

LEVEL 7 ASSESSMENT SPECIFICATION

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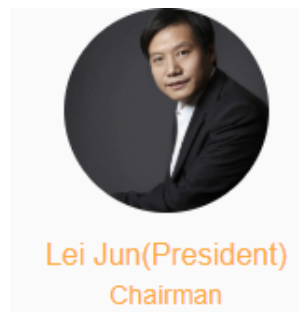
Examine the Rise of Xiaomi from 2010 to 2020 and the Role of Lei Jun as a Holistically Balanced and Competent 3-H Manager

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Research Title

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Research Problem

In the age of technological advancement, companies are constantly being bombarded and challenged by changes in their business environment. Management of successful companies must have the ability to strategize and transform to stay ahead of competition to grow their business and market share by building long term and sustainable competencies besides only using short term methods such as advertising, cost cutting and streamlining of product offering. Management ability to win the heart of employees and customers while executing their business vision is becoming an increasingly important differentiator for companies. Unfortunately, not many companies can execute their growth plan by balancing all these factors.

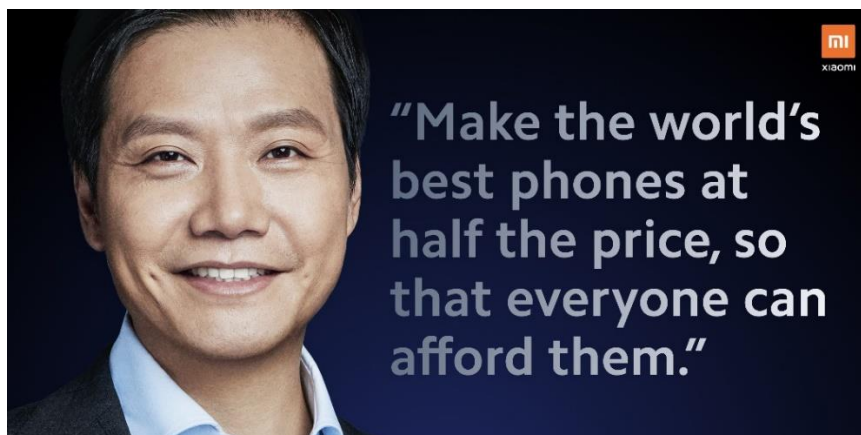
Research Aim

To examine how a Heart, Head and Hand (3-H) management approach can be utilized to create both tangible and intangible assets, core competencies and sustainable competitive advantages for high technology companies.

The target outcome is to generate a set of 3-H related hypotheses and prove how technology companies can realize its business success by developing its strategies within the 3-H management framework.

Research Objectives

- a) To study how Xiaomi can grow from a 100 person startup in 2010 to a 9000 strong mega tech in 2020 with a market capitalization of HKD 362 Billion & revenue of HKD 227 Billion in 2019.
- b) To identify key approaches taken by Xiaomi's management in establishing relationships with employees and customers.
- c) To analyze the management action taken in recovering from a 2015 decline to continue Xiaomi's rise as a successful company.
- d) To conduct a detailed examination on how Lei Jun aligned Xiaomi's strategies successfully with the 3-H framework in bringing its technologies to the mass market population as a Chinese technology company.



1) Abstract

The phenomenal rise of Xiaomi from a startup founded in 2010 into a Global Fortune 500 company in 2019 is an excellent example that top management, especially those from the technology area, can learn from. In becoming a blue chip stock in Hong Kong in 2020 (Siu, T.; Sin, N.; Neely, J.; Smith, A. Aug 2020)^[42] and the 4th largest smartphone brand in 2H2018, (IDC Corporate USA, 2020)^[1](Fig. 2) the growth journey of Xiaomi has demonstrated many aspects of successful management by using a Heart, Head and Hand (3-H) approach (Yu, E. 2020)^[10] especially by its Chairman, Lei Jun.



Figure 1 Xiaomi Growth Path to Reach Fortune 500 (source Xiaomi)

In the new age of 5G and Industry 4.0, Xiaomi's role as a technology enabler is becoming more important for its hundreds of millions of customers globally so our research will try to analyze how Lei Jun's experience can be used as a reference for future top management using 3-H.

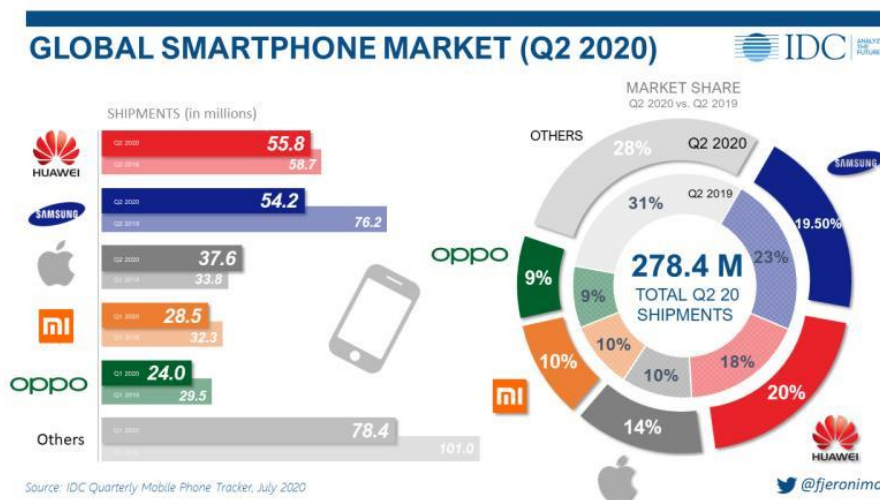


Figure 2 IDC Quarterly Mobile Phone Tracker July 2020. [1]

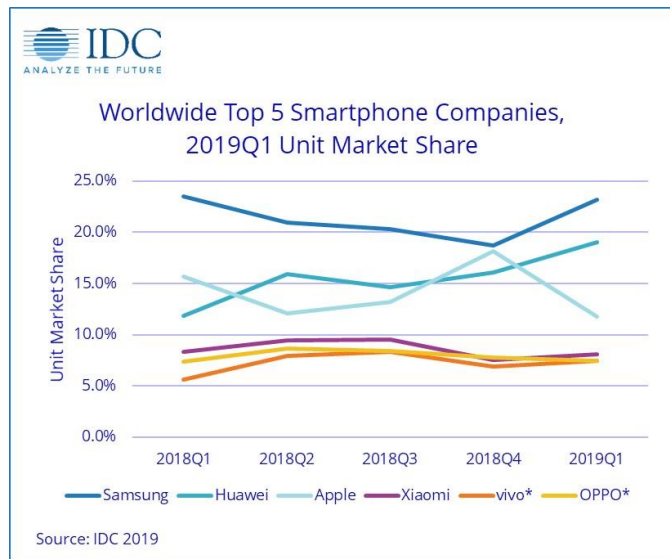


Figure 3 Global Smartphone Market Share: By Quarter 2018 - 2019 (IDC 2019)

A) Background Introduction – The Technology Industry Landscape

According to a Boston Consulting Group (BCG) survey that included 400 deep-technological start-ups on the issues and challenges they have to deal with, the most frequent items identified are lengthy time-to-market (27%), high capital intensity (25%), technology risk and complexity (17%), and yet-to-be-developed commercial applications (14%). (de la Tour, A.; Soussan, P.; Harlé, N.; Chevalier, R.; Duportet, X.; 2017)^[3] Successful navigation to overcome these challenges clearly requires leaders having the ability to identify problems that exist in different area (Fig. 4) and possess multi-dimensional skills such as vision, communication and execution in driving the company to achieve its goals.



Figure 4 The Most Critical Resources Identified by Startups for Them to Succeed. [3]

From Collins and Porras’ perspective, the “real difference between success and failure in a corporation can very often be traced to the question of how well the organization brings out the great energies and talents of its people. And how can it sustain this common cause and sense of direction through the many changes.” (Collins, J.C.; Porras, J.I.; 2002)^[4] Bill Hewlett and Dave Packard was a successful example on how to earn a sustained reputation for great products through “quickly made the transition from designing products to designing an organization— creating an environment—conducive to the creation of great products” (Collins, J.C.; Porras, J.I.; 2002)^[4] Hence, both BCG and Collins and Porras are citing important factors from 3-H as critical success factors for high technology companies.

In a study from Cbinsights^[5], which tracked over 1,100 tech companies that raised seed rounds in the US in 2008-2010, nearly 67% of startups stall at some point in the VC process and fail to exit or raise follow-on funding, usually around 20 months after first raising financing. The odds of becoming a unicorn remained and hovered around 1% (1.07%) as shown in Fig 5. (CBinsights September 2018)^[5] In its 2019 update, Cbinsights found that shuttered company executives frequently cited common factors like a drop-off in funding and increased competition, especially within emerging industries. (CBinsights October 2019)^[6] Hence, identification of key successful factors and creating strategies that can attain these factors are essential for top management of technology companies.

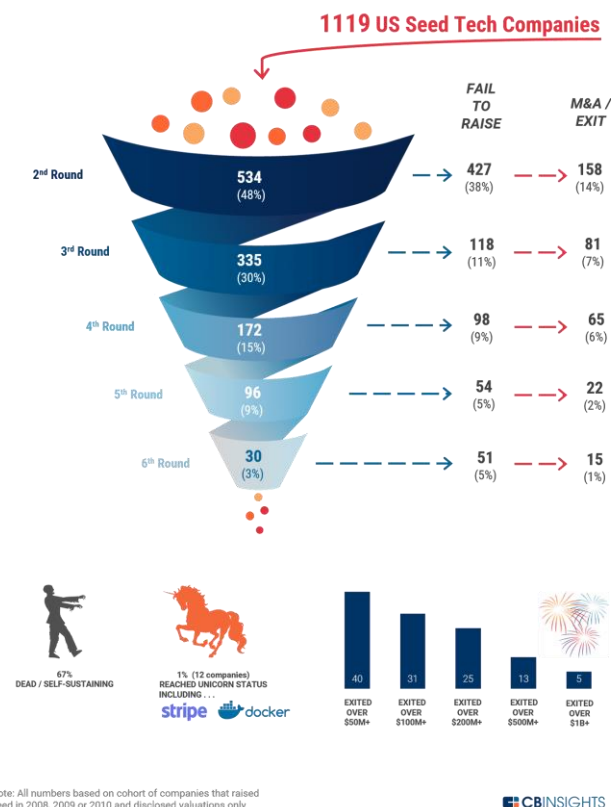


Fig 5 The venture capital funnel highlights the natural selection inherent in the venture capital process [5]

