these will become well known in the board and press rooms of Europe and North America. Several are likely to become household names if they can extend into business-to-business (B2B) and consumer markets outside China. At present, most but not all are well known inside China as up-and-coming businesses, even if they are not yet recognised internationally.

In order to identify the businesses likely to become global giants, companies listed on domestic Chinese and international stock exchanges were considered, as were unlisted companies in the All China Federation of Industry and Commerce (ACFIC) directory of Chinese businesses (the Gongshanglian (GSL) listing).

These companies were filtered by size and annual turnover growth to remove the largest and the smallest companies. Larger companies were removed on the basis that they were already established, and so would be well known in China and by China observers. The smallest companies, most with a turnover of less than RMB2.25bn (£216m or US$ 364m),[1] were removed because they were not yet large enough to influence markets and make a substantial impact overseas.

A small number of businesses below the turnover threshold were ultimately included because they more than fulfilled all other selection criteria.

Businesses were also filtered by growth. Many rankings rely on total turnover size, which measures scale but not future potential or performance. Growth rates provide a better picture of recent performance and the ability to sustain this through continued expansion in the near future. Five-year growth rates were considered in order to ensure that businesses were growing sustainably over time. Maintaining high levels of annual growth over this period indicates that a business has a sound business model and the capacity to cope with growth.

The ranking also considers the market positioning of emerging Chinese businesses. In order to better understand this, companies were filtered by three further criteria, each of which considers an aspect of their performance: (1) strength of domestic market presence in China; (2) extent of activity in international markets outside China; and (3) competitiveness of business model and strategy.

1. Currency exchange rates are based on rates at the time of writing, July 2014.

The rationale for using these criteria was: (1) domestic presence provides a 'home base' for growth into other markets; (2) international activities show an ability to transfer a business model to other markets and, as a result, an ability to 'grow beyond' a home market; (3) the business model underpinning domestic and international expansion needs to be scalable and sustainable, able to operate successfully in different markets and across customer segments.

The multidimensional approach produced a detailed rating of the overall competitiveness of the identified businesses. This report is, as a result, very different to other rankings, which rely on a small number of financial measures, mainly size, rather than on wider measures of performance and competitiveness.

This report identifies 100 fast-growing Chinese businesses that have the characteristics of emerging global giants. Although these businesses cannot yet be considered giants, as their current size does not warrant this, their growth rates and business models indicate that they are likely to continue to expand and, over the short- to medium-term, become China's next generation of giant global corporations.

Four cases are reviewed in more detail. They are: iSoftStone Holdings, a software business; Hangzhou Hikvision Digital Technology, a supplier of surveillance equipment; ctrip.com International (CTRIP), a travel company; and Zhejiang Shangfeng Industrial Holding, a manufacturing company. The first three businesses are highly ranked and the fourth is placed lower in the rankings but has the potential to emerge over time as a global giant. Each example offers a different profile of the emergence of businesses in contemporary China.

The report also highlights six emerging Chinese banks. Each has annual growth rates of between 20% and 30%. Although they are increasingly successful in the Chinese market, these banks have not yet developed fully the strategies and overseas presence needed to break into international markets outside China. They cannot be considered, therefore, as emerging global giants and so are not included in the top 100 list. However, their growing importance in financing many of the businesses included in the top 100 makes them an important dimension of China's business ecosystem. These banks are also developing relationships outside China.

BOX 1: THE TOP 100 IS DIVERSE

The top 100 businesses are active in a variety of sectors and are located across China. Many have their headquarters in Beijing, Shanghai, or the coastal provinces of Guangdong, Zhejiang and Jiangsu, reflecting the extent of economic development in these parts of China. However, the overall geographical spread is wider, with businesses located in the west, the north, the east and the southeast of the country.

The listing is not overly dominated by manufacturing and production businesses; technology, internet and service businesses are well represented. These types of businesses reflect the growing importance of services and the internet in China. The broad range of sectors indicates an increasingly diversified business base in China and points to the emergence of businesses that are likely to compete on design, innovation and service, as well as those specialising in cost-efficient assembly and production.

1. China’s next 100 global giants

Businesses in the top 100 list were ranked based on multiple criteria, namely:

- size (as measured by turnover)
- growth (in revenue)
- presence (domestic and international), and
- business model.

This approach, which used multiple dimensions in order to develop the fullest possible analysis, produced a more rounded and detailed assessment of business performance and potential.

Table 1 presents the 100 Chinese companies that ranked highest in the scoring system. There is real diversity across the businesses included in the ranking. The geographical spread of businesses is wide, so that even though the tier 1 cities in China, especially Beijing and Shanghai, are well represented, the top 100 companies come from many different parts of China.

Different sectors are represented and the presence of services and intangible products in the top 100 points to an increasingly diverse economy and a move away from manufacturing and production.

The most common sector in the top 100 is computers and communication equipment, with 19 in this category; 13 of the top 100 are in electronics and 11 in metal and non-metal products. In contrast, 17 are in services and intangible products, such as the internet, hospitality and entertainment.

Scores range widely, from a top score of 147 for Jiangsu Hengtong Photoelectric Stock, to 21 for Henan Xinye Textile. Much of this spread can be explained by differences in annual growth rate and international presence, and size is also a factor.

Broadly, the top 100 firms can be characterised as relatively large businesses in terms of their turnover, although there is variation in size. The average (mean) turnover is RMB4.75bn, which is approximately equal to £450m sterling or US$750m. In other words, many of these companies are medium-to-large businesses, but are not yet the largest established businesses in their markets. They can be characterised as big, but not huge.

Their future growth trajectory appears strong. If they sustain their growth rates they will be competing against established giants in China and in other markets. Among the top 100, growth rates vary between 16% and 49%. However, the top 20 is made up almost completely of businesses with annual growth rates of 30% a year or higher, and, in the case of the top three businesses, growth rates of 40% or more. Sustaining these annual levels of growth over five years from 2008 to 2012 demonstrates sustained performance and rapid expansion.

Businesses that grew at an annualised rate of 20% more than doubled their turnover over the five-year period. Those that grew at 40% a year over five years (between 2008 and 2012) almost quadrupled in size. In other words, the majority of the top 100 companies doubled in size, and a number of them quadrupled in size. By any measure, this is significant growth.

Extrapolating 2012 turnover by these growth rates, the typical top 100 businesses will have a turnover of at least RMB10bn (£1bn or US$1.5bn), and many will have annual turnovers of more than RMB20bn (£2bn or US$3bn) by 2017–18. On these indicative calculations, the top 100 will be major businesses by size criteria within the next five years.

The majority of businesses demonstrated strong business models and strategies. Indeed, a common characteristic of almost all the top 100 businesses was a highly rated business model and strategy. Overall, the businesses had clear strategies and demonstrated in-depth knowledge of the dynamics of their industries, as well as the needs of their customers. Strategies were clear and coherent and there was evidence of strong management control of the business and monitoring of progress and performance.

