

TRANSFORMATION AT PACE

Lessons from China's Big Tech Sector



The Chinese Big Tech Sector is rapidly harnessing ideas and technology to create new normals in the way people live and do business

Alibaba has transformed itself from a B2B export portal to an “everything company”, in less than two decades. It facilitates US\$768 billion transactions a year on its China marketplaces (Taobao and TMall) alone,¹ and has surpassed Amazon, Walmart and eBay combined in transactions.

Ant Financial has now added wealth management, lending and insurance to its payment business and with an implied valuation of USD150 billion,² it is the tenth-largest financial institution in the world.³

Tencent, meanwhile, shifted from a desktop messaging business (QQ) to become the world’s most valuable social network “a combination of Facebook, Amazon, WhatsApp and Apple Pay with a bit of Uber and Airbnb thrown into the mix,” as the Australian Financial Review described it.⁴

The evolution of China’s Big Tech Sector has occurred in the context of a unique market characterised by strong economic growth, government stimulus, intense competition, strong entrepreneurship, a large growing pool of talent, and a “develop first, regulate later” approach.

Creating these new normals has involved significant and rapid transformation

The Chinese Big Tech Sector is characterised by a corporate mindset of being able to work effectively in two timeframes (today and tomorrow). In some cases, this has also involved a “shark womb” culture designed to pioneer new business models even if it means cannibalising, and in some cases, rendering the core business obsolete.

This corporate philosophy itself is not enough to fuel rapid transformation. Our interviews with Big Tech Chinese Executives in collaboration with our Greater China Strategy Team have revealed unique practices across culture, organisation and

ways of working underpinned by the strong foundational agility of a “Smart Business”.

Meanwhile, long time industry incumbents both in Australia and globally are struggling to respond to changing customer needs at pace.



Consider your own business and ask:

What can we learn from the Chinese Big Tech Sector to accelerate transformation, bearing in mind the socio-economic, cultural and political differences?

Themes underpinning the Chinese Big Tech Sector's rapid transformation

1



Two timeframe mindset with a “Shark Womb” culture

2



Relentless focus on rapidity

3



Flat hierarchy to foster horizontal flexibility

4



Collaboration culture to shortcut bureaucracy

5

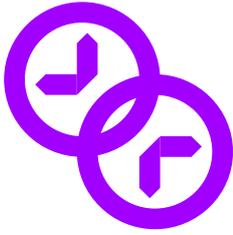


Ecosystem first mentality

6



Foundational agility of a “Smart Business”



1. Two timeframe mindset with a “Shark Womb” culture

Big Tech in China operates on two distinct timeframes—one focused on today’s business and the other in preparation for a doubling of the market size anywhere from three to five years in the future. Separate managers are given responsibility for each time frame and, in effect, compete for resources.⁵

At Tencent, Ma’s call to his staff to compete against each other to create a mobile messaging business is credited with having led to WeChat beating rival offerings to market, whilst rendering its core QQ desktop messaging business largely obsolete in the process.

Moreover, to be competitive on both timeframes, China’s leading tech firms are serious about attracting and training talent, focused especially on enhancing their workforces’ digital capabilities. This includes, firstly, attracting the best via competitive salaries and collaboration with top universities across the world, and continuous training for all levels of current employees.⁶

Chinese Executives interviewed cautioned that intense competition has a real risk of fragmenting the company culture, creating siloed ways of working, limiting data sharing and cooperation. Chinese “Big Tech” firms are constantly trying to find a balance to avoid this outcome. Examples of this include Tencent’s 2018 restructuring to break down organisational siloes, and its establishment of a new tech committee to enhance open-source collaboration across the company.



Consider your own business and ask:

Is your organisation set up to win today and/or tomorrow?

Do you have the right balance between internal competition and collaboration across teams?



2. Relentless focus on Rapidity

Big Tech in China is characterised by fast iteration and release of products and services.⁷

For example, Tencent rapidly brings products to market by simultaneously working on different parts of a product rather than following a conventional and sequential product development process.⁸

One example is when Tencent was tasked with developing a new integrated calendar on QQ instant messenger. The team was able to coordinate critical product decisions simultaneously, which allowed it to complete the product in two and a half months compared to a global standard of over six months.

Tencent also employs rapid “launch-test-improve” cycles instead of traditional, time-consuming beta testing processes. This means its development teams regularly launch new platforms and products with limited functionality directly into the market, gather user feedback, and are then able to rapidly incorporate new user-generated functionality into the product.⁹

Tencent’s relentless focus on rapidity has allowed it to leave its rivals in its wake. Pointedly, the first major chat app in China wasn’t WeChat, it was Miliiao, produced by Xiaomi. Xiaomi founder and CEO Lei Jun acknowledged that WeChat was able to overtake his product because Tencent could release one or two versions every week, whereas “Miliiao could only release one version per month.”¹⁰

Alibaba’s CEO Daniel Zhang says that managers need the leeway to make decisions independently and that the greatest fear should not be whether a decision turns out to be wrong, but rather the state of paralysis that results when decisions cannot be reached at all.



Consider your own business and ask:

What business measures define success and how critical is velocity?

Do you have a culture of entrepreneurship and how is this balanced with risk?



3. Flat hierarchy to foster horizontal flexibility

At Tencent, Allan Zhang, the founder of the WeChat team, favours a flat management structure that promotes agile development. The WeChat team is said to maintain the most capable, compact and flattest team size and management structure within Tencent.¹¹ This has enabled its employees to work more autonomously and entrepreneurially in setting up projects and rapidly test new features and functions with users on top of the basic WeChat messaging experience.

