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# Management in the Digital Age

Will China Surpass Silicon Valley?



# Foreword

Management innovation is as important to economic progress as is technological innovation. Sadly, management and organizational innovation is more occasional than is technological innovation. That said, in recent decades Silicon Valley has provided to the world some of both. So have Japan and Europe.

The Internet Age is allowing more business model innovation. Will it also portend more managerial innovation?

Annika Steiber asks whether in today's world, China can catch up and surpass Silicon Valley because of better management. In doing so, the authors put on the table an important question for all to consider. Until recently, China was thought of by many as a copycat economy. That has clearly changed, as many Chinese companies are successful innovators. Can China now also be thought of as a fountainhead of management innovation from which others can and must learn?

Steiber suggests that it can and that it is on the threshold of producing major managerial breakthroughs, if not in the elements, then in the totality of what constitutes the Chinese way of managing.

A careful read of this book will provide clues to many distinctive aspects of Chinese management and many elements that are in common with the Silicon Valley model, as well as more traditional models. There is no doubt that many Chinese companies have very bold ambitions and access to the capital needed to execute on those visions. There is also no doubt that they are less shareholder focused and take a multi-stakeholder approach. Contributing to domestic employment and Chinese economic development is a priority, especially when local governments contribute to financing.

What makes Chinese companies and their management distinctive is that in their present form they are quite young, and often still managed by their entrepreneurial founders. Jack Ma at Alibaba and Pony Ma at Tencent are still running the show. They are entrepreneurial managers not unlike Jeff Bezos from Amazon and Reed Hastings from Netflix.

Companies with strong dynamic capabilities will remain the best long-term growers/performers, so long as they remain adept at sensing and sense making, asset orchestration, and renewal. US, European, and Chinese companies alike will,

in today's VUCA world, need to hone, upgrade, and strengthen their dynamic capabilities to stay on top.

Too many US and European CEOs suffer from the threat of being removed by boards or shareholder activists when they invest too heavily for the future. This flaw in the American enterprise system flows less from management deficiencies than from "shareholder-oriented" governance features. However, when such governance provisions in the law are coupled with the dominance of equity markets by (short term) equity traders rather than long-term equity holders, the result is a system that is often times unfriendly to innovation.

Many Chinese companies started as state-owned enterprises and have had to completely transform and reinvent themselves in the '80s and '90s. This recent history stands them in good stead for continuous renewal. They have done it before and done it in living memory.

One tension which Chinese companies must manage is that between centralization and decentralization. There is still a presumption in favor of hierarchy and top-down decision making in Chinese society. The adoption of a more decentralized and employee empowered approach is usually required for innovation, if for no other reason than decisions must be made quickly and there is a need to be in close touch with customers. Some Chinese companies have already successfully decentralized; others will no doubt do so and do so in distinctive ways.

The command-and-control instincts of a communist party controlled economy will at some point meet the requirements of innovation in a VUCA world. How this tension is navigated will impact Chinese firms, the Chinese economy, and China itself.

Steiber addresses such an interesting and important set of issues that scholars and practitioners in China and elsewhere need to be aware of the many quiet changes taking place in China as Chinese companies transform from growth through imitation to growth through innovation. An excellent place to obtain important insights into the innovation that is beginning to take place in China is this salutary monograph.

Berkeley, CA, USA  
July 2017

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# Preface

We—that is, the author, with help from her research team—have written this book to help address three needs: the urgent need for a fundamentally new approach to managing firms, the need to understand and compare management models used by leading innovation giants in Silicon Valley and in China, and the need to understand if the Chinese pacesetters may even have surpassed the Silicon Valley-based firms in regard to new management models for innovation and speed.

The business environment has changed dramatically. As more than one observer puts it, change itself has changed. Markets and technologies in virtually every industry are now subject to frequent and unpredictable change, putting a premium on qualities like innovation, adaptability, and rapid response. Yet the great majority of companies still are built around rigid command-and-control cultures and bureaucratic structures of the kind that evolved during the last century.

The future, however, will favor companies that can migrate to a new management model better suited for this time, the Internet Age.<sup>1</sup> We first observed key elements of this new approach in use at Google. Our findings were published in an award-winning journal article and in Dr. Annika Steiber’s 2014 book *The Google Model: Managing Continuous Innovation in a Rapidly Changing World*. Then, starting early in 2014 we expanded our studies. The goal was to ascertain whether we were, in fact, on to something that might be widely applicable. So we combed through writings by a multitude of eminent business scholars, consultants, journalists, and executives worldwide, searching for evidence on what works best for managing amid rapid change. We also widened our own inquiries to look at companies, which, like Google, had grown and flourished well beyond the start-up stage

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<sup>1</sup> We strongly believe that not only are business firms in need of new approaches to management, so are other types of organizations, such as nonprofits and organizations in the public sector. And we believe that the new management models we will describe here are applicable to them as well.

in Silicon Valley. These companies were Tesla, Apigee, and the social-networking leaders Facebook, LinkedIn, and Twitter.

