

LEADING CHINESE COMPANIES ON TO THE INTERNATIONAL STAGE

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Introduction

The Boston Consulting Group (BCG) announces each year a list of 100 companies that it believes are global contenders to watch. Not surprisingly, nearly a third of these companies are from China. We were curious to learn how their leaders prepared these companies to compete on the international stage. We study five of them here – Huawei, Lenovo, Haier, Alibaba and Tencent – covering a diverse set of industries. The first three have truly global ambitions; the other two have a more regional focus. All five have achieved tremendous success under their respective founders:¹ Ren Zhengfei, Liu Chuanzhi, Zhang Ruimin, Ma Yun (Jack Ma) and Ma Huateng (a description of the five companies and their leaders is provided on page 4).

A strategy of continuous renewal

Logical incrementalism

All five leaders had a clear sense of where they wanted to lead their companies but theirs was not a grand vision, rather a sequence of goals that were dynamically reset at each stage of the company's journey as the environment around it changed and more opportunities opened up.

Instead of taking undue risks in the early years, these leaders identified niches where they could get established and grow far from the glare of MNC competitors. Ma Huateng benefited from the Chinese government ban on Facebook and Twitter in launching WeChat. Haier and Huawei both established their strengths in rural markets before taking on foreign competitors in urban markets. Ren Zhengfei of Huawei put it succinctly when he said: "When trying to capture a city, first capture the countryside." In building their companies, these leaders were willing to experiment, allowing strategy to emerge rather than enforcing it with a grand plan. Lenovo exemplifies this approach best. When the company's first business goal of importing televisions failed, it redirected its efforts at conducting quality checks on computers for new buyers. It then started

developing a circuit board that would allow IBM-compatible personal computers to process Chinese characters. This product was Lenovo's first major success. Lenovo also tried and failed to market a digital watch. The company's founder Liu Chuanzhi is said to have remarked, "Our management team often differed on which commercial road to travel... We just learned by trial-and-error, which was very interesting – but also very dangerous."² Lenovo jumped to prominence much later through several high-profile acquisitions – IBM's PC business, IBM's server business and Motorola's handset business. Ren Zhengfei of Huawei also built his company step-by-step. He promoted the wolf culture within Huawei, reasoning that it was important at first to steal food from the tigers. Jack Ma of Alibaba shunned grand theories and concepts, betting instead on down-to-earth execution – opportunistically adding new layers to Alibaba's business model.

Will this approach succeed when battling strong competitors on the global stage? We believe the answer is yes. What will be needed to win in a VUCA (Volatile, Uncertain, Complex and Ambiguous) world is more than a far-sighted vision, the agility to flow quickly as opportunities emerge – experimenting frequently, promptly divesting failed ideas and rapidly scaling up investments in successful ones. Logical incrementalism is a winning approach. It would be good, though, to have a more proactive vision to guide these experiments. Alibaba and Haier appear to have such a vision.

Building the base competencies

An important prerequisite to being an agile company is to develop new competencies continuously, often in anticipation of the competition of tomorrow. The oft told story of Haier is informative in this regard. When Zhang Ruimin took charge of Haier, he recognized that the company needed to build international quality standards, rather than just aiming to be better than local competitors. When a customer brought back a faulty refrigerator, Zhang looked for a replacement in the entire inventory of 400 refrigerators. He was shocked to find that nearly 20% of the stock was



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defective. He lined up the 76 dud refrigerators on the factory floor, distributed sledgehammers to his employees and invited them to destroy the refrigerators. The cost of a refrigerator at that time was two years' worth of wages for the employee. Seeing the employees hesitate, Zhang reminded them: "If we don't destroy these refrigerators today, what is to be shattered by the market in the future will be this enterprise!"³ Zhang steered Haier to international quality and a differentiated and branded product strategy, important platforms when competing with international rivals. Huawei and Haier have also ensured that their products are made to international quality standards, even for the domestic market. These companies realized early on that short-changing quality was not the best way to reduce costs; that had to be accomplished by trimming unwanted features throughout the value chain – value innovation.