B) Introducing 3-H as a Management Frame Work

According to Goffee and Jones[2], inspirational leaders possess four common leadership qualities. First, “By exposing some vulnerability, they reveal their approachability and humanity “. Second, “They rely heavily on intuition to gauge the appropriate timing and course of their actions”. Third is “empathize passionately and realistically with people, and they care intensely about the work employees do.” Last “They reveal their differences. They capitalize on what’s unique about themselves.” Three of the four factors listed by Goffee and Jones[2] correspond to the Heart definition while intuition and actions represents the Head and Hand portion of 3-H model as shown in Fig 6 below. “The 3-H framework is an approach for managing imperative people and organisational/national issues in a holistic way. The framework’s key domains are represented by the metaphoric expressions of Heart, Head and Hand. A holistic solution to manage people and the nation/organisation issues means all 3-H domains have to be effectively and efficiently managed and synergistically integrated in order to create the best performance of a nation/organisation.”(Yu, E.; 2020)[10]

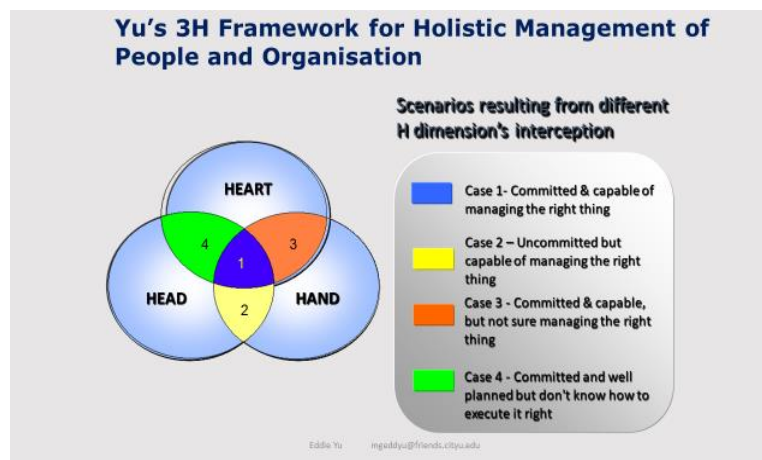


Fig 6. The 3-H framework posits that the sustainability of the people and organisational effective and efficient management is hinged on the level of synthesis among H1, H2 and H3 domains.[10]

A McKinsey study[22] suggested a next-generation holistic operating model similar to 3-H where its “first part involves a shift from running uncoordinated efforts within siloes to launching an integrated operational-improvement program organized around customer journeys (the set of interactions a customer has with a company when making a purchase or receiving services) as well as the internal journeys (end-to-end processes inside the company)” and “The second part is a shift from using individual technologies, operations capabilities, and approaches in a piecemeal manner inside siloes to applying them to journeys in combination and in the right sequence to achieve compound impact.” Our research will investigate how Lei Jun aligned his holistic management approach with the 3-H framework as an inspirational leader for Xiaomi.

C) How can 3-H Framework be Used to Make a Difference in Technology Companies

Maidique, M.A.; Robert H. Hayes, R. H. (1984)^[11] and E. Romanelli and M. Tushman (1983)^[12] suggested success in a high-technology environment requires periodic shifts between chaos and continuity. In essence, this is similar to the recurring cycles of transformation in the technology business environment today. According to a BCG survey of more than 100 companies that have undergone transformations, which included in-depth interviews of leaders involved in these efforts, “96 percent of the companies that fully engaged the three elements (3-H) achieved sustained performance improvement.” (Hemerling, J.; Kilmann, J.; Matthews, D.; Nov. 2018)^[7] This is nearly three times that of companies that did not engage 3-H in their transformation.

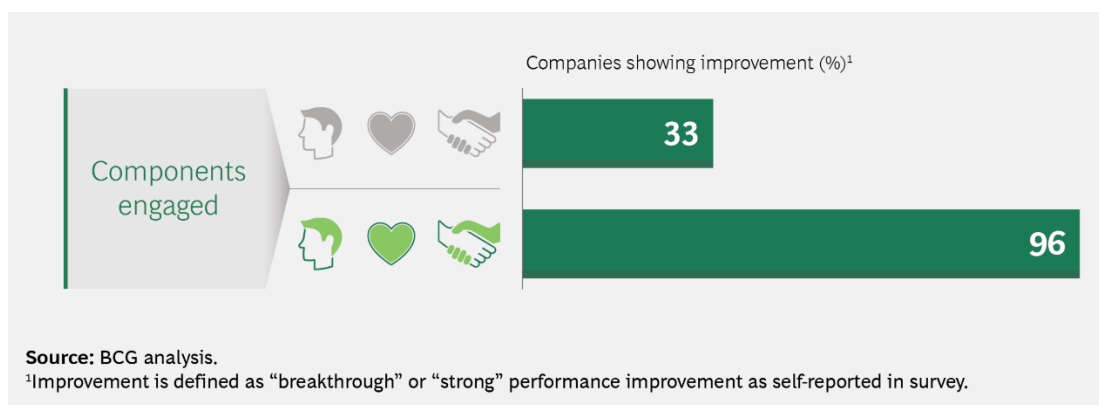


Fig 7 How the inclusion of Head, Heart and Hands can make a difference survey of more than 100 companies that have undergone transformations [7]

As a high profile player in the fast moving high technology industries, Xiaomi acknowledged its existence lies within the constantly changing environment. “As Xiaomi continues to progress, we ask ourselves: what has remained constant in the ever-changing business world”^[9] Hence, the successful inclusion of 3-H approach in its strategy will be vital for the continuous success of Xiaomi as shown in my research below. Interestingly, the deliverable of 3-H approach is quite similar to the output of jupsang strategic leadership orientation (JSLO) model (Yu, E.; Yau, O; Ko, A, Au, A 2018)^[8], and exists in the minds of Chinese leaders as "a crucial factor in business performance" and "it has a substantial association with a firm’s business performance in regard to enhancing competitive advantage, indicated by market and financial performance, customer satisfaction and the effectiveness of strategy execution.” (Yu, E.; Yau, O; Ko, A, Au, A 2018)^[8]

Keywords : Xiaomi, Lei Jun, 3-H, Holistic, Chinese technology company, Smartphone, AI, IOT

2) Xiaomi Management's Philosophies and its relationship with the 3-H Framework

Based on various literature review and other public information released such as interviews, company annual reports and observations made on Xiaomi's current business practice, the following hypotheses have been derived and will be validated in the following sections.

A) Heart (H1) Driven Hypotheses

- i) People are motivated by intrinsic and extrinsic rewards and people are motivated by different motivators. (H1a)
- ii) Reciprocity will happen in a heart driven culture (H1b)
- iii) People are often inspired by a good purpose, cause or shared value and belief and heart to heart relationship will be created. (H1c)

B) Head (H2) Driven Hypotheses

- i) Strategic thinking shall be emphasized at highest level of management and used to guide product strategy especially if management has technological expertise (H2a)
- ii) Globalization of business should be aligned with government policies (H2b)

C) Hand (H3) Driven Hypotheses

- i) If people are typically equipped with special occupational skills/competences, successful companies can deliver good results if management team is sensitive to market needs in applying the core competence of company (H3a)
- ii) Successful companies must have competent functional departments especially on frontline staff (H3b)

D) When 3-H Working Together – How 3-H Works Together as One Under Lei Jun's Leadership

- i) Holistically managing people and organization means each H is interrelated and interacted with one and other, neither one nor a couple of Hs are sufficient (3-Ha)
- ii) Depending on the nature of the project, individual H has different degrees of impact to outcome (3-Hb)

3) Assessment of Xiaomi's Management Philosophies from a 3-H Perspective

A) Leveraging Human's Heart as a Key Success Factor for Xiaomi

Business success is directly impacted by the performance of employees and their productivity. Hence, management must move beyond treating employees as a collective workforce by addressing their emotional need to ensure they feel connected to and appreciated by their companies as individuals. The importance of “heart” in Xiaomi's company philosophy has been emphasized by the fact it was mentioned 8 times in Lei Jun's open letter as Xiaomi's Chairman (Lei, J.; May 2018)^[9] and it clearly indicated management understands the importance of using appreciation as a mean to motivate people in creating competitive edge in Xiaomi's business.

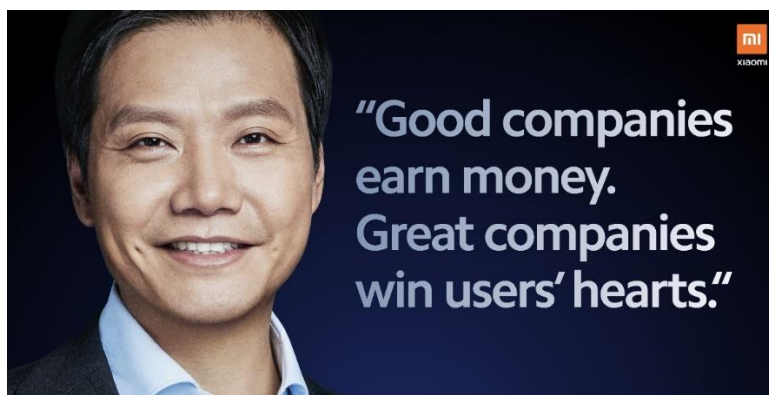


Fig 8 Xiaomi Website 2020 ^[19]

i) People are motivated by intrinsic and extrinsic rewards and people are motivated by different motivators. (H1a)

Vallerand, R.J.; (1997)^[13] gave a detailed explanation for intrinsic and extrinsic motivations via the Hierarchical Model and suggested “humans are motivationally complex” and “should refer to a collection of motivations that vary in levels and types of generality”. Vallerand's Model also suggest “motivation is not only an intrapersonal phenomenon, but also a social phenomenon. Indeed, other people can have a powerful impact on our motivation.”^[13] Lei Jun, who was already a multi-millionaire in 2010, with his highly qualified management team who were highly paid by their external employers prior to joining Xiaomi, are very good examples of how the Vallerand's Hierarchical Model operates where they are motivated by both intrinsic rewards, like passion and achievement, and extrinsic rewards, like possible financial success. In addition, “Feeling connected is intrinsically rewarding to the brain.” (Eisenberger, N.; Kohlrieser G. 2012)^[26] and this is also part of Xiaomi's team culture. As such, Vallerand's model and finding from Eisenberger and Kohlrieser both support Hypothesis H1a that “people are motivated by different motivators” and is confirmed in the case of Xiaomi's management

team when they chose to produce the first Xiaomi smartphone in 2011 when no Chinese vendors were among the top 5 smartphone manufacturer globally. (Fig 9)

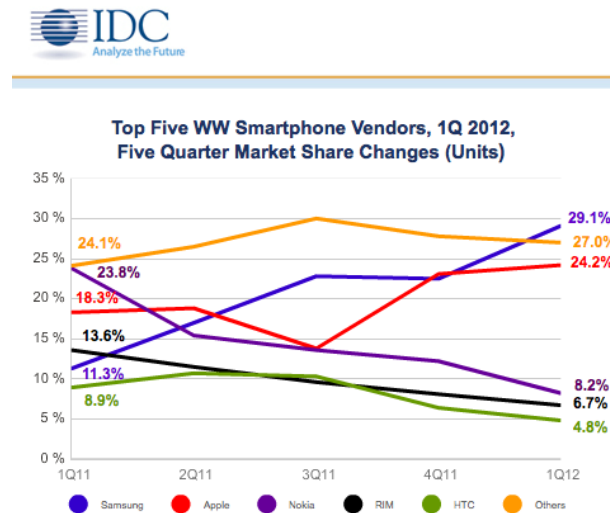


Fig 9 Top 5 Smartphone Vendors 2011 – 2012 World Wide – IDC 2012

As an ongoing arrangement, management not only incentivized the staff with the intrinsic goal of creating innovative products to serve people globally at honest price, Xiaomi also operates share incentive plan under its restricted shares units (“RSUs”) and options program. The total expenses recognized in the consolidated income statement for share-based awards granted to Xiaomi’s employees were RMB 2,358,917,000 for the year ended December 31, 2018 compared to RMB807,894,000 in 2017 for its 16683 employees in 2018, an average of RMB 140,000 per employee.