We found a remarkable convergence. The companies turned out to be using management principles and practices that not only were similar to each others', and to Google's, but were also congruent with the best new management practices identified in our global review of the research literature.

We labeled these practices "The Silicon Valley Model" because, at the time, the Valley is where they appeared to be most highly developed and most thoroughly applied. The results of the further study—including a detailed description of the model—were published in *The Silicon Valley Model: Management for Entrepreneurship* (2016, by Dr. Steiber and Sverker Alänge).

Then shortly afterward, the author of this book was invited by Haier, the global home appliance firm, to visit its headquarter in China. People at Haier wanted to discuss their own management model, which in their view was even more advanced than the Silicon Valley Model. That visit became the trigger for this third book, which further extends the inquiry begun in the first two. The book is based on an extensive literature review about China and five case companies chosen by the author: Haier, Alibaba, Tencent, Baidu, and Xiaomi. The literature review was conducted over one year and was complemented with selected interviews with people who had good knowledge about China and/or any of the Chinese case companies, and preferably could also relate this knowledge to one or several of our Silicon Valley-based companies.

We believe this book makes an original contribution to the management field, as it is the first to compare successful new management approaches in Silicon Valley with those in China. Within a short volume, it weaves together many strands of leading-edge research to cover several interrelated topics. The book describes the background and key features of the Silicon Valley Model, in a somewhat condensed but still detailed form; investigates the five case companies in China, which are well known for being innovative; and compares these firms' management models with each other and with the model applied by the Silicon Valley firms. The book also provides a synthesis on the development of China since the 1980s and how this is affecting China's capabilities for innovation.

Clearly, the whole subject area deserves more research; our own work is ongoing. We hope you will find this book to be an insightful overview of what is already known (and ought to be more widely known). Ideally, it will help to promote further conversation about the need for a new management model and spur interest in learning from models now in use at some of today's innovation giants. We truly believe that if Chinese firms do, in fact, apply a model similar to the one we call the Silicon Valley Model, it will increase their chances to scale their businesses globally and become a true threat to the current Western innovation firms based in Silicon Valley.



Finally, we hope that the synthesis we present here does justice to the work of many, by bringing it into a new light. And most important, we hope this book will prove to be provocative and useful to business managers, boards of directors, consultants, scholars, and policy makers everywhere, for years to come.

Silicon Valley, CA, USA  
August 2017

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# Acknowledgements

The author wishes to express her gratitude to her family, colleagues, case companies, and publisher, who have made this book possible. The author thanks Rikard Steiber, who from the very start encouraged her to write this book and who has stood behind her, literally and figuratively, during many hours at the desk. She also wants to thank Mike Vargo, the Pittsburgh-based writer/editor who helped her not only to write the book but also to complement her knowledge with new insights. The author could not have found a better, more curious, and trustworthy colleague to join her in this project. The author also thanks Gabriele Kriaucionyte at Bocconi University, who contributed valuable research assistance.

Much credit is due to colleagues such as Profs. David Teece, Charles O'Reilly III, Henry Etzkowitz, and Alice C. Zhou who, along with encouraging this book project, have done important research of their own in key areas covered here.

In addition, the author appreciates all the help given to her directly or indirectly by experts such as: Profs. Bruce McKern, Katherine Xin, and Zhao Xiande at CEIBS; Deputy Dean and Prof. Charles Chang at Fudan University's Fanhai International School of Finance; Kin Bing Wu, former Education Specialist (retired) at the World Bank; Brian Wong, VP for Global Initiatives at Alibaba; Alvin Graylin, Regional President of VIVE in China; Daniel Ljungren, previously at Palm and HTC, now Senior Director, strategy and business development, at Huawei; Laura Chen, previously at Motorola and now Staff Software Engineer at LinkedIn; John Davies, CEO at Strategy 4 Technology Limited; Andy Tian at Asia Innovations; Stuart Witchell at BRG China; Tiger Li who worked for BAIC in China; Yi Wang, Cofounder at a stealth startup in the Bay Area; Yanhong Lin, CEO at CTIC Capital; Mr Kubicek at Beijing Benz Automotive Company; Duncan Clark, author of *Alibaba: The House That Jack Ma Built*; and a couple of interviewees that asked to be anonymous. Finally, we want to thank Springer DE for choosing to publish this book.