Another base competence that all of these firms invested in early on was customer centricity. The above story about Haier illustrates the company's early focus on the customer. Ma Huateng spent hours personally testing how his company's offerings would be seen by users. Simulating user experience allowed Tencent to make speedy adjustments to its product offerings. Ren Zhengfei of Huawei focused hard on building customer service as a key competence of the company, a differentiator usually reserved for high-price solutions, not at the price points at which Huawei competed. Huawei took great pride in servicing its products even under adverse circumstances, like in the aftermath of the Fukushima nuclear disaster, the earthquake in Chile or civil war in Syria.

Quality, service and customer centricity are the base competencies needed to win against global competition. The focus on creating the best value on offer for the price charged is a winning approach in most markets. But as these companies grow their international footprint, they will have to add new competencies, especially to serve more sophisticated high-end customers.

Building the organizational foundations

The five leaders should be commended for their approach to strategy – logical incrementalism and a focus on building base competencies. While these may need some tweaking as noted earlier, what is likely to hold some of these companies back is their failure to build a supporting organization.

Transitioning from imitation to nurturing innovation

All five companies benefited early in their development from imitating the ideas and capabilities of their Western competitors. Alibaba

took its cues from Amazon; Tencent from WhatsApp, Twitter and Facebook; Huawei from Ericsson and Cisco; Haier from its German partner Liebherr; and Lenovo through its acquisition of IBM's laptop business. However, sustained success on the international stage calls for innovation. All five leaders have shown interest in building an organization that can nurture innovation.

Zhang Ruimin has done a lot to promote innovation at Haier. He formally introduced ZZJYT (Zi Zhu Jing Ying Ti, meaning self-organizing and autonomous operating unit) in 2007 to the Haier organization. ZZJYT is a nine- to thirty-person small, self-managed organizational unit that encourages innovation and speedy decision making. There are three vertical levels of ZZJYTs. The first consists of manufacturing, marketing and R&D functions that face customers. The second level comprises a number of platforms that support the first one, including specialized R&D, human resources and finance. The third is the executive level, which identifies and formulates strategies. The whole organization is inverted, with the first level ZZJYTs being Haier's point of contact with its external environment. Alibaba, too, restructured its operations in 2013, breaking the company down into 25 smaller units to improve the focus of each unit and build an innovation ecosystem inside the company.

Lenovo restructured its organization in 2012 to force R&D teams to face end-users directly. Its innovation teams were granted greater autonomy. In a break with tradition, the company chose not to pre-install new software on its PCs. For example, SHAREit is a free app that enables file transfer among smartphones, tablets and personal computers, even across different operating systems, 40 to 50 times faster than with Bluetooth. Only available via app stores, it allows faster user feedback, and products that have low demand will be killed quickly.

Recognizing that innovation needs corporate sponsorship but also distance from corporate headquarters, Tencent did not place the WeChat team under either the Mobile Internet Group (MIG) or the Social Network Group (SNG) but rather under the Corporate Development Group (CDG). WeChat is a mobile text and voice messaging communication service released in 2011, with features that resemble WhatsApp, Twitter and Facebook. This organizational arrangement released the pressure on the WeChat project to produce immediate financial returns. In addition, the WeChat project was moved from Tencent's headquarters in Shenzhen to Guangzhou, 1.5 hours away by train.

There is also a growing appetite for external collaboration to drive innovation. Haier officially launched in June 2014 the Haier Open Partnership Ecosystem (HOPE) to promote open innovation.

Ren Zhengfei of Huawei was keen to build the technology capabilities of the company, spending 10% of the company's revenues on R&D. The company has filed more than 50,000 patents and became the first Chinese company on Thomson Reuter's Top 100 Global Innovators List in 2014. Huawei has joint innovation centers with customers and partnerships with universities and research institutes to collaborate on breakthrough innovations.

The challenge now is to persist with these organizational experiments and to expand the firm's commitment to innovation. R&D does not always deliver quick financial results. Patience is required.