Xiaomi has also created an Annual Technology Award which is Xiaomi’s highest honor to core R&D project teams that bring about prominent technological breakthroughs and contributions where USD 1 million worth of stocks will be awarded. This combination of intrinsic and extrinsic motivations is one of the major techniques still being used by Xiaomi’s management as shown by their 2019 announcement of awarding staff shares worth US\$24mil to celebrate status as top 500 global company. (Tao, L 2019)^[20] This is still operating well in delivering successful outcome for the company.



Fig 10 Generous Award Given to its Technical Staff : Xiaomi Website 2020 [19]

ii) H1b - Reciprocity will happen in a heart driven culture (H1b)

Xiaomi started with a flat organization structure back in 2010 with only 3 layers of management – the core founders, the department leaders and the employees. As its business expanded into other areas such as Smart TV, e-Commerce and Internet of Things, CEO Lei Jun did a major corporate wide re-organization in September 2018 to create the new organization structure it has today. Even with more than 18,000 employees and 10 business divisions today, the hierarchical structure remains relatively flat with only 4 management layers starting from experts, managers, directors to divisional VP, (Huazhang 2019)^[21] allowing an reciprocal and interactive structure between management and employees. McKinsey also recommended organizations to have "a flat structure with fluid roles that combine oversight with execution", meaning executives have to get their hands dirty, learn, and pitch in. It also means lower-level employees must step up and become owners who take on more responsibility than before.(McKinsey&Co. 2017)^[22] In adopting a flat organization structure, Xiaomi management is also open to giving employees more ownership in making decision and delivering results they have achieved.

“Experienced employees are very precious assets to Xiaomi. The experienced employees carry the heritage of our culture while new employees are the hope of our future. Thank you, my fellow friends, for your tears, laughter and effort along the way! Our sincerity and love for this will remain the same regardless of time.” said Lei Jun in the 2018 anniversary event. “We want every Xiaomi employee to have sincerity and passion. Xiaomi cherishes every employee. We strive to create a comfortable and harmonious working environment, protect the health and safety of our employees, actively organize employee trainings, boost employee development, and regard employees’ rights and benefits as the starting point of “gifting happiness to everyone.” (Xiaomi Corporation, 2019)^[23]

Xiaomi’s close and positive relationship with employees are not restricted to China. “As an organization, Xiaomi tries to provide a transparent and attractive environment for its employees. To develop an open culture, the management organizes an all-hands get-together where the leadership addresses all employees in the office. One week before the event, employees are sent a form wherein they get to ask any question they want to of the leadership, and the leaders in turn try and answer these questions to the best of their ability.” (Goswami, A. Jan 2020)^[24]

Xiaomi also extends the same reciprocal approach to customers especially in product creation and enhancement. “Our vision to be friends with our users and to be the “coolest company” in the hearts of our users have motivated us to pursue innovation and maintain an unwavering focus on quality and efficiency.” (Lei, J.; May 2018)^[9] To keep interactive innovation alive and product remain “cool” from

a customer perspective, many products and features created by Xiaomi are based on customer feedback instead of only pushing Xiaomi's own ideas to customers. "Only through building amazing products that well exceed people's expectations and offering them at honest prices, can we win over the hearts of our users." (Lei, J.; May 2018)^[9]. The success of this heart oriented strategy is important to cement long term customer loyalty and is confirmed when Mi Fans regularly ended up joining Xiaomi as employees especially in developing markets like India. For example, in January 2020, "The Company has 20 employees who have come on-board from the Mi-fan community." (Goswami, A. Jan 2020)^[24]

In creating what is known as the Blais Work Motivation Scale (Blais, M.R; Brière, N.M.; Lachance, L; Riddle, A.S.; and Vallerand, R.J.; 1993)^[14], the team discovered that "interacting on a regular basis with a supervisor who leads one to feel incompetent has been found to facilitate amotivation toward work." Hence, a positive motivation based culture is necessary to generate attachment between staff and management as well as between customer and company that can exist in a reciprocal manner. The adoption of an open and reciprocal management approach has given Xiaomi its success in many markets.

iii) People are often inspired by a good purpose, cause or shared value and belief and heart to heart relationship will be created (H1c)

The heart management strategy will be even more powerful and bring out the best of people involved when good purpose and shared value are added to the concept of reciprocity described in H1b. "Xiaomi complies with the principle of fair competition and meritocracy. Existing and prospective employees share equal opportunities. In recruitment and salary setting, Xiaomi treats each job applicant and employee equally irrespective of his or her nationality, race, age, gender, marital status, religious belief, etc. Xiaomi signs labor contracts with employees based on the principle of equality, free will, consensus and integrity" (Xiaomi Corporation, 2019)^[23] In having 20-25% of employee being female in a male dominated society like India, Xiaomi is executing on its promise as an equal opportunity employer. "The (female) employees there get transport service to and from the factory. They are also provided dorms to stay in so as to make their work easier. "We recognise the value and perspective that women operators bring. They are a lot more reliable, focused and efficient", says Muralikrishnan COO, Xiaomi India. (Goswami, A. Jan 2020)^[24]

Besides emphasizing equality, Lei Jun also stated Xiaomi is "a fast-growing and thriving company, but more importantly, understand how we pioneered an amazing, innovative business model underpinned by courage and trust." (Lei, J.; May 2018)^[9], showing he understands the importance of heart to heart relationship where trust is the outcome and an important element of success. The courage of Xiaomi's

management and the trust it had on their team's ability was highlighted by the entrepreneurial decision to launch their first smartphone in 2011.

In sharing his dream through being cool and built product for the world, Lei Jun has successfully recruited the heart and mind of many Mi Fans, including both customers and employees who echo to his genuine appeal to create a dream. "We want to allow everyone, regardless of gender, ethnicity, religion, nationality, or education level, to enjoy the benefits of technology. This is the goal that all Xiaomi employees and I are working tirelessly for." The company's purpose has actually gone beyond its customers and employees but also "To gift honesty to business, to gift warmth to technology, to gift happiness to everyone, our mission has no boundaries, and we have only just begun. We have changed how hundreds of millions of people live, and we will become a part of the lives of billions of people globally in the future." (Lei, J.; May 2018)[9].

The success of this heart to heart or Fan's approach has been proven by the number of customers it has acquired in the past 10 years, reaching a total of 309.6 million global monthly active users ("MAU") of MIUI, which includes 109 million users from mainland China, 234.8 million units of connected IoT devices (excluding smartphones and laptops) on its IoT platform and 60.4 million MAU AI assistant "小愛同學" users in December 2019. (Xiaomi Corporation 2020)[25]

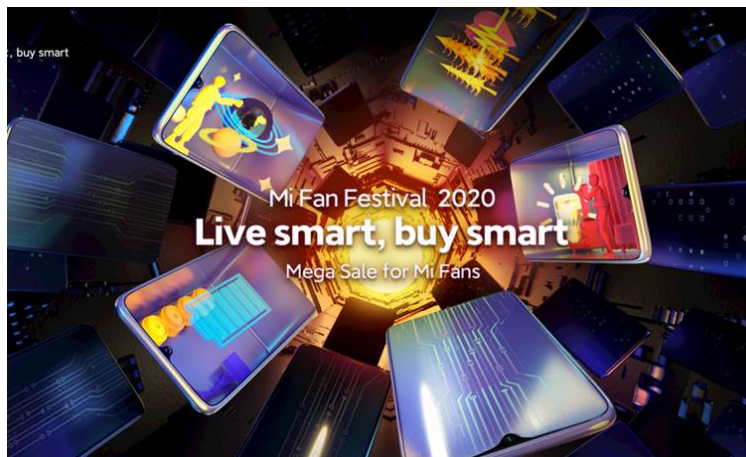


Fig 11 Xiaomi Mega Sale for Mi Fans – Xiaomi Website 2020[19]

According to Eisenberger and Kohlrieser, "In the workplace, leaders who show concern and interest in their employees' lives and a predictable set of rules, create a healthy attachment that empowers others to embrace the risk of pursuing success." (Eisenberger, N.; Kohlrieser G. 2012)[26] The importance of heart to heart management approach is further supported by Eisenberger's finding from experiment in UCLA that "our brains evolved to greatly value social attachment. Because human maturation takes so long compared to other species, social pain became a way to encourage us to stay socially attached to

promote survival” ”Having support figures present during experiences of stress helps us stay more relaxed and reduces threat responses; strong bonds can help teams survive and thrive in crisis situations. Naomi’s experiment found that mild electric shocks gave far more discomfort to individuals if they had a stranger instead of a friend or partner present with them. Giving support is also psychologically rewarding to those who give it, generating a sense of reward and connection.” (Eisenberger, N.; Kohlrieser G. 2012)[26] Eventually, such reward and satisfaction will enable both management and employees to be more inspired to take on creativity risk and overcome challenges as a team of soldiers in midst of a battle or the crew of a ship in the middle of the storm.

More importantly, in motivating employees at the heart to heart level, the overall effect could echo those achieved by the Hawthorne’s effect as proposed by Elton Mayo in his experiment in Western Electric’s Hawthorne plant, near Chicago, from 1924 to 1932. In producing high performance and highly inspired individuals within Xiaomi through a heart to heart approach, they can in turn join others to form part of the bigger groups, providing bigger benefits to the company as a whole because “Groups with high norms and high cohesiveness have the greatest positive impact, Mayo's theory predicts, since group members encourage one another to excel” (Dininni, J.; 2010)[28] Hence, by successfully implementing the three Heart based approaches (H1a, H1b and H1c) discussed above, Lei Jun has led Xiaomi to successfully win the heart and soul of his employees and customers.

B) Vision Driven Strategies Acting as a Key Success Factor of Xiaomi

Apart from putting a lot of focus in winning the heart of staff and customers, the management team has been pragmatic and visionary in defining and executing their short and long term strategies as shown by its continuous growth in the past few years. More importantly, management was able to seize on the opportunities to grow the company during crisis to achieve tremendous revenue growth in the past ten years with a CAGR of more than 110%.

