

Hong Kong businesses need to evolve, or risk being left behind

Businesses in Hong Kong should take action in four crucial areas to transform their digital and data capabilities and prepare themselves for the challenges ahead.

by Arthur Shek and Grace Lam



The COVID-19 pandemic has changed the way companies across Asia operate, notably by enabling their employees to work remotely. In Hong Kong, where the culture of “presenteeism” has traditionally run deep, top executives have realized that working from home does not necessarily mean a decline in productivity. That’s a good first step in acknowledging new realities, but Hong Kong companies can do much more to update their data and digital capabilities to take advantage of new opportunities.

Indeed, only 28 percent of local Hong Kong companies surveyed in 2018 had meaningful plans to adopt digital technologies. Much more needs to be done, including reorganizing to empower talent through agile principles and innovation, and positioning portfolios to capture growth in the next 10 to 15 years.

Many businesses in Hong Kong have been sitting on profitable “cash cows” over the past few decades, with seemingly little threat to their dominant positions. However, compared to the past, when access to strategic assets, relationships, capital, and even regulatory outlook was often driver of success, the hallmarks of success will look very different for the agile, efficient, and scalable companies of the 2020s.

The following lays out actions that Hong Kong businesses can take in four crucial areas to transform their digital and data capabilities for the challenges ahead. A combination of the following, regardless of existing industries or business models, can be the foundation for much-needed renewal and evolution.

Developing business agility

In today’s increasingly dynamic business environment, agility is a key capability for companies to develop. Traditional businesses sooner or later need to embrace an agile way of working, typified by technology-first companies such as Google and Alibaba, to ensure their products and services are relevant and attractive to the market. This means companies can aspire to become both stable (resilient, reliable, and efficient) and dynamic (fast, nimble, and adaptive).

Successful agile transformations in the past few years have typically started with the establishment of a “digital factory” where rules are more flexible and small, empowered teams work with methodologies such as agile product development and design thinking. With recent research showing that 70 percent of Hong Kong corporates are having difficulty finding data-savvy talent, this is not an easy task. New types of talent, including software developers, UX designers, and data scientists, are necessary to become the next generation of digital-native leaders.

Building a data-driven organization

With all the talk about artificial intelligence and machine learning, companies need to understand that even with more fundamental (and proven) data analysis techniques, combined with the treasure trove of data often buried and ignored within a traditional company, significant and tangible value can be realized in a matter of months.

One way to do this is by developing a suite of real-time management dashboards to enhance the speed and quality of decision making in an organization. Imagine an executive team of a retailer that is in a management meeting, able to understand real-time sales, productivity, inventory, supplier, and even weather data down to the exact store or staff level. Instead of spending hours in reporting meetings reviewing lagging data at the end of each month, lively and significantly more productive discussions that have an impact on strategy and scenario planning can be had.

Renewing your portfolio for the future

For established companies that have anchored their businesses in more traditional sectors, such as real estate or financial services, leaders should think hard about the next wave of growth engines, and how to best capitalize on upcoming macro and technology trends—for example, how to further leverage the inevitable trend of digital and analytics.

This could mean gradually adjusting the portfolio mix. Research has shown that around 60 percent of Hong Kong businesses have diversified their businesses over the past two years—the question is whether they are investing in the right industries (ones that are strategically positioned to generate the next wave of growth), and whether this diversification needs to accelerate further.

This matters a lot—McKinsey’s research has shown that in a large set of sample companies, by far the most important factor in determining economic profit for a given company and time period is the industry in which it operates—“where to play”.

Systematically pursuing M&A is a strategy that creates economic value, and the aftermath of the COVID-19 pandemic could present an attractive window to start a set of strategic moves, especially as industry structures and market positions undergo dislocation. For example, we’ve seen the few companies which have made systematic investments and acquisitions in technology and digital applications start to reap the benefits in this new normal.

Another way to renew your portfolio is through corporate venture investing. This allows companies to secure a head start in next-generation, innovative

technologies through investing in emerging start-ups. This type of “external R&D” is often an effective way to stimulate innovative thinking in an otherwise slow-moving organization.

Owning an ecosystem

Ecosystem building has been a top-of-mind topic for CEOs globally. Companies such as Apple and Tencent have led the way with new-generation business models that include sticky customers, effective cross-selling, access to valuable data, and ultimately high margins through their respective ecosystems.

While very few companies will be able to build ecosystems of that scale, many companies in Hong Kong should think about how those principles can be applied to their businesses. Some may be surprised by how their traffic, users, customers, data, brand, or other assets could generate additional value and synergies. And just maybe, our conglomerates in Hong Kong could inspire the market to think more “ecosystem premium” than “conglomerate discount”?

Applying a combination of the above levers could enable Hong Kong businesses to reposition themselves for decades to come. As a result of the coronavirus pandemic, the “next normal” will accelerate many trends that existed before the crisis erupted, most relevant of which is the irreversible move toward digital, data, and business agility. It also highlights the burning urgency to transform: the business landscape of the 2020s will clearly look different from what we have envisaged just a year ago, and future winners will also look very different from before. Hong Kong businesses must evolve to stand the test of time.

Arthur Shek is a partner in McKinsey’s Hong Kong office, where **Grace Lam** is a consultant.