Internationalizing the company

This has been a struggle for the companies studied, with the sole exception of Lenovo, which benefited from the two acquisitions that it made from IBM and Motorola. These have helped the company's internationalization efforts. The company has two headquarters, one in Morrisville, North Carolina in the US and the other in Beijing, China. It also uses English as the company language. Lenovo's new CEO, Yang Yuanqing, did not understand English well when he took over. He relocated his family to Morrisville in order to improve his language skills and to soak up the American culture. Yang has since sent many Lenovo executives to the US for long postings, essentially for the same purpose. Lenovo also has several non-Chinese on its top management team.

Alibaba did hire a number of high-profile western executives before its IPO, but at its core it remains a Chinese company as does Tencent. Both Haier and Huawei have senior non-Chinese managers who run international operations, but their core senior leadership team is still very Chinese. Opacity of the holding structures of the two companies makes it difficult for them to attract top international talent with stock based compensation. But both have major business operations outside of China, including important R&D facilities. Leveraging the capabilities and business insights that these operations offer will call for a more inclusive and empowering organizational arrangement.

Leadership and organizational culture

The biggest challenge for the five companies, especially the three with global ambitions – Huawei, Haier and Lenovo – is to ensure leadership continuity and to develop an organizational culture that is more in keeping with their new-found industry leader status.

Leadership continuity

Leadership continuity is important to the long-term success of a company. Yet, great leaders find it hard to develop equally worthy successors. Ma Huateng is the youngest of the five leaders we studied; and succession is not a pressing issue as yet at Tencent. But it is for the others. Here, Lenovo and Alibaba are ahead of the pack. Lenovo has already witnessed leadership transition from Liu to Yang Yuanqing. Yang took over as CEO when Liu retired in 2001 and has been a key architect of the company's strategy since, including for the IBM acquisition. Jack Ma of Alibaba transferred the CEO role in 2013 to Jonathan Lu. In May 2015 Alibaba announced that the post-70 generation will now command the troops. Daniel Zhang, born in 1972, is the company's new CEO. Haier and Huawei have struggled with top management succession. In both companies an internal horse race is on to find the next CEO but this has yet to yield a result. Given their international growth ambitions, perhaps the successor should come from outside. Regardless of whether it is an insider or outsider, these two companies need leadership transition soon.

From paranoia to self-confidence

There is a story about Ren Zhengfei of Huawei that captures the essence of the humble style that we see in the five leaders. The thousand-hand Bodhisattva dance was performed at the 2005 CCTV Spring Festival Gala by 21 hearing-impaired girls and boys from the China Disabled People's Performing Art Troupe. Ren was reported to have been moved by that performance and saw in it the ideal culture for Huawei:

1. Work for professional pride and not for the applause from the audience. The dancers could not even hear it.
2. Do not let any handicap detract from a high-quality performance.
3. Find ways to collaborate even when there are problems communicating.

The handicapped dancers are, in a broader sense, a metaphor for all five companies. Despite their handicaps they can win on the global stage if their employees and leaders can remain humble and professional and help each other improve every single day.

The five leaders were also paranoid about success being fleeting. Jack Ma captured it thus: "It is cruel today. It will be even crueler tomorrow. But it will be nice the day after tomorrow. Most people will die by tomorrow night."⁴ Ren Zhengfei and Ma Huateng also talked about "failure" and danger a lot more than "success" and superiority. Survival

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and success could not be taken for granted; they had to be earned every day. Zhang of Haier believed that companies had to reinvent themselves continuously, creating new demand and new clients and making complex things simple. He was quoted as having said, “If you kill yourself, you can be reborn. If others kill you, you will be replaced permanently.”⁵ It is better to cannibalize one’s business than have it destroyed by a competitor.

Humility and a commitment to learn are wonderful values, but instilling these across the international operations of the five companies can be a challenge. Moreover, the driver for humility has to transcend paranoia to the silent self-confidence of an industry

leader. Or, as ardent kung fu fan Jack Ma⁶ would say, a real kung fu master must be capable of defeating his enemies without showing any “concrete” weapons.