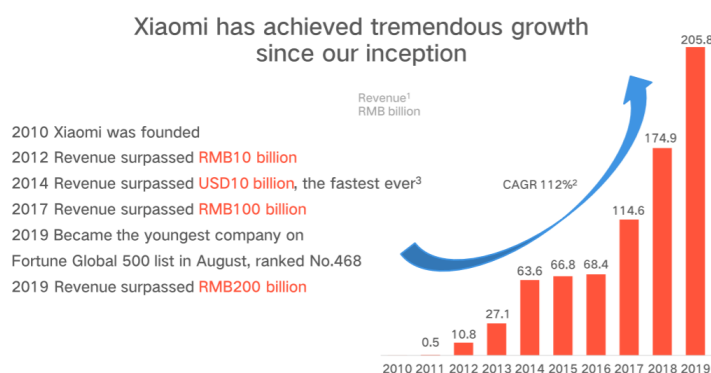


Fig 12 Xiaomi Financial Performance in the Last 10 Years – Xiaomi Website 2020[19]

i) Strategic thinking shall be emphasized at highest level of management and used to guide product strategy especially if management has technological expertise (H2a)

After making successful investment in many technology companies, Lei Jun decided to start Xiaomi in December 2009 and found six partners, Lin Bin who had been vice president at the Google China Research Institute, Hong Feng who was the senior product manager at Google (China) and led the development of a series of localized products like Google Music and Google Pinyin Input, Wong Jiangji, development commissioner at the Microsoft China Research Institute, Wang Chuan, founder of Thunder Stone Technology Ltd, which was the largest audio-visual entertainment equipment supplier in China, Liu De, the Dean of the Industrial Design Faculty at Beijing University of Technology, and Zhou Guangping, senior commissioner at the Motorola Beijing Research and Development Center. (Xu, F.; 2015)^[15] By gathering this team of technology experts, Xiaomi's top management has both the technical ability and business vision to strategically decide on how to adjust, starting from a software based focused approach using MIUI OS to be the leader of an entire hardware, software and social network based ecosystem.

“Lei Jun is a phenomenal entrepreneur,” said Kai-Fu Lee, the former Google executive who now runs Innovation Works, a Beijing-based firm that invests in Chinese start-ups. “He’s insightful about user needs and markets, and now he has this incredible desire to create a household brand in technology.” “He has vision,” said Liu Ren, a longtime friend who runs an investment fund. “He sees trends earlier than others and is always ready to adjust. For instance, Joyo started as a downloading platform and at the beginning YY was just doing RSS subscription.” (Yan, X.; 2013)^[16] Lei Jun has since developed his insight into the “unique “triathlon” business model, which encompasses hardware, software, new retail and internet services. “Xiaomi’s achievements so far illustrate the strength and resilience of our model. Within 7 years of our founding, our annual revenue exceeded RMB100 billion, achieving a growth rate that many traditional companies are unable to match.” (Lei, J.; May 2018)^[9]



Fig 13 Xiaomi Triathlon Business Model – Xiaomi Website 2020^[19]

Based on the triathlon business model, Xiaomi management has regularly created outstanding hardware platforms based on Smartphone and Smart Home/IoT hardware supported by its own software and services. In running its unique user software, such as MIUI and AI assistance, over its attractive and technically advanced hardware, Xiaomi has been very successful in capturing and steering customers towards its value added services including online product sales websites like Mi.com (China), Mi Commerce (India) ShareSave (Indonesia) and financial services oriented subsidiary like Mi pay (China), Mi Credit (China & India), Xiaomi Financial Services (India), Sichuan XWBank (China) and Airstar Virtual bank (Hong Kong) to increase its profit per user.

If the growth of Xiaomi is not enough to show the management team's capability, its recovery from the 2015 slump by expanding into IoT smart home would have completed the argument. "Starting 2015, global smartphone sales stalled and Xiaomi's smartphone sales started plummeting, falling faster than its rivals. In Q1 2016, Xiaomi fell out of top 5 largest smartphone manufactures in China" (Luna Yue Yuan, L.Y.; Jul 2017)[43]

Xiaomi was heading down the same abyss as Nokia and Blackberry as a phone and OS centric companies in March 2016 but Lei Jun and management team used their technical expertise and vision to seize the opportunity and strategically upgraded Xiaomi's ecosystem by launching a new brand, MIJIA. "This ecosystem is centered on Xiaomi's core products – smartphones including peripheral products such as chargers, earphones and power banks; smart hardware including robots, rice cookers, televisions and air purifiers; and lifestyle products including backpacks, suitcases, toothbrushes, pillows and other daily necessities. (Lam, T.; Leung, L; June 2018)[44]

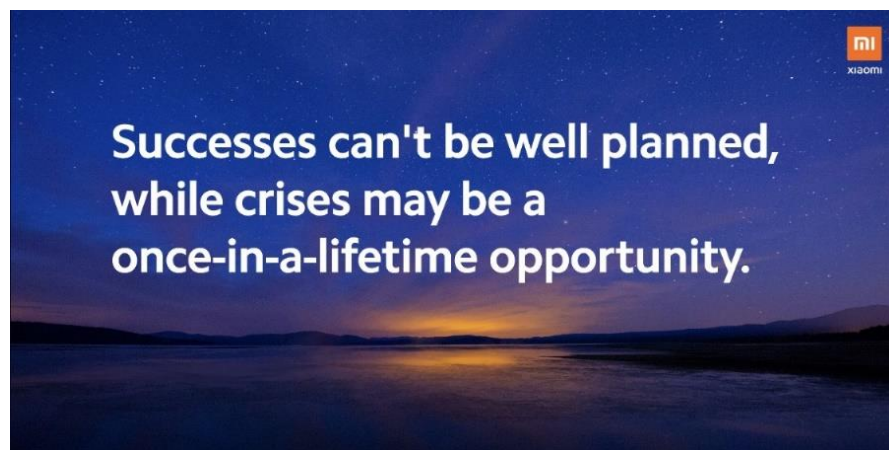


Fig 14 Xiaomi Statement– Xiaomi Website 2020[19]

This complete ecosystem offered a wide range of new and interesting products, thereby attracted customers to visit Xiaomi's physical store and made Xiaomi become a lifestyle and retail company, offering a large array of attractive products to customers rather than just a smartphone company. As a result, Xiaomi has further extended its relationship with the customers from both a technology and heart to heart perspective and having a wide ecosystem became the main engine of Xiaomi's growth especially into the 5G-AI-IoT area.

Exhibit 1: Xiaomi's ecosystem with over 90 companies focused on the development of smart hardware and lifestyle products



Fig 15 : Xiaomi's Ecosystem with over 90 companies focused on the development of smart hardware & lifestyle products [44]

Besides strategically expanded into new neighboring business segment, in May 2016, eight days after the latest Xiaomi phone Mi Max was released, Lei sent an internal letter to his staff, announcing that he would personally take charge of the mobile phone development and supply chain management team. Zhou Guangping, co-founder of Xiaomi and who worked as chief engineer of Motorola's R&D center, was designated as chief scientist. Lei said in the letter that Xiaomi has to do a lot of prospective research on the mobile phone side to improve the technological prowess of the company. "We hope Guangping can make innovations and breakthroughs in the new position and bring us more pleasant surprises in exploring the frontiers of science and technology."

Realizing Xiaomi's receding technological progress and to address the root of their strategic direction quickly, Lei Jun courageously seized the opportunity to transform Xiaomi from a technology

follower into a technology leader as shown by its current leadership in camera, wireless charging and data transmission technologies.

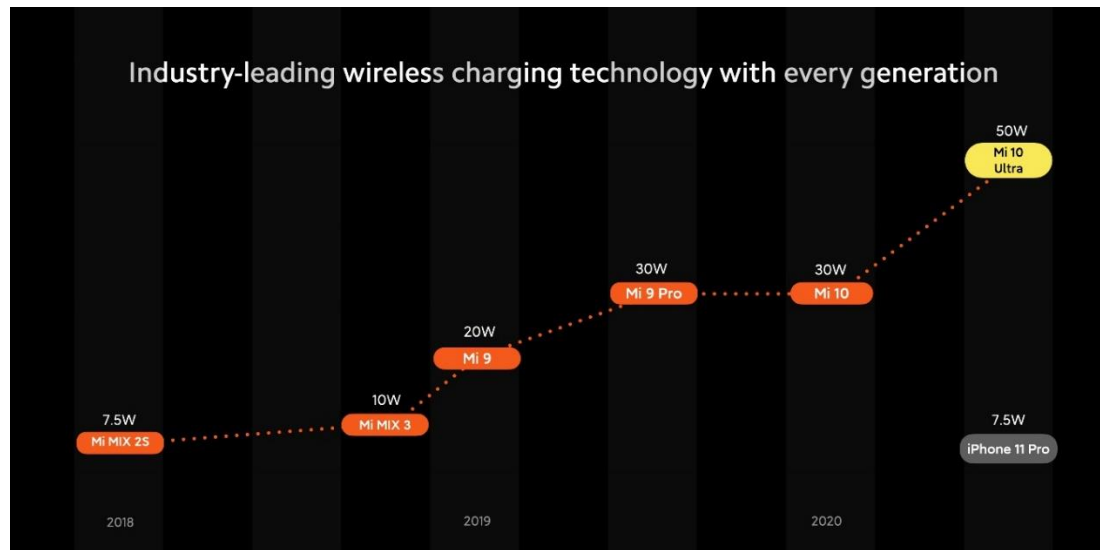


Fig 16 Xiaomi Wireless Charging Improvement History – Xiaomi Website 2020[19]

Being the first in launching 5G capable smartphones, Lei Jun and his management team have shown they understood the strategic importance of modern innovation as summarized by the team from BCG. “Executing a prescribed set of actions used to be enough to generate short-term bottom-line improvements. In this new era, when the future is unclear and the present is constantly changing, organizations need to innovate as they execute, and do both with agility.” (Hemerling, J.; Kilmann, J.; Matthews, D. Nov. 2018)[7] Lei Jun and his team’s commitment to innovation is once again reinforced in their recent announcement of Xiaomi’s roadmap for the next decade.