Almost all the businesses were very strong, if not dominant, in their domestic markets, creating a ‘home base’ for globalisation. A domestic platform for future growth, both in China and through internationalisation, was a common feature.

China’s next global giants, in summary, have developed sound business models by building market share and power domestically. Most are now applying their successful business models in other markets, building a stronger overseas presence.

A small number of these businesses (Huapont-Nutrichem, iSoftStone Holdings, Hongfa Technology, Zhejiang Wanfeng Auto Wheel, Anhui Zhongding Sealing Parts, Beijing Zhongke Sanhuan High-Tech) secured maximum scores (see Appendix, stage 3) for domestic dominance, international presence and business model, indicating that they are highly competitive businesses that will continue to expand globally and be competitive in new markets. They also achieved five-year annual growth rates of more than 30%. Of the companies included in this listing, these businesses in particular look likely to become major global giants in their industries and markets over the next few years.

A subset of the top 100 scored lower (1) on international presence. These businesses were strong in their home market and had started to develop some international presence in recent years. They showed a clear trajectory towards greater international presence. They were earlier in their cycle of internationalisation, but looked likely to become more globalised in the next few years. If they continue on their current trajectory, these businesses will continue to grow and are highly likely to do so by becoming more internationally focused.

Most of the businesses ranked between 51 and 70 had a strong domestic and international presence, as well as effective business models, and so should be considered strong candidates for China's next generation of global giants. They had started to internationalise their businesses and were large enough and growing fast enough to indicate that they would continue to expand to become more global. Many of these businesses, however, were growing a little more slowly than the top 50, with annual growth rates between 15% and 20% compared with annual growth rates of 30% or more for those ranked in the top 10.

Businesses placed in the 80s and 90s in the ranking were less dominant domestically, were less internationalised and had underdeveloped business models. Based on these criteria, they appear less likely to become future global giants without further growth and the possibility of a major transformation of their business models and international activities. This does not mean that these businesses were underperforming in their domestic markets. Those that were dominant domestically and had sound business models but little international presence could well become domestic champions over time if they do not globalise.