Conclusion

The five companies and their leaders that we studied give us a glimpse of how Chinese companies will perform on a sustained basis on the global stage. While their strategies may have advanced to v. 3.0, some of their organizations are still at v. 2.0, and in a few cases their leadership is stuck at v. 1.0 – making it difficult to sustain success.

References

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- ³ Wang Yantian and Xuechun Song. “Haier rises through reform and opening up.” en.people.cn, 8 Aug. 2001 (accessed 2 Nov. 2015).
- ⁴ Ma Yun. “马云清华经管学院2014毕业典礼演讲全文.” sem.tsinghua.edu.cn, 30 Jun. 2014 (accessed 2 Nov. 2015).
- ⁵ Ai Feng. “海尔张瑞敏：自杀重生 他杀淘汰 自以为非如履薄冰” yuqingcn.cn, 12 Jun. 2014 (accessed 2 Nov. 2015).
- ⁶ Wang Ruibin and Cao Kez. “How will Jack achieve a greater Alibaba?” daonong.com, 9 Sep. 2014 (accessed 2 Nov. 2015).

Company	Alibaba Group Holding Limited	Tencent Holdings Limited	Lenovo Group Limited	Huawei Technologies Co., Ltd	The Haier Group
General description of the company	An online and mobile commerce company in retail and wholesale trade, as well as in cloud computing and other services. Founded by Jack Ma in 1999 in Hangzhou	Tencent and its subsidiaries are principally engaged in the provision of Internet and mobile value-added services (VAS), online advertising services and e-commerce transactions services. Founded by Ma Huateng in 1998 in Shenzhen	A personal technology company. It produces commercial and consumer PCs, as well as servers, workstations and a family of mobile Internet devices, including tablets and smartphones. Liu Chuanzhi founded the Legend Group in 1984 with 10 other engineers from the Chinese Academy of Sciences. The company was renamed Lenovo in 2003, combining Le (from Legend) and novo for new	A networking and telecommunications equipment and services company that offers a variety of network technologies and solutions to telecommunications operators. It also provides white-label products including USB and wireless modems, and wireless routers. Founded by Ren Zhengfei in 1987 in Shenzhen	A manufacturer and distributor of household appliances, consumer electronics and mobile phones domestically and in most major overseas markets. Haier has its roots in Qingdao Refrigerator Co founded in 1920s. Zhang Ruimin took over as its Managing Director in 1984. The company was bankrupt at that time and had poor quality products. In 1991 the company adopted a new name, Qingdao Haier Group, borrowing from the name of its German partner – Liebherr. This was further simplified in 1992 to Haier Group
Distinction	China’s largest with a growing regional presence. Biggest IPO on New York Stock Exchange	China’s largest and most used Internet service portal with growing regional presence	Global leader in the PC industry	Global leader in ICT solutions. 1st Chinese company on Thomson Reuters Top 100 Global Innovators List in 2014	World’s #1 major appliance brand as ranked by Euromonitor International 2014, and a global leader in consumer electronics
2014 Revenues \$B / ROE	8.6 / 27.5%	12.8 / 31.7%	38.7 / 23.4%	46.9 / NA	33.0 / 26%
Employees	34,985	27,928	54,000	150,000	70,000
Leader	MA Yun - Founder and Chairman	MA Huateng - Founder, Chairman and CEO	LIU Chuanzhi Founder	REN Zhengfei Founder	ZHANG Ruimin Chairman and CEO
Age Born	51 Sep. 1964	44 Oct. 1971	71 Apr. 1944	71 Oct. 1944	66 Jan. 1949
Background	Failed in middle school, failed university entrance exam 3 times, rejected 10 times by Harvard University	Went to the best high-school in Shenzhen; Graduated from Shenzhen University	Both grandfathers were finance professionals; father was a senior executive in Bank of China and then an IP lawyer	Parents were school principals; former engineer in the People’s Liberation Army (PLA)	Father was a tailor and mother a factory worker; rose up from the ranks of a factory worker