Silicon Valley, CA, USA  
August 2017

Annika Steiber

# Contents

<b>1 Management at a Turning Point: What Will the Future Look like?</b> . . . . .	1
Silicon Valley and China . . . . .	2
Looking Ahead . . . . .	3
Chapter 2—A New Model for a New World: Why It’s Needed and What It Consists of . . . . .	3
Chapter 3—Silicon Valley: A Cradle of Management Innovation . . . . .	3
Chapter 4—Management Characteristics of Top Innovators in Silicon Valley . . . . .	3
Chapter 5—China: An Innovation Country? . . . . .	4
Chapter 6—China’s Entrepreneurial Companies—And What We Can Learn from Them . . . . .	4
Chapter 7—China Versus Silicon Valley: Comparison and Implications . . . . .	4
References . . . . .	5
<b>2 A New Model for a New World: Why It’s Needed and What It Consists of</b> . . . . .	7
The Changing Nature of Change (and What It Means for Management) . . . . .	10
‘Dynamic Capabilities’—The Key to Managing in a Dynamic World . . . . .	11
Core Pillars of Dynamic Capabilities . . . . .	12
To Sum Up . . . . .	13
References . . . . .	14
<b>3 Silicon Valley: A Cradle of Management Innovation</b> . . . . .	15
The Nature of the Industries (And How Technical and Management Innovation Go Together). . . . .	16
Norms and Values of the Region . . . . .	17

From Past to Present: A New Model Takes Shape . . . . . 19

References . . . . . 21

**4 Management Characteristics of Top Innovators in Silicon Valley . . . . . 23**

‘Big’ Visions and Missions . . . . . 24

Visionary, Entrepreneurial Top Leadership . . . . . 25

A Focus on People . . . . . 26

    Entrepreneurial . . . . . 26

    Adaptable . . . . . 27

    Passionate . . . . . 28

    Constantly Questioning the Status Quo . . . . . 28

    Collaborative . . . . . 29

    Some Myths Dispelled . . . . . 29

Culture: The Key Differentiator . . . . . 30

    1—A Commitment to Being Unconventional . . . . . 31

    2—A Recognition of Constant Change and the Need  
to Be Flexible . . . . . 32

    3—Commitment to *Speed* . . . . . 32

    4—Hiring Is the Most Important Thing You Can Do . . . . . 33

    5—A Focus on Product Excellence . . . . . 33

    6—Data-Driven Decision Making and Quick Learning Cycles . . . . . 34

    7—A Flat Organization with Minimal Bureaucracy . . . . . 34

    8—Openness and Transparency . . . . . 35

    9—Leaders, not Managers . . . . . 35

    10—Building an Ecosystem . . . . . 35

Leaders as Coaches and Facilitators . . . . . 36

Key Organizational Features: Flexible, Ambidextrous, and Open . . . . . 37

Coordination Through ‘Soft’ Control and ‘Key’ Results . . . . . 38

High Use of Automated Information Processes . . . . . 39

The Silicon Valley Model Versus the Traditional Model . . . . . 40

References . . . . . 42

**5 China: An Innovation Country? . . . . . 45**

Definition of Innovation . . . . . 46

Chinese Reforms and New Government Policies . . . . . 47

China’s Rapid Learning Curve to Innovation . . . . . 49

The Build-up of Cross-Sector Platforms for Innovation . . . . . 51

Companies’ Own Research and Development . . . . . 52

Domestic Competition, Market Scale, and Access to Capital . . . . . 53

    Domestic Competition . . . . . 53

    Market Scale . . . . . 54

    Access to Capital . . . . . 54

Human-Centric Factors: Impediments or Drivers? . . . . . 55

    Chinese Culture and Its Effect on Innovation . . . . . 55

Talents and Education System . . . . .	60
To Sum Up . . . . .	63
References . . . . .	64
<b>6 China's Entrepreneurial Companies—And What We Can Learn from Them . . . . .</b>	<b>67</b>
Entrepreneurship in China: Late to Develop, but Explosive and Intensely Competitive . . . . .	68
The Chinese Case Companies: A Journey from Sledgehammers to Smartphones . . . . .	71
Haier: A Chinese Precedent-Setter . . . . .	71
Alibaba: E-Commerce and Beyond . . . . .	72
Baidu: Born in Search, and Searching Further . . . . .	74
Tencent: A 'Mobile' Company in Many Senses . . . . .	75
Xiaomi: Phones for 'Fans' . . . . .	77
A New Chinese Management Model? . . . . .	78
Leadership—Who's in Charge, and How Do They Lead? . . . . .	78
Culture: Not like the Old Days . . . . .	81
People—The Essential Ingredients . . . . .	83
Organization—Open, Structured but Flexible, Ambidextrous . . . . .	85
General Conclusions . . . . .	88
References . . . . .	88
<b>7 China Versus Silicon Valley: Comparison and Implications . . . . .</b>	<b>93</b>
China as an Innovation Country . . . . .	93
The Silicon Valley Model . . . . .	95
Main Characteristics of Our Chinese Case Companies . . . . .	96
Big Visions and Missions . . . . .	97
Visionary, Entrepreneurial Top Leadership . . . . .	98
Focus on People . . . . .	101
Culture and Values Emphasized . . . . .	102
Flexible, Organic, Open, and Ambidextrous Organizations . . . . .	103
Coordination . . . . .	104
Automated Information Processes . . . . .	105
The Silicon Valley Model Versus the Chinese Model . . . . .	106
Management and Policy Implications . . . . .	108
To Sum up . . . . .	110
A Note on Future Research . . . . .	112
References . . . . .	112