Figure 1: Industry sectors represented by China's next 100 global giants

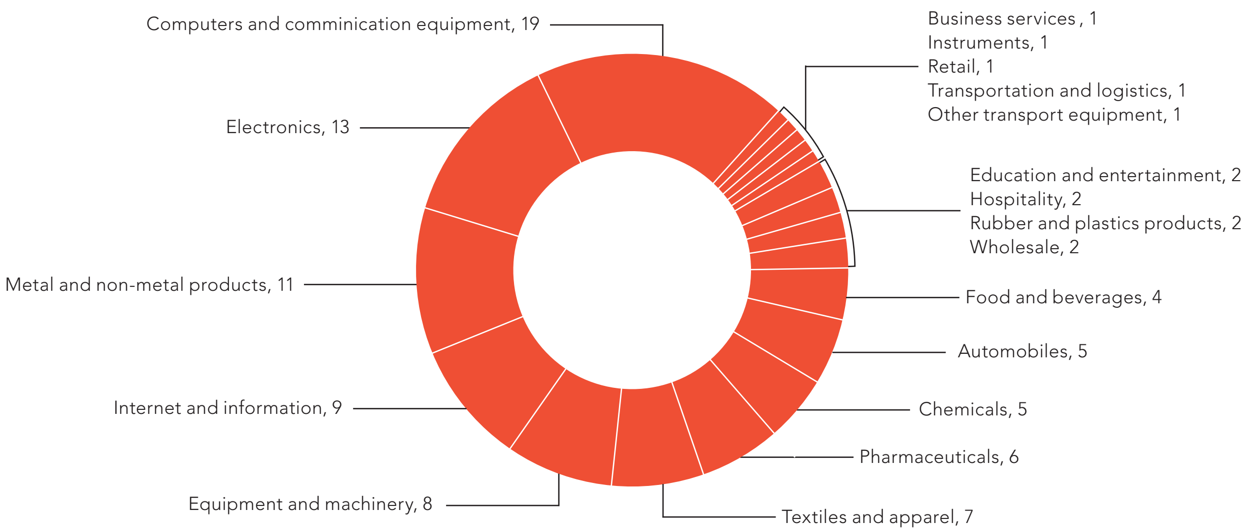

Table 1: China's 100 next global giants

Rank	Company name	Score*	2012 Revenue (million RMB)	Annual Revenue growth (2008–12)	Domestic dominance	International presence	Business model and strategy	Sector	Location
1	Hengtong Optic-Electric	147	7,804	46.5%	3	2	3	Electronics	Suzhou
2	Huapont-Nutrichem	139	3,877	39.7%	3	3	3	Chemicals and allied	Chongqing
3	Zhejiang Dahua Technology	125	3,531	44.1%	2	2	3	Computers and comms	Hangzhou
4	iSoftStone Holdings	123	2,434	35.1%	3	3	3	Internet and information	Beijing
5	Hangzhou Hikvision Digital Technology	119	7,214	37.5%	3	2	3	Computers and comms	Hangzhou
6	Hosa International	115	5,352	40.7%	3	1	3	Textiles and apparel	Beijing
7	Hongfa Technology	110	3,008	31.4%	3	3	3	Electronics	Wuhan
7	Zhejiang Wanfeng Auto Wheel	110	4,091	31.5%	3	3	3	Automobiles	Shaoxing
9	Anhui Zhongding Sealing Parts	109	3,369	31.1%	3	3	3	Rubber and plastics	Xuancheng
10	Beijing Zhongke Sanhuan Hi-Tech	106	4,934	30.2%	3	3	3	Computers and comms	Beijing
10	Zhongli Science and Technology	106	6,326	37.3%	2	2	3	Electronics	Changshu
12	Ningxia Zhongyin Cashmere	102	2,426	32.2%	2	3	3	Textiles and apparel	Lingwu
13	Shenzhen Desay Battery Technology	101	3,195	37.8%	2	3	2	Electronics	Shenzhen
14	Pactera Technology International	100	2,266	31.7%	2	3	3	Internet and information	Beijing
15	China XD Plastics	98	3,785	49.2%	2	1	2	Chemicals and allied	Harbin
15	Hefei Rongshida Sanyo Electric	98	4,016	32.8%	3	3	2	Electronics	Hefei
17	China New Borun	95	2,621	38.1%	2	1	3	Food and beverages	Shouguang
17	Xi'an Longi Silicon Materials	95	1,708	30.1%	3	2	3	Metal and non-metal products	Xi'an
17	Zhuzhou Times New Materials	95	3,719	33.5%	3	1	3	Rubber and plastics	Zhuzhou
20	Zhejiang Dun'an Artificial Environment	93	7,579	29.4%	3	2	3	Equipment and machinery	Zhuji
21	Eternal Asia Supply Chain Mgmt	91	7,484	28.8%	2	3	3	Business services	Shenzhen
21	RDA Microelectroncs	91	2,469	45.5%	2	1	2	Computers and comms	Shanghai
23	Nari Technology Development	87	6,028	43.5%	2	1	2	Internet and information	Nanjing
23	Tianjin Zhonghuan Semiconductor	87	2,536	37.2%	3	1	2	Computers and comms	Tianjin
25	Jiangxi Black Cat Carbon Black	85	4,655	26.8%	3	2	3	Chemicals and allied	Jingdezhen
26	ctrip.com International	84	4,213	26.4%	3	2	3	Transport and logistics	Shanghai
26	Inner Mongolia Baotou Steel Rare-Earth Hi-Tech	84	9,242	36.0%	3	1	2	Metal and non-metal products	Baotou
26	Lianhe Chemical Technology	84	2,955	26.5%	2	3	3	Chemicals and allied	Taizhou
29	New Oriental Education and Tech	80	6,057	28.2%	3	1	3	Education and entertainment	Beijing
29	Huayi Brothers Media Corporation	80	1,386	28.3%	3	1	3	Education and entertainment	Dongyang
31	Changyuan Group	78	2,413	27.6%	3	1	3	Computers and comms	Shenzhen
31	Han's Laser Technology	78	4,333	24.7%	3	2	3	Equipment and machinery	Shenzhen
33	Sinoma Science and Technology	75	2,803	23.6%	3	2	3	Metal and non-metal products	Nanjing
34	Sichuan Jiuzhou Electric	73	2,757	27.4%	2	3	2	Computers and comms	Mianyang
35	Shandong Nanshan Aluminum	72	14,870	20.5%	3	2	3	Metal and non-metal products	Longkou
36	Beijing Tong Ren Tang	71	7,504	25.1%	3	1	3	Pharmaceuticals	Beijing
36	Tianma Microelectronics	71	4,334	30.4%	1	3	2	Computers and comms	Shenzhen
38	China Lodging Group	69	3,266	34.7%	2	1	2	Hospitality	Shanghai
39	Aerospace Comms Holdings	68	9,302	27.2%	2	1	3	Wholesale	Hangzhou
39	Fiberhome Telecomms Technology	68	8,183	21.5%	3	2	3	Computers and comms	Wuhan
39	Zhejiang Aokang Shoes	68	3,455	29.0%	3	1	2	Textiles and apparel	Wenzhou
42	Yonyou Software	67	4,235	23.6%	3	1	3	Internet and information	Beijing
43	Humanwell Healthcare (Group)	65	5,317	43.0%	2	1	1	Pharmaceuticals	Wuhan
43	O-Net Comms (Shenzhen)	65	4,590	23.1%	1	3	3	Computers and comms	Shenzhen
43	Puyang Refractories Group	65	2,146	20.5%	2	3	3	Metal and non-metal products	Puyang
46	Zhejiang Supor	64	6,889	18.3%	3	3	3	Metal and non-metal products	Yuhuan
47	Home Inns and Hotel Management	63	5,486	26.8%	3	1	2	Hospitality	Shanghai
47	Shanghai Fudan Microelectronics	63	4,443	22.3%	3	1	3	Computers and comms	Shanghai
49	Kunming Pharmaceutical	62	3,016	21.9%	2	2	3	Pharmaceuticals	Kunming
50	Hangzhou Nabel Group	61	7,853	21.5%	3	1	3	Metal and non-metal products	Hangzhou

Rank	Company name	Score*	2012 Revenue (million RMB)	Annual Revenue growth (2008–12)	Domestic dominance	International presence	Business model and strategy	Sector	Location
51	Fabchem China	60	3,086	19.0%	3	2	3	Metal and non-metal products	Singapore
51	Huayi Compressor	60	5,601	17.0%	3	3	3	Equipment and machinery	Jingdezhen
51	Jiangsu Changjiang Electronics	60	4,436	17.0%	3	3	3	Computers and comms	Jiangyin
54	Guangdong Dongyangguang Aluminum	59	4,415	18.5%	3	2	3	Metal and non-metal products	Shaoguan
54	Shanghai Fosun Pharmaceutical	59	7,341	18.5%	3	2	3	Pharmaceuticals	Shanghai
56	Apeloa Pharmaceutical	58	3,480	21.6%	2	3	2	Pharmaceuticals	Dongyang
56	JinkoSolar Holding	58	4,857	31.4%	1	3	1	Computers and comms	Shangrao
58	China Avic Electronics	57	4,300	28.5%	3	0	2	Other transport equipment	Beijing
58	Zhejiang Sanhua	57	3,826	16.2%	3	3	3	Equipment and machinery	Shaoxing
60	Baofeng Modern International Holdings	56	8,529	23.8%	2	2	2	Textiles and apparel	Quanzhou
60	Wuxi Little Swan	56	6,900	18.7%	3	3	2	Electronics	Wuxi
62	Dongling Grain and Oil	55	8,317	33.0%	1	1	2	Food and beverages	Guangzhou
62	E-commerce China Dangdang	55	5,261	47.5%	1	1	1	Retail	Beijing
62	Ningbo Huaxiang Electronic	55	5,600	17.4%	2	3	3	Automobiles	Ningbo
65	Hualing Xingma Automobile	54	4,475	26.9%	2	1	2	Automobiles	Ma'anshan
65	Anhui Ankai Automobile	54	3,841	17.0%	2	3	3	Automobiles	Hefei
65	Anhui Heli	54	5,976	17.0%	3	2	3	Equipment and machinery	Hefei
65	China Spacesat	54	4,261	19.2%	3	1	3	Computers and comms	Beijing
65	Xiamen Tungsten	54	8,837	17.9%	3	3	2	Metal and non-metal products	Xiamen
70	Netease Inc	53	8,307	26.3%	2	1	2	Internet and information	Beijing
70	Shunfeng Photovoltaic International	53	6,686	26.6%	1	2	2	Computers and comms	Changzhou
72	Aucma	52	4,003	18.2%	3	1	3	Electronics	Qingdao
72	Changyou.com	52	3,934	26.0%	2	1	2	Internet and information	Beijing
72	Angel Yeast	52	2,714	18.5%	2	2	3	Food and beverages	Yichang
72	Keda Clean Energy	52	2,661	22.2%	3	1	2	Equipment and machinery	Foshan
76	Peacebird Group	51	8,451	25.4%	2	1	2	Textiles and apparel	Ningbo
77	Viewtran Group	47	4,954	23.7%	2	1	2	Computers and comms	Shenzhen
77	Guodian Nanjing Automation	47	4,147	23.3%	2	1	2	Electronics	Nanjing
77	Hengdian Group Dmegc Magnetics	47	2,910	21.7%	3	2	1	Electronics	Dongyang
80	Aerosun Corporation	46	4,003	19.6%	2	2	2	Automobiles	Nanjing
80	Fujian Furi Electronics	46	2,723	19.9%	1	3	2	Wholesale	Fuzhou
82	Perfect World	44	2,806	16.6%	3	2	2	Internet and information	Beijing
82	Zhejiang Shangfeng Industrial	44	2,576	21.9%	2	1	2	Electronics	Shangyu
84	Golden Meditech Holdings	43	6,810	17.2%	2	1	3	Instruments	Beijing
84	Tongling Jingda Special Magnet Wire	43	8,248	18.5%	3	1	2	Electronics	Tongling
86	Avic Heavy Machinery	42	5,372	28.3%	2	1	1	Equipment and machinery	Guiyang
86	Sinotex	42	3,253	28.2%	1	2	1	Textiles and apparel	Shanghai
86	SouFun Holdings	42	2,715	35.8%	1	1	1	Internet and information	Beijing
89	Guangzhou Baiyunshan Pharma	41	8,229	20.3%	2	1	2	Pharmaceuticals	Guangzhou
90	Hefei Meiling	38	9,307	18.8%	2	1	2	Electronics	Hefei
91	Baosheng Science and Technology	37	8,569	18.6%	2	1	2	Electronics	Yangzhou
92	Tech Pro Technology Dev	36	3,907	19.4%	1	3	1	Computers and comms	Hong Kong
93	Xu Long Group	35	8,958	21.3%	1	1	2	Food and beverages	Ningbo
94	Sun King Power Electronics Group	34	3,619	22.6%	2	1	1	Computers and comms	Beijing
95	Xinjiang Zhongtai Chemical	33	7,113	22.2%	2	1	1	Chemicals and allied	Urumqi
96	Anhui Quanchai Engine	31	2,712	16.8%	3	1	1	Equipment and machinery	Chuzhou
96	Nanjing Yunhai Special Metals	31	3,493	17.0%	2	2	1	Metal and non-metal products	Nanjing
96	Sohu.com	31	6,735	20.8%	2	1	1	Internet and information	Beijing
99	Ningbo Yunsheng (Group)	26	2,920	22.5%	1	1	1	Computers and comms	Ningbo
100	Henan Xinye Textile	21	3,158	18.0%	1	1	1	Textiles and apparel	Nanyang