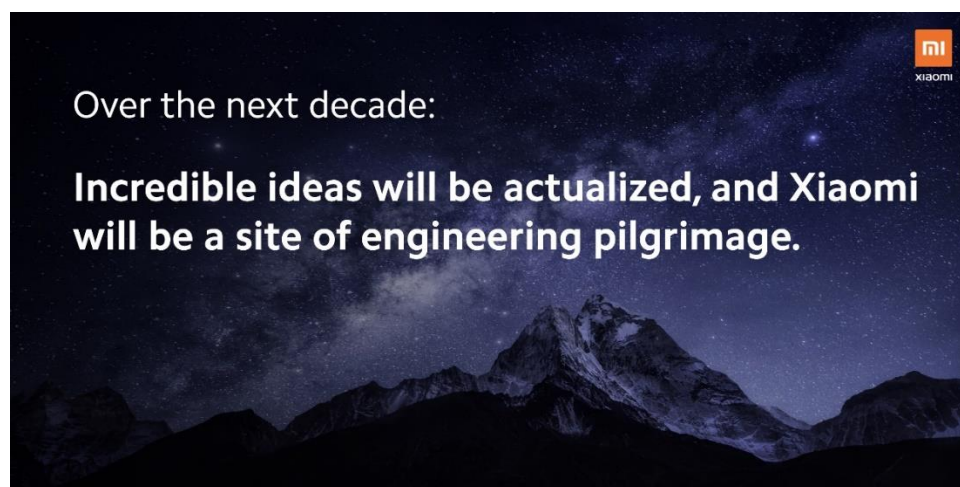


Fig 17 Xiaomi Statement– Xiaomi Website 2020[19]

ii) Globalization of Business should be Aligned with Government Policies (H2b)

As CEO of Kingsoft, Lei Jun learnt a harsh business lesson in 1994 when he chose to combine Kingsoft's WPS with Microsoft Word 4.0 to learn from global giants but end up falling into the trap set by Microsoft, resulting in Kingsoft experienced rapid loss of market share and his resignation in the same year. In 2004, Amazon tried to acquire Zhuoyue in order to expand its business in China. Although Lei Jun felt Zhuoyue was his children, he foreseen Zhuoyue would be crushed by Amazon so he chose to sell the company for US\$75 million (Xu, F.; 2015)^[15] His experience with Microsoft and Amazon has played an important role in shaping Lei Jun's view that globalization is irreversible while also giving him an insight into how globalization of Chinese business should be executed.

Lei Jun has also been very open-minded in his international expansion strategy, hiring Hugo Barra in 2013 from Google and has since expanded successfully across Asia and beyond, reaching more than 20 countries. This was a critical move as Xiaomi lost its crown as China's top smartphone maker under intense competition from Huawei and up-and-coming phone makers Oppo and Vivo. Hence, expanding globally became an important priority and the sequence of its expansion from China showed the global vision of Xiaomi's leadership and its ability to execute in accordance to China's one belt, one road strategy, which Lei Jun has made direct contribution.



Fig 18 Xiaomi Statement– Xiaomi Website 2020^[19]

In recent years, protectionism and government policies had risen against globalization. In her closing speech to the 2016 UK Conservative Party Conference, Theresa May declared “If you believe you’re a citizen of the world, you’re a citizen of nowhere. You don’t understand what the very word ‘citizenship’ means.” This clearly highlight the risk of global expansion for any business nowadays. “If threats to globalization continue to mount, firms with marginal competitive positions abroad are especially vulnerable.” (Ghemawat, P.; Altman S.A. 2019^[36] Companies need to “think through whether your company has a long-term path to sufficient advantages over its competitors to stay in the game” especially because “Prevailing policy trends point to selective changes in countries’ openness to

international business.” “These trends imply that firms should continue to prioritize markets by weighing their opportunities in particular countries against the cultural, administrative/political, geographic, and economic (“CAGE”) distances between them. What’s new is that administrative/political distances are changing faster than they usually do. Firms cannot reconfigure their operations with each shift in a volatile geopolitical environment, but now may be the time to invest in nimbler supply chains, to review contingency planning, and so on.” (Ghemawat, P.; Altman, S.A. 2019)^[36] By expanding in alignment with the Chinese government trade policies, Xiaomi has expanded smoothly and avoided many political uncertainties in the host countries.

As a leader, Lei Jun has never been shy to share his vision with the top leadership of Chinese Government. In 2018, based on “the context of the One Belt One Road Initiative, Lei Jun suggested to elect “Made in China” Brand Ambassadors in “Belt and Road” countries.” These “local and international celebrities could serve as the ambassadors and promote goods made in China by cultural exchanges and marketing activities to enhance the reputation and influence of “Made in China” brands.” (Tencent Tech Mar. 2018) ^[17] As Lei Jun is also serving as vice chairman of All-China Federation of Industry and Commerce since November 2017 and vice president of China Quality Association since December 2017, his public duties enabled Lei Jun to align both government agencies and major industrial partners to share his vision of improving the lives of billions of people around the world.

On the other hand, Lei Jun has also been very active in driving his idea of globalization back into government policies. In May 2020, he proposed the acquisitions of talent from both local and overseas to enhance diversity and innovation in the National People’s Congress and Xiaomi itself has been employing a lot of local talents for its business in India and Indonesia and this has won the heart of locals to protect its Indian business against the recent dispute between China and India. “For globalization, it is essential for both stepping out overseas and letting the world into China’s universities, enterprises and research institutions. Lei Jun believes creating a community which is comfortable for global talents to work and live will stimulate market vitality in Beijing, Shanghai and Shenzhen. This suggestion reveals Lei Jun’s ambitions and long-term plan in Xiaomi’s global business, for talents are always the most important element to drive development.” (Kan, B.; May 2020)^[18].

More recently, by entering into the smart manufacturing industry, Xiaomi is once again aligning its globalization strategy with the Chinese government Belt and Road Initiative. ““Beijing has stated its intention to promote the industrial internet as part of the Belt and Road initiative (BRI). The focus seems to be digitalization and smart control of transport, energy and logistics projects operated by Chinese

companies in BRI markets” (Arcesati, R.; Holzmann, A.; Mao, Y.; Nyamdorj, M.; Shi-Kupfer, K.; von Carnap, K.; Wessling, C. Jun 2020) [46]

Hence, in fulfilling its globalization strategies, Xiaomi’s management has correctly chosen to go along the path of “One belt One road” which starts with SE Asia, then moving to South Asia and then Eastern and Central Europe and Russia. This is in addition of expansion into Brazil and India which is part of BRICS.

C) Hand Driven Hypotheses

- i) If people are typically equipped with special occupational skills/competences, successful companies can deliver good results if management team is sensitive to market needs in applying the core competence of company (H3a)**

Xiaomi's clearly demonstrated its technical competence by developing and launching products quickly for multiple market segments. Its ability to launch 10 models of Mi, 12 models of Redmi and 2 models of Black Shark branded devices in 2019 (GSMArena 2020)[29] ensures its position as the fourth largest smartphone brand globally, in contrast to the demise of established brands like LG, HTC, Lenovo and Sony. Xiaomi's 5G product innovation capability, shown by its first 5G phone Mi Mix3, also enables it to win market share globally in the absence of 5G products from Apple.



Fig 19 Xiaomi First 5G Smartphone Mi Mix3– Xiaomi Website 2020[19]

By investing heavily in R&D with over 7,000 engineers, (Xiaomi Corp. 2019)[25], engaging in long term alliance and technology acquisition program with leading chipset suppliers like Qualcomm and MediaTek as well as display vendors like Samsung and LG have created a strong foundation for Xiaomi’s technological innovation in the area of surround display, wireless charging, camera and 5G.

After undergoing a major business downturn in 2015-2016, Xiaomi management has since invested heavily in technology to build into a core competence of the company. “Our ceaseless motivation to extensively explore and continually innovate and R&D investments of RMB 10 billion have enabled us to bring more and cooler products to everyone.” (Jun, L 2020)[19]



Fig 20 Xiaomi 2020 R&D Expenditure Target – Xiaomi Website 2020[19]

Realizing consumer market has great appetite for affordable phones with great features as listed in Figure 21, Xiaomi’s management has invested significantly in getting their expertise right in various technologies such as camera, fast charging and 5G to meet with market expectation by executing quick and flawless transition from design to product to maintain its market leadership.

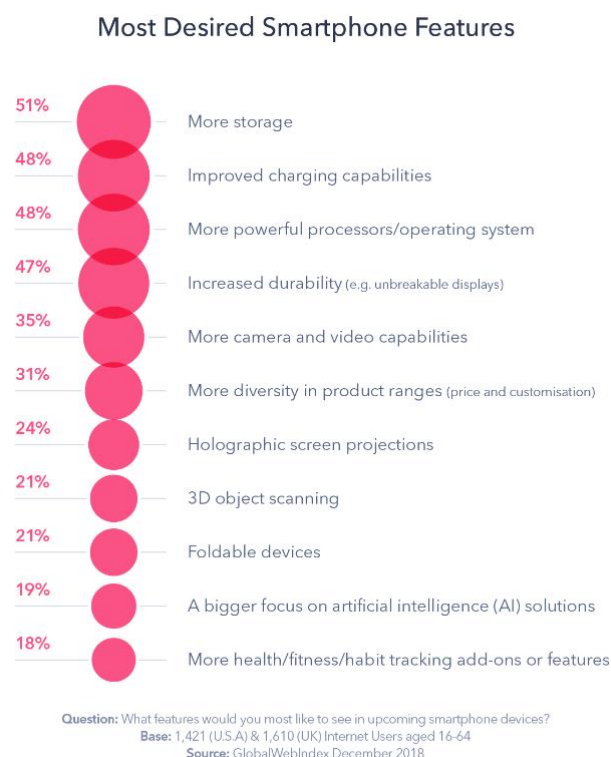


Fig 21 Which Smartphone Features Really Matter to Consumers [32]

With its technical competences, Xiaomi is now able to consistently offer smartphones with top ranked camera solution as qualified by DxOMark, which is the leading source of independent audio and image quality measurements and ratings for smartphone, camera and lens since 2008. On top of camera, Xiaomi has also been migrating quickly to new data transmission technologies like 5G and faster charging technologies to address customer pain points as found by the survey shown in Figure 21. These important competences will enable Xiaomi to maintain its Top 5 market share globally in the foreseeable future.



Fig 22 Xiaomi Camera Rating in DxO Mark – Xiaomi Website 2020[19]

Besides delivering smartphones, Xiaomi technology teams also successfully branched out to artificial intelligence and Internet of Things area through its AI Assistance “小愛同學” and full range of smart home products since 2016. “Over six years, we have incubated over 100 ecosystem companies and marketed over 1,000 products deeply loved by our users” (Jun, L 2020)[19] which clearly shows Xiaomi’s engineering and product teams’ ability to execute and grow its IoT business, one of the fastest growing segments due to Covid 19, enabling Xiamoi to leverage this core competence to stay ahead of its competitors like Oppo and Sony which do not have any Smart home and IoT products in their portfolio.