Similarly Xiaomi, the world's fourth-largest smartphone company only has three layers (i.e. co-founders, team leaders and engineers). Business leaders are able to communicate directly and frequently with CEO Lei Jun.¹² Employees are encouraged to learn from and support each other, and first-line engineers are urged to make product decisions to promptly satisfy customer needs.¹³

The flat hierarchy enhances a problem solving mindset that is based on personal relationships, consistent with the Chinese concept of "guanxi"—rather than formal processes. When challenges arise, project teams gather everyone in the company who can help them in the mode of "huddle and act" until a solution can be found.¹⁴ The social dimension has the added benefit of compelling individuals throughout the company to implement their part of the solution quickly so as not to let the team down.

Chinese executives interviewed also discussed the concept of a "think or march" mentality, which helps provide clear delineation between decision making from execution. Finding the right balance has enabled rapid transformation.

Moreover, the point has been made by other experts in cross-cultural management that in Western markets decision-making processes tend to be less top-down and more consensual, involving multiple governance forums and stakeholders before a decision can be made, whereas in Eastern cultures like China, there is more deferral to leaders, which speeds up the process.



Consider your own business and ask:

Where on the spectrum of top down vs. consensual decision making is optimal for your business?

To what extent can the mindset of a flat hierarchy enhance your organisation's performance?



4. Collaboration culture to shortcut bureaucracy

Business discussions and decisions in the Chinese Big Tech Sector rely on technology to accelerate transformation outcomes with WeChat playing a prominent role. The decision-making process is significantly streamlined, with authority for budgetary approval delegated to individuals who can be contacted directly and immediately through WeChat.¹⁵ This allows innovation projects to be kicked off much faster than in the West, where approvals are generally controlled by committees that meet at frustratingly lengthy intervals.

One executive interviewed compared the process for gaining approvals in China and Western markets: “Working in the US, we had to go through multiple approval cycles and committees; when one executive was not available we had to defer the decision-making process and oftentimes we had to revisit committees that we thought we already have approval from. This really slowed things down. In China, the approval process is more streamlined for certain types of decisions and for many of them we use sub groups within WeChat. It’s almost real-time.”



Consider your own business and ask:

Is decision making enabled and accelerated by technology?

What is the right balance between velocity and governance/controls?



5. Ecosystem first mentality

Speaking at a recent tech industry event, Tencent's Pony Ma admitted that "seven or eight years ago, we weren't that open and had an empire state of mind. We wanted to control everything and were not open to partnerships... We came to realise that once your company reached a certain scale there followed further growth bottlenecks, and that's the point when you'll have to change the mindset and turn to the ecosystem approach."¹⁶

Both Tencent and Alibaba have been aggressive in pursuing partnerships with third parties. The rapid scaling of the companies' mobile payments services, for example, has been driven by their widespread adoption among retail partners within their ecosystems, making China one of the least cash-dependent countries in the world.¹⁷

Tencent's partnerships have helped the company grow in new sectors like healthcare and retail where it has not been traditionally strong enough to compete directly with well-established competitors. Tencent learned that rather than providing the services themselves in healthcare, the company can support users to connect with the best healthcare services through WeChat.¹⁸ Similarly in retail, Tencent partnered with Walmart and Carrefour to further entrench its mobile payments system within Chinese retail which is already used in over 90 different industries.¹⁹



Consider your own business and ask:

Does your business adopt an empire state of mind or an ecosystem mindset or somewhere in between?

What key focus areas would this apply to?



6. Foundational agility of a “Smart Business”

Chinese tech giants have created “Smart Businesses”, a term used by Ming Zeng, Alibaba’s Chief Strategy Officer, to create economical efficiencies and enable rapid adaptation to market trends and customer preferences.

For example, Alibaba collects live data at every step of the experience to enable its algorithms to determine which data is relevant. This data is used in Alibaba’s complex ecosystem for business decisions. It requires coordination between many parties, facilitated via APIs, and strict data standards and incentives that are crucial to get data flowing among multiple players while ensuring strict control over who can access and edit data throughout the ecosystem.

Algorithms and models can create the underlying product logic or experience dynamic desired; for example to meet TaoBao’s goal of tailoring the experience and service to individual needs.

Running an ecosystem-led business powered by AI, where operational decisions are automated, provides firms like Alibaba with agility for a plethora of innovation and business-model transformations these firms have successfully executed over the last decade.



Consider your own business and ask:

To what extent is your organisation a “Smart Business” and is management attention focused on the operational or the transformational?

So what next?

Organisations undergoing large change need to look for new inspiration to accelerate innovation and transformation. Adapting practices from China's most innovative companies whilst bearing in mind China's unique and distinct socio-economic, cultural and political environment, could lead to new and innovative ways to solve challenges that incumbents are facing.

This means looking beyond industry boundaries, rethinking decision-making processes, creating a culture that will challenge traditional innovation, and using the right tools to encourage it.

Accenture's High Performance Transformation diagnostic synthesizes transformation insights from research and experience with the Global Fortune 500, Digital Disruptors and the Big Tech Sector in China and around the world.

This High Performance Diagnostic enables:

- An assessment of key priority areas to accelerate transformation velocity
- Access to Subject Matter Experts locally and globally as well as curated executive tours with tailored agendas and client visits
- Recommendations on the highest priority areas and insights into how practices can be translated to accelerate transformation velocity
- Design and Innovation capabilities that can be leveraged to jointly shape and rapidly prototype proof of values to secure management focus and secure the mandate for change

Contact us to find out more.

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