*Under the parameters we set, the maximum score is 193 (=1.1x50x(3+3+1.5x3)/3).

Figure 2: Headquarter locations of China's next 100 global giants

2. Case studies of China's emerging global giants

Chapter 2 focuses on four specific examples of businesses included in the top 100 ranking. One is a software development company that has a client list of major multinationals. The second is a globally leading manufacturer and supplier of surveillance equipment. The third is the leading Chinese online travel agency, with a growing international profile for Chinese tourists going overseas and international tourists visiting China. The fourth is a specialist manufacturer in household and industrial fans and related equipment that is diversifying its business model and starting to internationalise.

Each business reflects in its own way not only the diversity of China's emerging global giants but also their distinctive and innovative business models. The first two examples are already very internationalised in their business and strategy and, with their high growth rates and penetration of global markets, are very likely to build stronger global presences. The third – Ctrip – is following its customers into new international markets, mainly in East and Southeast Asia, as well as Australasia. Through its accessible English website, Ctrip is attracting overseas travellers to plan and book holidays and travel in China.

RANKED 4: iSOFTSTONE HOLDINGS

Founded in October 2001 in Beijing, and listed on the New York Stock Exchange in 2010, iSoftStone is a leading information technology (IT) services and solutions provider in China.

The company's total revenue in 2012 was RMB2.434bn, which in July 2014 equated to around US$390m or £230m (market rate). Revenue breakdown by activity in 2012 was as follows: consulting and solutions (33.4% of 2012 revenue); IT services (63.1%); and business process outsourcing (3.5%). iSoftStone has expanded internationally with 36% of its 2012 revenue coming from markets outside China. The US was the largest overseas market (22.7% of revenue), followed by Europe (6.6%) and Japan (6.1%). Major clients include large corporations with headquarters in China, the US, Europe and Japan.

iSoftStone has 20 sales and delivery centres in China located in tier 1 cities, such as Beijing, Shanghai and Shenzhen, and also in key tier 2 and tier 3 cities. It has six research and development (R&D) bases – in Beijing, Chengdu, Shenzhen, Tianjin, Wuhan and Wuxi. These assess new technologies and how related applications (such as cloud computing) can be used by the company.

iSoftSstone scored a 3, out of 3, for domestic market presence because it is one of the largest sales and delivery platforms for IT services and solutions in China, and it has significant domestic market share as a result. Key competitors are ChinaSoft International, Neusoft Group, and Pactera Technology International.

The company scored 3 for overseas presence because it has established a strong market presence in key international markets. It has subsidiaries incorporated in Hong Kong, the US, Canada, Japan, Europe and South Korea. By the end of 2012, the company had 89 Fortune 500 companies as its key clients, of which 55 were global clients. It has seven overseas sales and delivery centres: three in the US, one in Canada, two in Japan, and one in Taiwan.

The company scored 3 for its business model and strategy. The strategy is clear on iSoftStone's strengths and has analysed its key markets in depth. It maintains a balanced business mix between industry sectors and between Chinese and international clients. The company is well established as a leader in China's rapidly developing market for IT services. It has expanded its business and acquired technology through company acquisitions and strategic alliances, including partnerships with Microsoft, IBM and Huawei Technologies.

Although a significant proportion of its activity will continue to be in China, the company has adopted a deliberate strategy of internationalisation. In the future it is likely to be competitive because it will further strengthen its domestic market share in China, making it an increasingly powerful competitor for international companies seeking to build presence and share in China. It also looks likely to secure business from more Fortune 500 companies worldwide, so increasing its client list of major multinational and global companies. In securing more clients, iSoftStone is likely to take business off companies already providing enterprise software and related services, not only in China but also in other countries. As a result it will become an increasingly globalised competitor in enterprise software.

RANKED 5: HANGZHOU HIKVISION DIGITAL TECHNOLOGY

Hikvision is a global leader in the manufacture and supply of surveillance equipment. It has an extensive global network of distributors and overseas branches in Brazil, Italy and South Africa, as well as a global marketing network spread across 13 countries. Increasingly, the company is involved in large-scale surveillance solutions as a component of wider intelligent and smart city projects and developments. Around one-sixth of its revenues come from markets outside China.

Hikvision has sought to expand its product range to consumers in recent years and emphasises the quality and technology of its equipment. It claims over 1,000 staff in its R&D and technology development departments.

As well as the supply of products, the company provides systems solutions and also has a service business that focuses on the needs of individuals and firms, especially households and small businesses.