Fig 23 Xiaomi Internet of Things Portfolio – Xiaomi Website 2020[19]

ii) Successful companies must have competent functional departments especially on frontline staff (H3b)

Marketing strength has always been a core competence in supporting Xiaomi's growth strategy. Its brand represents Xiaomi's corporate reputation and the perception of its products and services to different stakeholders. It pioneered the creation and support of multiple smartphone brands strategy within its product line to enhance product differentiation for better margin. For instance, in 2013, a sub-brand, Redmi was created for its price-performance tier and Xiaomi has since introduced two new brands in 2018, Pocophone, for the upper portion of the mid-tier market, and Blackshark, a gaming focused brand. This arrangement enables "Mi" to remain as a brand focusing on advanced technologies for the premium market and has since successfully established a solid foothold in the premium smartphones segment to compete against Samsung S20 Ultra and Huawei P40 Pro to drive the increase in average sales price in 2019.(Sin, B 2020) [30]

Xiaomi has also created a powerful "value for money" image globally by committing that "the overall net profit margin of Xiaomi's hardware business will never exceed 5%." (Xiaomi Corp. 2019)[23] This is in stark contrast to premium brands like Apple, Samsung and Sony and has won many customers in the mass market segment, especially from price-quality conscious markets like China, India, South East Asia and has since expanded into Eastern and Western Europe. According to Morgan Stanley, "For advertising services, Xiaomi has 200+ staff facilitating online ad sales"[53] so with its strong marketing capability, especially in the online realm, Xiaomi pioneered internet flash sales campaigns through social media and sold new products in limited batches. In fact, Redmi K30 special edition recently managed to sell 100,000 units in one minute in mid-August. (HKEJ Aug 2020)[31]

In creating its brand image, Xiaomi fully understands "While trends come and go, brand identity is about projecting an image that will remain recognizable, credible, and sustainable over extended periods of time. Best-practice companies build their brands around attributes that set them apart from their competitors." (Agnes Claye, A.; Crawford, B.; Freundt, T.; Lehmann, S.; Meyer, T. Mar 2013)[33] As such, Xiaomi has built its brand identity starting from its low hardware margin commitment, enabling multiple innovations at an honest price that many people can afford, treating customers as fans to creating products with market leading technologies and is able to meet most of the customers' requirement per Mckinsey analysis shown in Figure 24.[33]

What customers care about

Rank	Topic ²
1	Honest and open dialog
2	Responsibility across supply chain
3	High level of specialized expertise
4	Fits my values and beliefs
5	Is a leader in its field

Fig 24 What Customers Care about when it comes to Business branding topics [33]

Xiaomi's achievement in marketing and brand building was recognized by Brandz as one of the top 100 most valuable global brands in 2020 as it works vigorously to enhance its own brand image through Mi Stores by promoting a global image with same outlook in China, Hong Kong, Indonesia, Thailand, Indian and Europe.



Fig 25 Xiaomi Brandz Ranking – Xiaomi Website 2020[19]

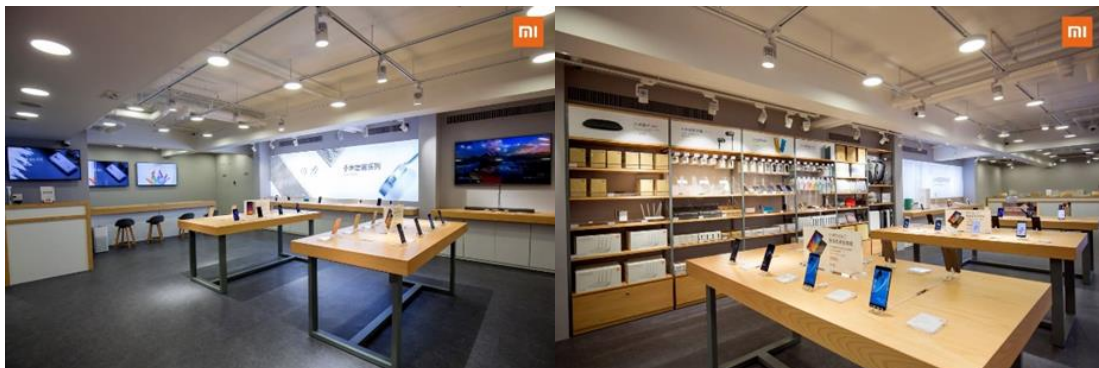


Fig 26 Xiaomi Show Room Layout

Its ability to execute in Marketing and Sales will empower Xiaomi to maintain a close relationship with customers and sustain its leadership position.

D) When 3-H Working Together - How 3-H works together as One Under Lei Jun's Leadership

As a high school Go [a traditional board game] championship and now as a CEO, Lei Jun has perfected the ability "to activate a deliberative search processing that evaluated a candidate move in terms of potential future positions reached via a branching tree of available moves for the two sides. This kind of information processing involves high-level cognition mainly including top-down orientating of attention, visuo-spatial perception of board pattern, and error monitoring of judgment and response selection, which are considered to be potentially evoked activations of cognitive networks" (Duan, X.; Liao, W.; Liang, D.; Qiu, L.; Gao, Q.; Liu, C.; Gong, Q.; Chen, H.; Mar 2012)^[35] This ability supports "His dream was to establish a firm which would become the industry leader. That was the motivation for Lei Jun to start a venture for the second time in his life through Xiaomi." (Xu, F.; 2015)^[15]

Lei Jun has also demonstrated his ability to become one of the successful CEOs as defined by BCG through balancing the 3-H approach skillfully as he "develop conviction about the best way to proceed", "confidently define the company's potential and map a path toward fulfilling it", "pay close attention to external megatrends and internal signals and then devise a clear strategic narrative, condensed to a "critical few" imperatives. The more successful CEOs will typically connect directly with a variety of leaders in the organization, reinforcing their loyalty and activating their positive energy" (Lesser, R.; Hansell, G.; Rick, K.; Torres, R. Jun 2018)^[50].

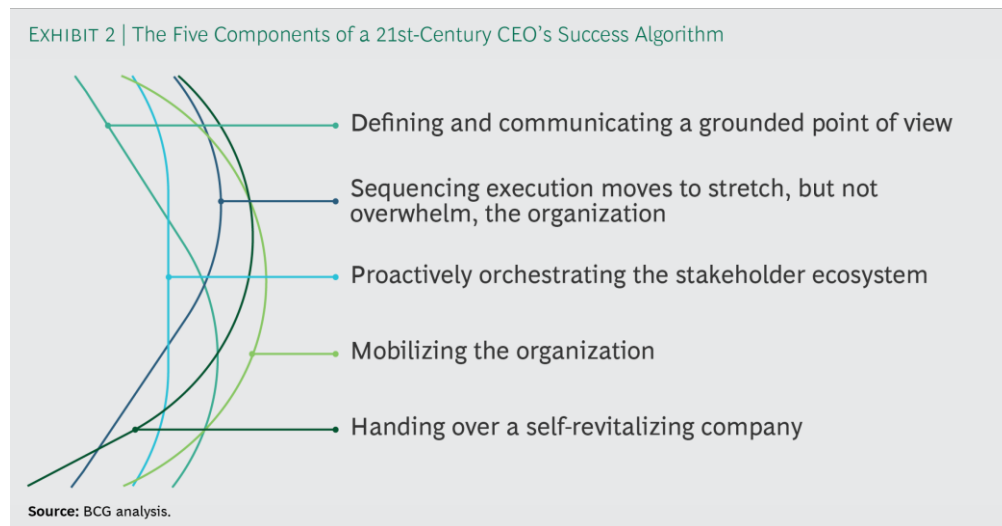


Fig 27 – The Five Components of a 21st Century CEO's Success Algorithm^[50]

i) Holistically managing people and organization means each H is interrelated and interacted with one and other, neither one nor a couple of Hs are sufficient (3-Ha)

A McKinsey survey in 2017 clearly indicated organization exists in a state of transformation required its management to allocate enough resources (Hand), identifying and assigning high potential employees (Heart) to the task and clearly defining the roles and responsibilities (Head). As a company living in a continuously evolving and transforming industry, Xiaomi's management needs to consistently balance and control how each of the H factors are assigned and interact accordingly so its products and services can remain competitive.

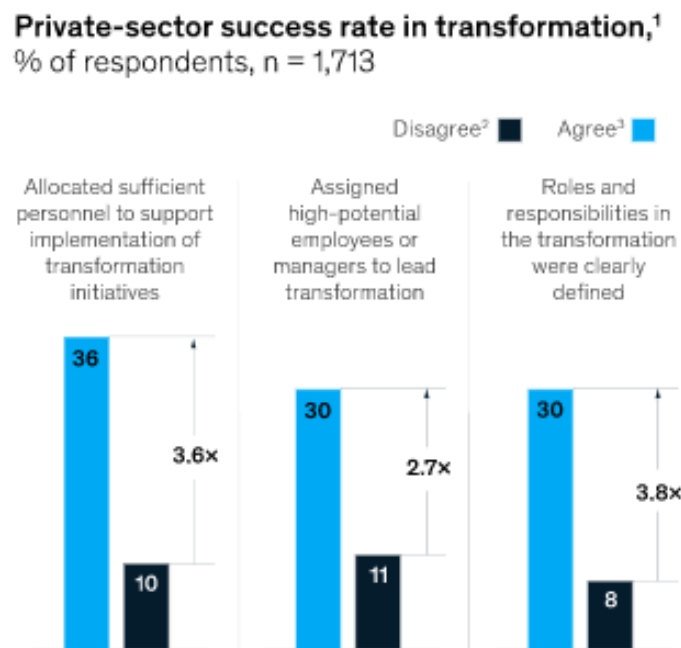


Fig 28. Success Rate Improves When there are Sufficient and High Potential Personnel & When Their Roles are Clearly Defined [27]

“To lead ourselves out of today’s predicament, we would need the passion from our start-up period. Talents must be valued, incentives need to be given and strategic opportunities have to be grasped.” and “We have developed lots of high-end manufacturing facilities, and designed the fully automated production line of high-end smartphones.” “Xiaomi has made some investments to shape up our future of becoming the “manufacturing of manufacturing”. (Jun, L Jun 2020)^[19] From this statement, it is clear if Xiaomi’s vision is to “lead out of today’s predicament”, its management needs to combine its Head in grabbing strategic opportunities, its Heart in generating passion, valuing its talents through incentives and using its Hand to develop high end manufacturing facilities.

With the opening of consumer markets due to globalization, the broader choice for consumers resulted in “rational human behavior, we all contribute to, and cause, the pressures exerted by

globalization: choosing the cheapest consumption good induces pressures on managers to cut production costs through dismissal of (more costly) older workers”(Fischer, J.A.V; 2012)^[45] This enabled the success of “value for money” strategy by Chinese smartphone brands like Xiaomi, Huawei, Oppo and Vivo, resulting in higher cost manufactures such as LG, HTC and Sony being wiped out in the mid-tier markets. With its ability to execute as a 3-H company, Xiaomi has gone one step further with its pledge of making only 5% profit on hardware which, in conjunction with its Mi Fans strategy, has successfully won the hearts of many customers through good services at honest pricing commitment. Internally, this 5% margin set by the management also send a clear signal to employees and encourage them to strive for cost and efficiency improvement in every area on a continuous basis.

Just winning the heart is not enough for Xiaomi to reach the number 4 spot. Xiaomi has also successfully built a reliable global supply chain, a popular distribution platforms for apps and consumer products through its hand level execution while also aggressively implementing its strategy to expand its businesses beyond smartphone “both vertically into internet services and horizontally into other product categories. It expects the majority of value creation to take place on the Internet services level, and intends to play at the center of the connected home. Rooted on Xiaomi’s vision, its corporate strategy is to grow the ecosystem quickly to build defensibility, acquire user aggressively to seize market share, and lock in users through services and platforms for bigger monetization later on.” (Yuan, L.Y.; Jul 2017) ^[43] The result of this coordinated 3-H strategy is Xiaomi reaching the number 4 spots in global smartphone market ahead of Oppo and Vivo and now threatening Huawei to become the top Chinese brand globally due to US political pressure on Huawei.

ii) Depending on the nature of the project, individual H has different degrees of impact to outcome (3-Hb)

The ability of Xiaomi’s management to deliver results were clearly shown by the completion of its manufacturing facilities in both India and Indonesia through the execution (Hand) focused approach. In both cases, Xiaomi has to produce locally due to government regulations, local content TKDN policy (Tingkat Komponen Dalam Negeri) in Indonesia (Theinsider 2018)^[47] and special differential excise duty regime in India (Singh, R. 2017)^[48]. Although the implementation is Hand focused, its success is essential to create a competitive advantage and supports the higher level strategies of expansion into these two markets. Xiaomi business has since flourished in these two markets especially against Huawei and Apple due to their lack of manufacturing in both countries.