In 2012 *a&s* magazine ranked Hikvision No. 1 in the world for supply of CCTV and surveillance equipment, for which it has an 8% global market share, and third in the world for security cameras, for which it has a 9.7% market share. The company is also a global leader in camcorders.

Hikvision achieved the maximum rating for domestic presence because it has a dominant market share in China and is an industry leader, alongside Zhejiang Dahua Technology, which placed in the top 50 of China's emerging global giants.

The company secured a high score for international presence. Hikvision's global market share of 8–10% in its key markets is significant. These shares, however, are in niche global markets and it competes against more established businesses.

The company also gained the maximum score for its business model because of its continuing innovation and investment in R&D, as well as its move from B2B and subcontracting business into the consumer market and to more turnkey solutions involving design and installation.

Hikvision's dominance in a specialist niche market has enabled the company to establish a global presence. Recent developments indicate that the business is moving into new segments, increasingly in the consumer market, to supplement its considerable strength in the corporate surveillance and security camera sector. Hikvision's products are now supported by a service company that will add greater value to equipment supply and installation. The company has also developed a more comprehensive product and related service offer, which expands its ability to generate new business.

As well as continuing to grow share in its existing markets, Hikvision is developing camera products for consumers that are likely to be competitive in terms of price and functionality. This will give the company opportunities to compete on price in Europe and North America, as well as scope to grow market share in middle-income and fast-emerging economies, such as the BRIC countries (Brazil, Russia, India and China) and other emerging and middle-income economies. In summary, Hikvision appears well positioned to grow rapidly in the 'middle of the pyramid', ie among emerging middle classes in middle-income countries. This is one of the fastest growing customer groups globally.

RANKED 26: CTRIP.COM INTERNATIONAL (CTRIP)

Ctrip started in 1999, inspired by the Priceline model developed in the US, which brings together providers of travel services and consumers. Bookings and purchases are made through the Ctrip website. The company also has a presence in major Chinese domestic airports and has local offices in tier 1 and key tier 2 cities. Historically a mixed online and offline business with a busy call centre, in 2013 Ctrip introduced a new online platform with enhanced functionality. As a result, online and especially mobile technology has become an increasingly common means of using Ctrip.

Initially, Ctrip focused on hotel bookings, but has since expanded its services to include air flights, train tickets, package tours and corporate travel. Since its establishment, the company has grown rapidly as it has added these market segments. The company now accounts for around half of all online travel business in China. Overall, online business makes up roughly one-seventh of the total market. In contrast, online bookings account for about 50% of the US travel market, suggesting significant growth opportunities in China.

Ctrip's annual growth each year over the last five years has been between 20% and 30%, and this growth rate is projected to continue to 2020.

The business has been developing its customer intelligence and has used its new web platform and data analytics to improve insight into demand. Essentially, Ctrip seeks to understand the travel patterns and decisions of its customers and 'follows' these.

For example, there has been significant growth in tourist travel to countries outside China and Ctrip has responded to this by developing its offer in places where Chinese tourists regularly travel, such as Macau, Hong Kong, Japan, South Korea and Southeast Asia. Over time, Ctrip's presence in these countries may enable the company to offer its services to local residents, giving it further potential for international growth.

The recent performance of Ctrip indicates that it is now gaining market share against other Chinese online booking aggregators. Should this trend continue, Ctrip will move to securing dominant market share in a sector that will grow. As travel bookings go online, this market is likely to grow by more than four times its current size if it reaches the same size as the current US market. Ctrip looks likely to secure a large proportion of this market expansion.

This will give Ctrip a foundation for expansion outside China, in particular in three areas. First, by servicing Chinese tourist bookings in countries outside China. Second, by creating localised versions of Ctrip in countries that are popular with Chinese tourists. Finally, by building English language website bookings in China and other countries. Initially, these markets are likely to be in Asia – for example, in Thailand – and 'hotspots' destinations such as Mauritius. Over time, and with expansion of mainland Chinese tourism, Ctrip is likely to expand its networks and market share in Europe and North America, as more tourists from China book their travel to these parts of the world through a portal that they know and have confidence in: namely, Ctrip.

RANKED 82: ZHEJIANG SHANGFENG INDUSTRIAL HOLDING

In order to gain some insight into companies that are still emerging, a company in the bottom quartile of the top 100 ranking is also considered in this chapter. Shangfeng is well established in China in its key market and, as a result, has been growing rapidly over the five-year period covered. The company has not yet developed a strong international presence, but its sales are growing in markets outside China. With some refinement of its business model and strategy and a greater international presence, Shangfeng has the potential to move up the rankings and establish itself as a global competitor in its market sectors.

Shangfeng was founded in 1974 in Zhejiang Province, and has been listed on the Shenzhen Stock Exchange since 2000. Shangfeng manufactures wires, fans and related equipment, including refrigeration and freezing equipment. The company product range includes: axial, mixed-flow and centrifugal fans and enamelled wires; also air-cooled and water-cooled refrigeration equipment and auxiliary equipment such as drying equipment, air supply and exhaust ducts and electric cabinets. It serves the power, manufacturing, refrigeration, air-conditioning, rail transit and civil building industries. Its annual revenue in 2012 was more than RMB2.5bn.

Shangfeng scored 2 for domestic market presence because it appeared to have high national market share for its products and an extensive network of more than 40 offices across China. The company's products are, however, mainly for the civil building industry, which tends to operate at relatively low margins. This indicates a business model that is cost-focused, even though the company is investing in R&D and design innovation, which over time would suggest a move up the value chain.

Shangfeng's key competitors include Shenyang Blower Works (Group) and Shaanxi Blower (Group). These companies tend to produce higher tier products, for example, they design and manufacture centrifugal compressors for large-scale industrial projects and plants. The design component of these projects and the large scale of investment associated with this plant suggests higher value added for these competitors. Recent orders, including for example, ventilating a Beijing metro line, suggest that Shangfeng is looking to move to a higher value-added approach.

Shangfeng scored 1 for overseas presence, because about 10% of its revenue comes from sales outside China. Its international presence is mainly as a supplier of blower products to Chinese companies that are active overseas on major infrastructure projects such as railway construction. It also operates as a subcontractor to larger Chinese businesses on international construction and infrastructure projects in other countries.

The company scored 2 for its business model, which is based on a strategy that focuses on the business's core strength: cost-efficient manufacturing. Shangfeng is collaborating with universities on R&D projects related to product improvement and innovation. The demand for its products in China is expanding as infrastructure improves, and Shangfeng is focused on the growth opportunities generated by these investments. The company is well positioned for growth in rapidly expanding markets in China, such as nuclear energy.

This company has secured market share and domestic presence through the acquisition of Shangyu Zhuanfeng, a competitor in the same industry that is located in the same part of China as Shangfeng. It has also developed an alliance with Midea Group, one the largest conglomerates in China.

3. China's emerging banks

As well as the businesses included in the next global giants, the study identified a small group of banks that are also emerging as increasingly important businesses. Although China is dominated by a small number of state-funded banks, the businesses listed in Table 2 below have been increasing their market share by securing new customers and offering alternative financial products.

China's banking sector is dominated by four very large state banks; it also has a large population of local banks that typically are small and focused locally on a city or sub-provincial area. The six banks detailed in Table 2, therefore, represent a middle group of emerging banks that are large in international terms but not yet the size of one of China's banking giants, many of which count among the most capitalised globally.

The six banks in this middle group have developed strong business models, with financial innovation, but are not dominant in their domestic market because of the size of the big four banks. They are still focused on the domestic market, although most have some international links and presence. The 'middle six' banks are becoming increasingly engaged internationally with an increasing amount of cross-investment.

As these banks grow, they are beginning to explore and develop international markets. An increasing number have significant minority shareholdings invested in them by non-Chinese financial institutions, especially those focused on North America and Europe. In addition, some are expanding their activities into markets outside China. As a result, these banks are becoming more internationalised in presence and profile, and this looks likely to continue into the future.

The reason for the inclusion of these banks in this report is twofold. Firstly, they are increasingly important as funders of businesses in the top 100 of China's next global giants. They have tended to fund emerging enterprises and the private sector when the giant state banks have focused on state-owned enterprises. This has made them key enablers of the emergence and future expansion of the companies identified in this report.

Second, these banks are reaching a size and scale of activity where they number among the largest banks in the world. All of these banks are ranked among the 100 largest banks in the world by the SNL Financial, a US financial industry website and news site, and four are in the top 50. In other words, although the big four banks in China are among the largest in the world, the banks identified in this report are major financial institutions in their own right.

They also have significant growth rates of between 24% and 29% a year over five years and so will become more important over time. At this rate of annual revenue increase, they are within the growth parameters set for China's next global giants, highlighted earlier in this report.

Table 2: China's emerging banks

Company name	2012 total assets (million RMB)	2012 tier 1 capital ratio	2012 Revenue (million RMB)	Revenue growth (2008–12)	Domestic dominance	International presence	Business model and strategy	Score	Rank
Industrial Bank	3,250,975	9.29%	87,187	28.90%	2	1	3	87	1
China CITIC Bank	2,959,939	9.89%	87,043	22.00%	2	2	3	73	2
China Minsheng Bank	3,212,001	8.13%	98,195	28.50%	2	1	2	67	3
Shanghai Pudong Development Bank	3,145,707	8.97%	82,639	24.40%	2	1	2	57	4
Hua Xia Bank	1,488,860	8.18%	39,573	26.90%	1	1	2	54	5
Ping An Bank	1,606,537	8.59%	38,911	28.20%	1	0	2	47	6

4. Where to next for China's emerging global giants?

The 100 businesses and six banks identified in this report all report significant turnover, rapid growth and positive domestic and international market activity based on a competitive business model. All these businesses, as a result, can be considered competitive in any environment. And this means that each of them has real potential to become a global giant in its market. Clearly, those that are highly ranked are more likely to emerge into leading global businesses, and some of the top-ranked businesses in this report can already be considered global giants in their particular markets.

Within the top 100, 34 businesses have a top-ranked business model and a strong domestic and international market presence (that is, rated 2 or 3 out of 3). These businesses are relatively evenly distributed, with 24 in the top 50 and 10 ranked between 51 and 72. The variation in rankings of these businesses is because some have lower growth rates and revenues and, so, lack the scale and momentum of the larger, rapidly expanding enterprises in the top 100. However, all have highly competitive business models and strong presence in their markets. These businesses are growing at rates that would be impressive in any developed economy and most emerging nations, particularly as growth was measured over a five-year period. To generate average annual growth of at least 16% and up to 50% each year and over five years is an achievement and suggests that continued rapid growth looks likely to be sustainable.

The 34 businesses with a maximum (3) rating for business model and strong ratings (2 or 3) for domestic and international presence represent the companies most likely to become highly competitive global giants in the future. Although some of the other companies are larger, or have grown more rapidly, their performance is not as strongly underpinned by an effective business model and strategy. This is especially so for businesses with a business model rated 1. Unless these companies enhance their business model, their future growth is likely to be constrained. Should they refine and improve their business model, their future potential is great.

Even though most of the businesses had already broken into international markets at the time this report was compiled, 20 of the top 50, and 26 ranked between 51 and 100, scored the minimum recognised rating for international presence (1). Although not fully exposed to markets outside China, many of these businesses have effective business models and are industry leaders in their own highly competitive domestic Chinese markets. It would be unfair, therefore, to characterise their performance as lower than that of businesses with a higher score for international presence. Indeed, many are in the early stages of expanding into new markets and have been experiencing success and positive returns. It may be best to characterise these businesses as highly successful domestically, but less established outside China. The expectation is that many will become more global as they continue to grow.

There are several businesses in the 51–100 grouping that have strong domestic and international presence and a competitive business model. These companies tend to be smaller and are growing less quickly. Nevertheless, they also have real potential for international success and global competition. Companies such as Huayi Compressor and Zhejiang Sanhua are more internationalised, although on a smaller scale, than some in the top 50. These companies are not yet at a point where they look likely to become global leaders in their markets. However, they appear be strong competitors in their domestic and international markets. Over time, these businesses may also become global giants that influence and dominate international markets.

Many, if not most, of the 100 emerging Chinese businesses listed in this report are likely to become substantial international competitors in the near future. Over the next five years a significant number will become more dominant within China and also expand internationally to compete with major multinational companies and local businesses in markets worldwide. As they do so, they will place more pressure on incumbents, especially on existing major companies. They are likely to take market share from established market leaders, across a range of economies, including the Organisation for Economic Co-operation and Development (OECD) and developed nations, as well as middle and lower income countries. It is likely that the businesses identified in this report will be competing vigorously in many markets across the world over the next five to 10 years.

Appendix: project methodology

The ranking methodology was based on three stages of analysis, as follows:

- Stage 1: Identification of a 'longlist'.
- Stage 2: Creation of a shortlist.
- Stage 3: Scoring to establish the ranking of China's next global giants.

STAGE 1: LONGLISTING

As a starting point, a desk review was undertaken, in both English and Chinese, to identify businesses. This was based on three sources:

Companies listed on stock exchanges in China (Shanghai, Shenzhen, ChiNext) and other countries (NASDAQ, NYSE, Hong Kong, Singapore Exchange).

Unlisted companies included in the GSL 500 listing, which identifies the largest 500 private companies, listed and unlisted, in China. At the time this project was carried out, the latest GSL list provided data to 2012.[2]

Media searches. Multiple web searches were undertaken to identify up-and-coming businesses that have been identified in the Chinese and non-Chinese (Western) media.