Fig 29 Xiaomi Local Indonesian Staff with Her Family – Xiaomi Website 2020[19]

The experience acquired in setting up these production facilities is now playing an important role for Xiaomi as it enters the smart manufacturing market. Although it is a natural extension of its AI-IoT business, it is going to be an important opportunity in the next decade for the players involved according to Deloitte “in terms of financial benefits, smart manufacturing is making a much greater contribution to corporate profitability” since “Chinese manufacturers are not active in cloud deployment. Of the manufacturers surveyed, 53% have not yet deployed industrial clouds and 47% are now deploying an industrial cloud. Of the clouds under deployment, 27% are private, 14% are public and 6% are hybrid clouds.” Xiaomi’s expertise in AI and IoT will give it an important advantage to grow its smart manufacturing business to support other companies entering this new area since “Smart manufacturing can not only help manufacturers reduce costs and increase efficiency, but also gives them an opportunity to rethink their value propositions and restructure their business models.” (Deloitte China 2018)^[48] The proven ability to execute (Hand) in manufacturing has now given Xiaomi’s a new core competency and make this into a business expansion strategy (Head) in the next decade which would not happen if its hand on execution has failed previously.



Fig 30 Xiaomi Vision to Enter Smart Manufacturing in the next decade – Xiaomi Website 2020[19]

Famous for its regular (Hand) online and flash sales campaign, Xiaomi's marketing team has ventured even further in the last 2 years with the hosting of its developer conferences (MIDC) as a new means of promoting its strategy (Head) and leadership specifically to its ecosystem partners. The content of MIDC was carefully planned to align with the company's strategic direction and has hosted partners in China, India and Indonesia, the three largest markets of Xiaomi, in order to draw the attention and participation of more development partners to create differentiating services and applications to the local customers in these countries.



Fig 31 Xiaomi MIDCs in China, India and Indonesia – Xiaomi Website 2020[19]

To expedite the development of local Xiaomi ecosystems in Indonesia, Mi App Store launched the “Seagull Project” in the second half of 2019 and will invest Rp 200 Billion (USD 12m) to support local developers and start-ups to expand services to its 24 million active MIUI users in Indonesia through giving awards, featuring apps on the start page, publishing reviews, giving editorial recommendations, and holding events. (Blog Xiaomi, 2019)[51]

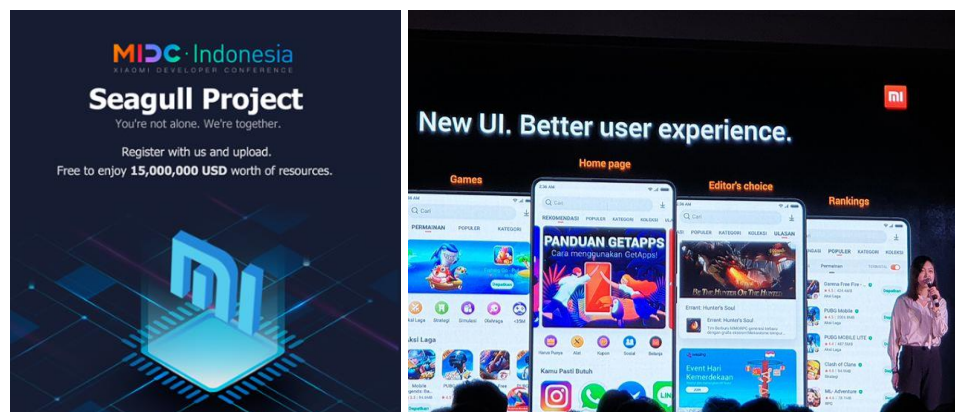


Fig 32 Xiaomi Seagull Project Announced in MIDC Indonesia – Xiaomi Website 2020[19]

This clearly demonstrated Xiaomi commitment to grow in Indonesia through long term partnerships with local partners as Seagull project can motivate Indonesian software developers to contribute to build more local content for the local MIUI Fans and its successful execution (Hands) will support the completion of this growth strategy (Head).

4) How Ready is Xiaomi in Moving into the Next Decade – An Analysis of Xiaomi Strategy Based on a 3-H Approach

Like many successful leaders, Lei Jun and his management has been very open in sharing their vision with employees and stakeholders to set their expectations and align them to contribute to strengthen the company. To thrive in the future, management need to understand the company from a SWOT and PESTEL perspective and based on Xiaomi's declared strategic plan for the next decade, its management is definitely aware of the requirement in this turbulence period as answered by Lei Jun below.



Fig 33 Xiaomi Website 2020[19]

“Where did Xiaomi come from?” and “Where are we heading to?” lie in the products we just introduced.” And “Xiaomi’s courage and strength in competing in the high-end smartphone market are just buttressed by these cutting-edge technologies. We will never cease to explore and continuously innovate, this is the attitude we have been adhering to since 10 years ago on bringing to everyone the most innovative technologies.” (Jun, L Jun 2020)[19]

A) Strength of Xiaomi

With its strength and experience in executing online sales in China, India and SE Asia, Xiaomi has used this “Hands” to expand globally, including Western Europe, by replicating its online selling model and overseas markets now accounting for 46.8% of total revenue. Moreover, through strategic partnership (“Head”) with local telecom operators e.g. in France^[37], it has acquired a significant number of channels to sell its product quickly as it has done before in China, Hong Kong and SE Asia. According to the latest estimate from Canalys in Aug 2020, smartphone sales by Xiaomi European unit is ranked 3rd and experienced an year on year growth of 65% by riding on its strength in online sales, especially during the Covid-19 period even the overall European smartphone market decline in Q2 2020.

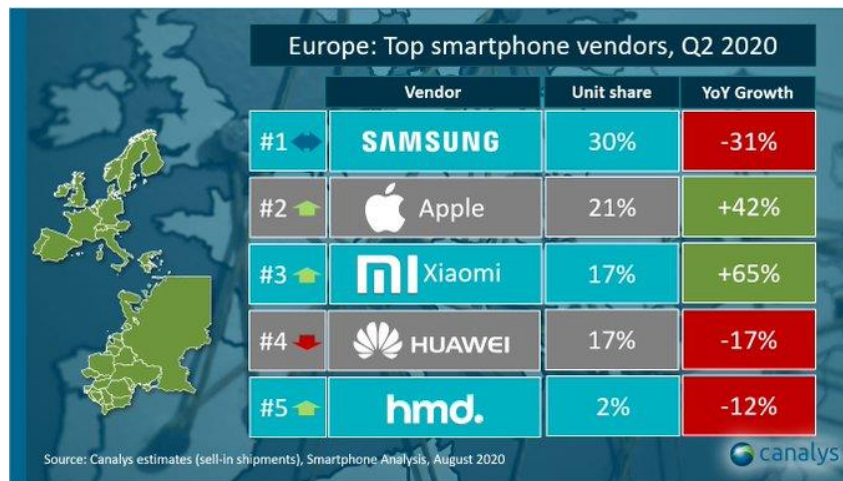


Fig 34 Canalys Estimates of Smartphone Sales in Europe for Q2 2020

Besides its online sales ability, Xiaomi is focusing on the fast growing and high potential business of “5G+AI+IoT and next generation super internet perfectly fits Xiaomi’s Internet DNA.” (Xiaomi Blog 2020)^[52] It is also an expert in cost optimization (Hands) due to its low margin pledge to users. To accomplish this pledge, it has built a strong supply chain for its product through strategic and long term partnership with leading companies like Qualcomm, Mediatek and Sharp to ensure steady supply of key components. In addition, it has also strategically invested in more than 290 companies with an aggregated book value of approximately RMB30.0 billion (Xiaomi Corporation, 2019)^[23] to be its components or product suppliers to ensure its supply chain remains solid. As such, the strength of Xiaomi here is the combination of well plan strategy (Head) and flawless execution (Hand)

From a stakeholder loyalty perspective, Lei Jun has already invested heavily in capturing the heart of customers and staff so the continuation of current approaches will help to ensure Xiaomi can enjoy the benefit of stakeholder loyalties going forward.

B) Weakness within Xiaomi Business

One key weakness of Xiaomi is its reliance on external parties for core technologies such as chipset from Qualcomm and Mediatek. However, by keeping low margin on its hardware and strong value added service approach, it is offsetting this weakness by maintaining a strong relationship with its customers directly and creating options for using more commodity hardware as it navigates between different hardware platforms.

Xiaomi is also addressing its dependence on external manufacturing partners by establishing its own smart manufacturing in the coming years, riding on the wave of industrial 4.0 and potentially leveraging this new experience to create new market segment for the company. Both of these weaknesses

are being addressed by using appropriate strategies (Head) but its success will rely heavily on its execution (Hands) effectiveness in extending its existing Artificial Intelligence and Internet of Things strategy. In fact, since “China’s government recognizes the huge potential of industrial internet platforms to spur innovation and productivity in the state sector, which fits the imperatives of high-quality growth”, Xiaomi can indeed use its manufacturing experience in Indonesia and India to capture the Industry 4.0 opportunities in China and beyond as “Beijing has stated its intention to promote the industrial internet as part of the Belt and Road initiative (BRI). The focus seems to be digitalization and smart control of transport, energy and logistics projects operated by Chinese companies in BRI markets through digital platforms.” (Arcesati, R.; Holzmann, A.; Mao, Y.; Nyamdorj, M.; Shi-Kupfer, K.; von Carnap, K.; Wessling, C. Jun 2020)[46]

C) Opportunities that Lies ahead of Xiaomi

Due to the constant and targeted attack on Huawei by western governments, Huawei has been retreating from many western countries and focusing more on China market. The vacuum left by Huawei has been steadily filled by Xiaomi as typified by the growth of Xiaomi in India, where it is number one, and Europe by overtaking Huawei as the 3rd largest smartphone suppliers there in 2020 through its online sales and alliance oriented sales approach (Hands). It is ironic that Xiaomi was forced to explore western markets back in 2018 due to the aggressive expansion of Huawei in China and now it is paying dividend as Xiaomi can explore more expansion opportunities outside China.