The primary source was listed companies in China (all forms of legal incorporation). Listed companies regularly disclose financial and strategic corporate information under regulation and generally have better media coverage than non-listed companies.

Data was taken from the COMPUSTAT Global and the China Securities Market and Accounting Research Database, both of which provide detailed information about companies.

Listed companies were included if they had a listed trading history of at least five years up to 2012 and were active as of February 2014. A five-year period is sufficiently long to indicate that year-on-year performance has been sustained. From the multiple information sources used, 1,863 listed companies were identified.

To supplement the search for listed firms, the GSL lists were analysed over the last four available years (2010–13). The period was reduced to four years for unlisted firms due to the lack of access to GSL prior to 2010. This search yielded 155 unlisted companies that were included in GSL in each of these four years. GSL provides revenue data for companies included in the listing, so data were available for analysis.

Combining listed and unlisted businesses generated a longlist of 2,018 candidates.

As a further filter, four sectors were excluded on the basis that business models and dynamics in certain industries are unlikely to produce global giants able to compete on their business model and strategy. The emphasis was on identifying businesses that could differentiate themselves in global markets, so those based on commodity production, extraction industries and China's property market were excluded in the first instance.

The four excluded sectors, and the rationale for their exclusion, are as follows.

1. Agriculture, Livestock and Forestry

Largely commodity-driven businesses in agriculture and related production were excluded on the basis that they did not appear to be developing business models or strategies that created market advantage, but instead focused on resources and scale. Food processing and production for consumer markets was included.

2. Construction and 4. Property Development

These industries are domestically focused in terms of core business activities. Their widespread use of migrant labour with varying levels of training and, hence, expertise limits the scope for internationalising by expanding to countries where building standards are maintained and inspected robustly. A number of successful domestic Chinese construction companies however are investing overseas and some are developing business in Africa and other continents. Many of these are very large and already established and so could not be categorised as newly emerging global giants.

3. Mining

Much of China's mining industry is either state-owned or state-controlled, or locally focused on particular deposits. Where it is international, mining tends to be undertaken by very large state-owned enterprises, which would not be considered emerging global giants because they are already established. However, companies were considered that process and manufacture extracted metals and minerals.

2. See http://finance.sina.com.cn/leadership/mroll/20130829/101816602059.shtml

In order to test this approach, a further check was used to determine whether any businesses had developed a profile that could be considered that of a global giant. Specifically, targeted media searches were undertaken in order to identify possible emerging global giants in the excluded sectors. These searches focused on the above four sectors, with individual searches for each. These media searches did not identify any businesses with a profile that could be considered that of a global giant. However, the additional targeted media search gave the option of incorporating individual businesses within these sectors if they were identified.

Applying these sectoral filters removed 280 companies, generating a longlist of 1,738 companies. Among them, 1,704 were non-financial and 34 were banks.

STAGE 2: SHORTLISTING

The longlisted businesses were then filtered by: (1) turnover; and (2) growth. These two indicators use publicly available, and hence verified, financial information and so are suitable for initial screening.

The first filter was size, measured by turnover in 2012. A threshold was put in place to remove the smallest and largest companies in the longlist. The revenue size threshold was businesses with revenues between the 50th and 80th percentiles.

The primary reason for a lower revenue threshold is that even fast-growing firms that have a clear business model are unlikely to become China's next global giants if they are not large enough to have sufficient resources to expand into other markets.

A maximum size threshold was set in order to remove the largest companies. Very large companies can be considered established giants in their own markets, due to their significant size. As a result, they cannot be considered up-and-coming businesses that are part of China's next generation of global giants.

The second filter was growth based on average revenue growth over 2008–12 for listed companies, and 2009–12 for non-listed businesses. Sustainable growth over a long enough period to show it can be managed was a key shortlisting criterion, as it provided the strongest available empirical indication of the likelihood of continued future growth.

The growth rate was calculated by analysing revenue (in natural log) over time:

$$Ln\ (Revenue_t) = a + g \bullet t\ ,\ for\ t = 1, \ldots, 5$$

The least-squared slope g is the average growth each year over five years. By contrast, an arithmetic average would only use the data at the beginning and end of the period and can be disproportionately affected by short-term fluctuations in either or both years.

A growth range was established that excludes both low- and hyper-growth companies. The exclusion of very fast-growth companies was based on the finding that firms that grow too quickly face significant challenges in managing this growth over time; and that most experience a decline in growth following on from an initial burst of hyper-growth.[3]

Average revenue growth over 2008–12 between the 60th and 95th percentiles was used to select non-financial companies from the longlist. This range selected companies that grew faster than the average but only excluded the 5% fastest-growing businesses.

In absolute terms, the range of annual growth rates for non-financial companies based on these parameters was between 16.6% and 49.2%. Both the threshold and the ceiling are economically sensible. The 16.6% threshold is well above China's real gross domestic product (GDP) growth, which averaged 10.4% between 2004 and 2011. Annual growth of 16.6% over five years translates to a doubling in size over the period (+216%), which is reasonable in a Chinese context.

The 49.2% growth ceiling makes sense when comparing national economic development conditions in China with those in more developed countries. A study of US listed firms whose growth is ranked up to the 75th percentile, which corresponds to an annual growth rate of 15.3%, revealed that they showed persistence in their revenue growth patterns over time.[4] Given that the Chinese economic growth rate was three times that of the US over the period, the 95th percentile rate of 49.2% is in line with the extrapolation made in this study to the higher growth context of China.

3. K. Palepu, P. Healy and E. Peek, *Business Analysis and Valuation* (IFRS Edition), Thomson Higher Education, 2010 (page 278, Figure 6.1).

4. L. Chan, J. Karceski and J. Lakonishok, 'The level and Persistence of Growth Rates', *Journal of Finance*, 58 (2): 643–84, 2003 (Table 1, page 650).

Table 3: Summary of filtering process to generate listing

	Number of firms	
Longlist: sufficient financial data; active as of March 2014		
– Publicly listed firms (LST): 2009–12 revenues	1,863	
– Unlisted firms in the Gongshanglian List (GSL): 2010–12 revenues	155	2,018
Four sectors to be removed		
– Agriculture, livestock, and forestry	(27)	
– Construction	(75)	
– Mining	(39)	
– Property development	(139)	(280)
Firms after removing the four sectors, of which 1,738		
– Non-financial	1,704	
– Financial services	34	
Non-financial, satisfying		
– RMB2.25bn ≤ 2012 revenue ≤ 9.33bn		
– 16.6% ≤ average growth over 2009–12 ≤ 49.2%	199	
– Firms whose 2012 revenues are slightly outside the range	4	
– Firms whose growth is slightly below the threshold	2	205
Financial		
– RMB 38bn ≤ 2012 revenue ≤ 145bn		
– 22% ≤ Average growth over 2009–12 ≤ 30%		6
Shortlist		211
Firms that do not pass the preliminary review of internationalisation	(84)	
Firms considered inadequate in other respects	(21)	(105)
Preliminary 'new kids' listing, of which		
– Non-financial	100	
– Financial services	6	

Applying both the size and growth filters generated 199 non-financial companies for the shortlist.

Companies whose size and/or growth fell just outside the data ranges were also considered. This was done to smooth out the cut-off effect of parameters. Four companies were reincorporated because their sizes were just outside the size range, as were two companies with growth just below the threshold. This increased the preliminary shortlist slightly to 205 non-financial companies.

For banks, the size and growth ranges were set between the 55th and 80th percentiles in the sector. These size and growth ranges yielded a preliminary shortlist of the six listed, private commercial banks discussed above in Chapter 2.

Each of the 205 non-financial companies was reviewed in terms of the extent to which it had an overseas presence and was globalising. Given that the focus of this analysis is on which Chinese businesses are most likely to become global giants in the near future, this is the primary criterion for inclusion in the ranking. Evidence of internationalisation included: the purchase by foreign customers and consumers of products or services; the value of exports; projects and activities outside China; direct investments outside China; strategic co-operation with foreign companies; listing in a foreign stock exchange (including Hong Kong); involvement of foreign strategic investors. This review of internationalisation eliminated 84 non-financial companies that do not have any discernible international activities.

Businesses were also assessed for their domestic presence and their business model/strategy (see below for a more detailed discussion of these dimensions of competitiveness). Where evidence was lacking or weak in either or both of these dimensions, 21 businesses were removed from the list.

These assessments of internationalisation, domestic presence and business model were made based on available data through third-party sources such as credit agencies and financial journalists, as well as website and other documented evidence about the businesses. The analysis was based, therefore, on quantitative data, where available, and on an assessment of evidence from multiple sources. Some of the evidence was qualitative, but in such cases, we focused on factual information rather than opinion, thus ensuring that the analytical process underpinning the ranking was objective and rigorous.

This phase of preliminary shortlisting generated 100 non-financial businesses and the six banks discussed in Chapter 2.

Table 3 summarises each stage of the filtering process devised to identify the top 100 emerging Chinese global giants.

STAGE 3: RANKING CHINA'S NEXT GENERATION OF GLOBAL GIANTS

Stage 3 involved a detailed scoring of the 100 shortlisted non-financial companies. The scoring is based on the following framework, which is made up of three dimensions of business performance and globalisation:

The size and scale of the businesses allow them to influence their home market (domestic presence).

The businesses are entering new markets and experiencing success in internationalising (international presence and expansion).

They have established a competitive advantage through their strategy and are developing a strong brand or reputation (competitive business model and strategy).

Domestic presence was assessed on businesses' ability to influence behaviour and competition in their markets. Businesses scored highly for domestic presence when they were considered large enough to influence competitor behaviour and pricing decisions.

A lower limit to the turnover of companies was included in the listing. Businesses with a turnover below the limit were excluded on the basis that they were too small to influence their domestic market.

Businesses that are able to develop successful business models to expand into markets outside China can be described as globalising businesses that are building an international presence. A successful international presence can take different forms and is demonstrated by substantive strategic activities in, and generation of substantial revenues from, other markets.

International presence is most likely to be based on increasing sales of products or services and, over time, network and physical presence in key non-Chinese markets. It may also include innovative models of transnational competition and collaboration, such as those that are internet-based, or involve major partnership arrangements that cross borders.

The business model is defined in this report as the strategy and process through which a firm creates value and sustains competitive advantage.[5]

A firm's business model needs to be assessed in the context of industry dynamics, the firm's competitive position and any relevant regulatory and macroeconomic background. The effectiveness of a company's business model will determine its success in its domestic market and its ability to enter and establish itself in other markets. Firms scored highly for their business model when the analysis found that the model offered superior business performance and opportunities. A lower score was assigned when a business model did not fit sensibly with the company's business environment and/or the firm's strengths and weaknesses.

In order to assess the three dimensions of domestic presence, international expansion and business strategy, a structured analysis of each company was undertaken. This was based on an analytical template, which was tested with a small number of companies in China in a first phase of the study. This ensured that the approach was consistent and transparent. This analysis used data and information that was

5. M. Morris, M. Shindeutte and J. Allen, 'The Entrepreneur's Business Model Toward a Unified Perspective', *Journal of Business Research*, vol. 58, 2005 (np. 6, pp 726–73).

factual, rather than relying on opinion, so ensuring that the approach was objective and evidence-driven.

Each of the 100 shortlisted companies was awarded a score based on this framework. A composite score was calculated, based on the following algorithm.[6]

Score 1 = 100 × Revenue (size) × Revenue growth ×

[(Domestic + International + Business model) / 3]

This generated an initial score, which was then revised by positive weighting of:

(1) the business model (we weighted this variable by 1.5 times the initial score, ie by an uplift of 50%)

(2) businesses with very high revenue turnover (+10% weighting if turnover was over RMB10bn [×1.1]).

The rationale for positively weighting the business model was based on feedback from Chinese businesses. Face-to-face interviews were carried out with representatives of a sample of companies, all of which highlighted the central importance of a clear business model and strategy to succeed in the Chinese and international markets. Without an effective business model, growth was seen as not sustainable by our interviewees.

The scoring framework used is presented in Table 4.

The rationale for weighting by revenue size is based on the premise that larger companies have greater influence over pricing and channels in their markets and, in particular, in relation to their product/service type. This is likely to translate into competitive advantage, especially in their domestic markets.

The approach summarised in this Appendix generated detailed scores for the 100 shortlisted non-financial businesses, as well as the six banks that were identified. These scores determined the overall top ranking.

Table 4: Scoring framework

Scores	3	2	1	0
Domestic dominance	Recognised as industry/market leader, backed with evidence. Highly recognised brands/ company.	Claimed as market leader, with general or partial evidence. Recognised brands/company.	Not industry/market leader, but influential in domestic market	No dominance or influence
International presence	Sales mostly exports/overseas (> 50%) Recognised as a leader in international markets Significant foreign operations or foreign mergers and acquisitions	Significant exports/overseas sales (20~50%) Some foreign operations or mergers and acquisitions	Some exports/overseas sales (<20%) Minimal exports/foreign revenue, but foreign listing or shareholding	No or minimal overseas presence
Business model and strategy	Well articulated business model/ strategy In-depth discussion of key strengths; ample detail and evidence	Clearly stated business model/ strategy Some discussion of key strengths; some evidence	The stated business model is brief or unclear Limited discussion of key strengths; limited evidence	No evidence of business model

6. Under the parameters we set, the maximum score is 193 (=1.1x50x(3+3+1.5x3)/3).

POL-AFA-CNGG