With its full range of devices and multi-brand strategies, Xiaomi is in a strong position to plan (Head) and expand (Hands) further by positioning differently in different markets. For instance, in more advanced and affluent Western European markets like UK, France, and Nordic states, it can sell more premium models to achieve better margin. On the other hand, for the developing countries of Eastern Europe like Romania, Hungary, Russia and Turkey, Xiaomi could put more focus on promoting the mid-tier Redmi phones for bigger volume. Similarly, the experience learnt from its AI-IOT business and upcoming Industry 4.0 in China can be act as a blueprint for its future expansion into Europe.

With its active investment in various suppliers in China, semiconductor companies such as VeriSilicon (Horwitz, J.; July 2019)[40] is already part of Xiaomi’s portfolio. Under the ongoing China and US trade dispute, especially in the area of semiconductor technologies, there will definitely be further investment opportunities for Xiaomi due to the expansion of China’s home grown semiconductor industry. According to a recent BCG report (Varas, A.; Varadarajan, R.; Mar 2020) [41], the trade friction could overturn US semiconductor industries and making a significant shift of incremental investment to

China in Billions of R&D dollars. With its investment savviness, semiconductor industries could be a vertical extension of Xiaomi’s business going forward.

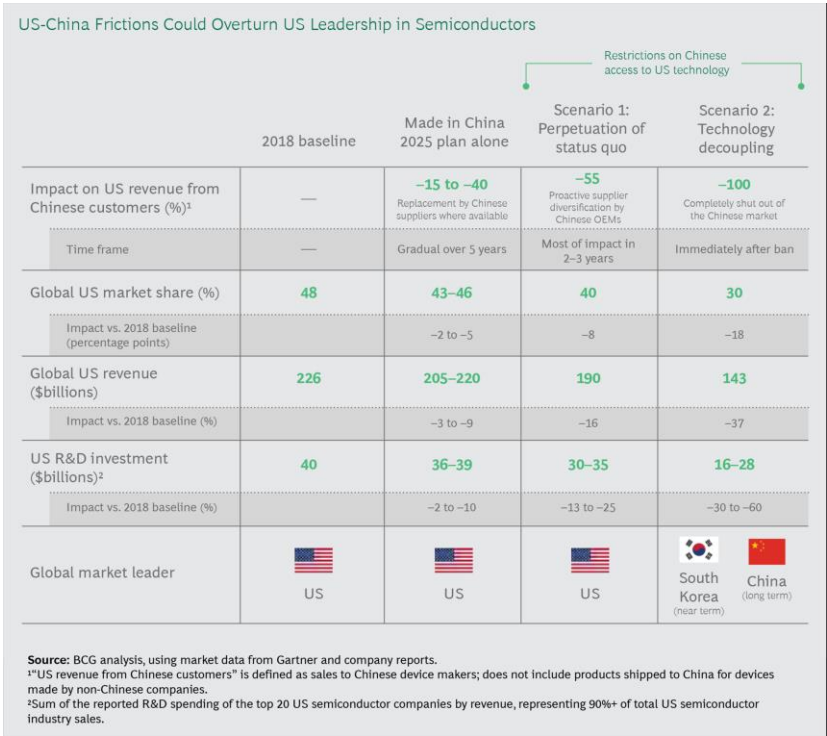


Fig 35 Changes in US Semiconductor Industry Spending under Different Scenerio[55]

According to Gartner (Fig 36), market opportunities for 5G, Edge AI and Edge Analytics, which are area covered by Xiaomi’s 5G-AI-IOT strategy, will plateau in 2 to 5 years. This means Xiaomi will be in a good position to increase its sales significantly by capitalizing on its investment strategy.

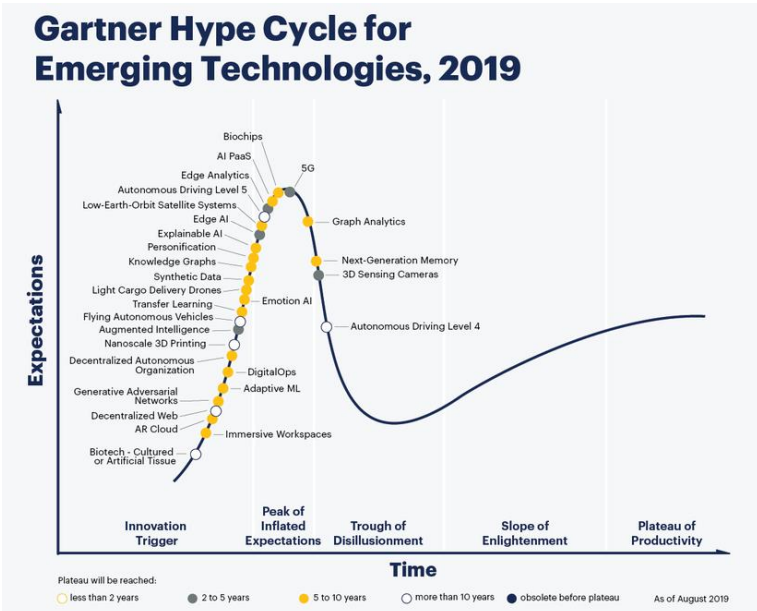


Fig 36 Gartner Hype Cycle for Emerging Technologies Prediction 2019 [54]

Finally, the requirement of social distancing due to Covid-19 has created bigger global opportunities for technology companies like Xiaomi which can address the work from home market through its smartphone, smart home and online services offerings in the foreseeable future.

D) Major Threat for Xiaomi : China and US Trade and Other Political Relationships

The political uncertainty is definitely impacting Xiaomi expansion strategies globally, ranging from supply of components e.g. Chipset from Qualcomm, to how national sentiment will play on its sales and market channels. Recently, in order to protect its market leading position in India, Xiaomi has to ensure its Indian customers the product is made in India (Heart). By establishing a strong fans based relationship with customers and serving them well in multi facets such as banking, credit, home entertainment and daily life through smart home and IoT, Xiaomi is building an extra level of trust with its customer and leverage this heart to heart relationship to fight off any extrinsic attack such as media allegation and defamation of its products globally. (Xiaomi Blog May 2020)[38]

In the past few years, Xiaomi already established or partnered with local manufacturing companies to address restrictions on import, unfavorable tariff and other local government regulation such as local content requirements in both India and Indonesia. As Jeffrey Sach said “a movement toward “manufacturing nationalism” was already underway as countries compete in new sectors of the economy” [39] This will no doubt create more politically driven uncertainties as Xiaomi try to expand beyond its current footprint which need both strategic insight (Hand) and excellent execution (Hand) to navigate through the trouble waters.

On the other hand, Xiaomi has also been actively engaging local key opinion leaders to promote its products and reduce the “foreign” image seen by its customer in overseas countries. For instance, in Indonesia, Xiaomi has engaged Atta Halilintar, a key opinion leaders in Indonesia to achieve further customer success by winning the heart of local customers and fans.

E) Understand the Need to Grow Continuously

Xiaomi has learnt through its 2015-16 business decline the importance of continuous growth to avoid similar demises as experienced by Nokia and Blackberry which were too single product focused, on phones and smartphone respectively. By choosing to continuously diversifying its business when new opportunities arise, from User interface to Smartphone to AI-IoT and then expand to platform sales and banking, Xiaomi has incrementally increased its engagement with its customers and built deeper relationship and loyalty with them, winning their hearts and making it more difficult for customers to

switch to other suppliers. This is one successful approach that Apple has also taken to continuously increasing its profit per customer.

By growing its business, Xiaomi can regularly offer its employees more stock options as an award for their hard work which will in turn create more motivation for employees to innovate and perform for the company.

5) Conclusion and Key Lessons for Future Leaders' Consideration

The achievement by Xiaomi, as shown by its growing global presence, in the past decade is no easy task. It is a good example of how management utilized their skills and applied them under a 3-H approach in conjunction with their vision and luck. As an outstanding 3-H leader, Lei Jun's leadership is an example of how passion, persistence, empathy towards others (Heart factors) assist the ability to execute (Hands factor) especially in the period of crisis (e.g. take over supply chain) and how life experience prior to starting Xiaomi can shape his vision (Head factors).

By balancing all 3 areas of 3-H successfully, Lei Jun was able to execute his business vision gracefully, resulting in the meteoric success of Xiaomi within 10 years. Instead of going for giant leaps and acquisition, Lei Jun also acted responsibly for the company and its stakeholders by taking gradual but strategically important expansion into surrounding businesses made available by new technologies through his knowledge and selection of technological implementation. This is reinforced by their latest announcement to get into smart manufacturing through Industry 4.0 which is a technological extension of their existing AI-IoT strategy undertaken by Xiaomi.

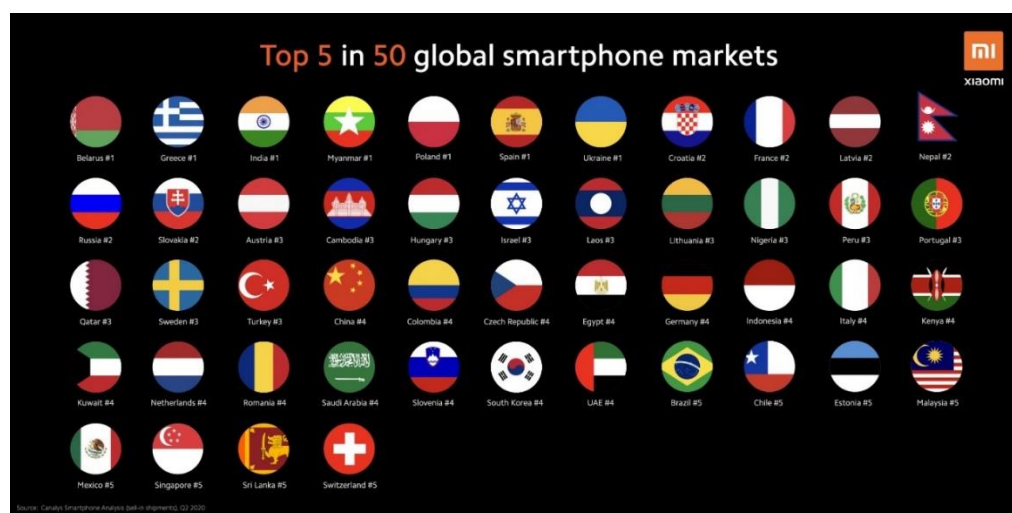


Fig 37 List of Xiaomi's Global Market – Xiaomi Website 2020[19]

Although the road ahead for Xiaomi as a global company will remain uncertain, the cautious and gradual expansion approach taken by Lei Jun and management team in the last decade should steer Xiaomi through the shallow water ahead with their “heart heavy” strategies that emphasize their long term relationship with all stakeholders.

One drawback of Lei Jun’s overwhelming influence and attachment with Xiaomi from his 3-H management style is how to implement his succession plan. Unlike Jack Ma of Alibaba, Lei Jun is still taking an active and hands on role in the operation of Xiaomi which may discourage up and coming individuals from joining Xiaomi. This was the approach taken by long time Cisco CEO John Chambers which saw regular departures of top executives from Cisco, who their own aspiration to become CEOs. Hence, Xiaomi needs to look at this carefully to avoid repeating the same mistakes while maintaining its 3-H culture.



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