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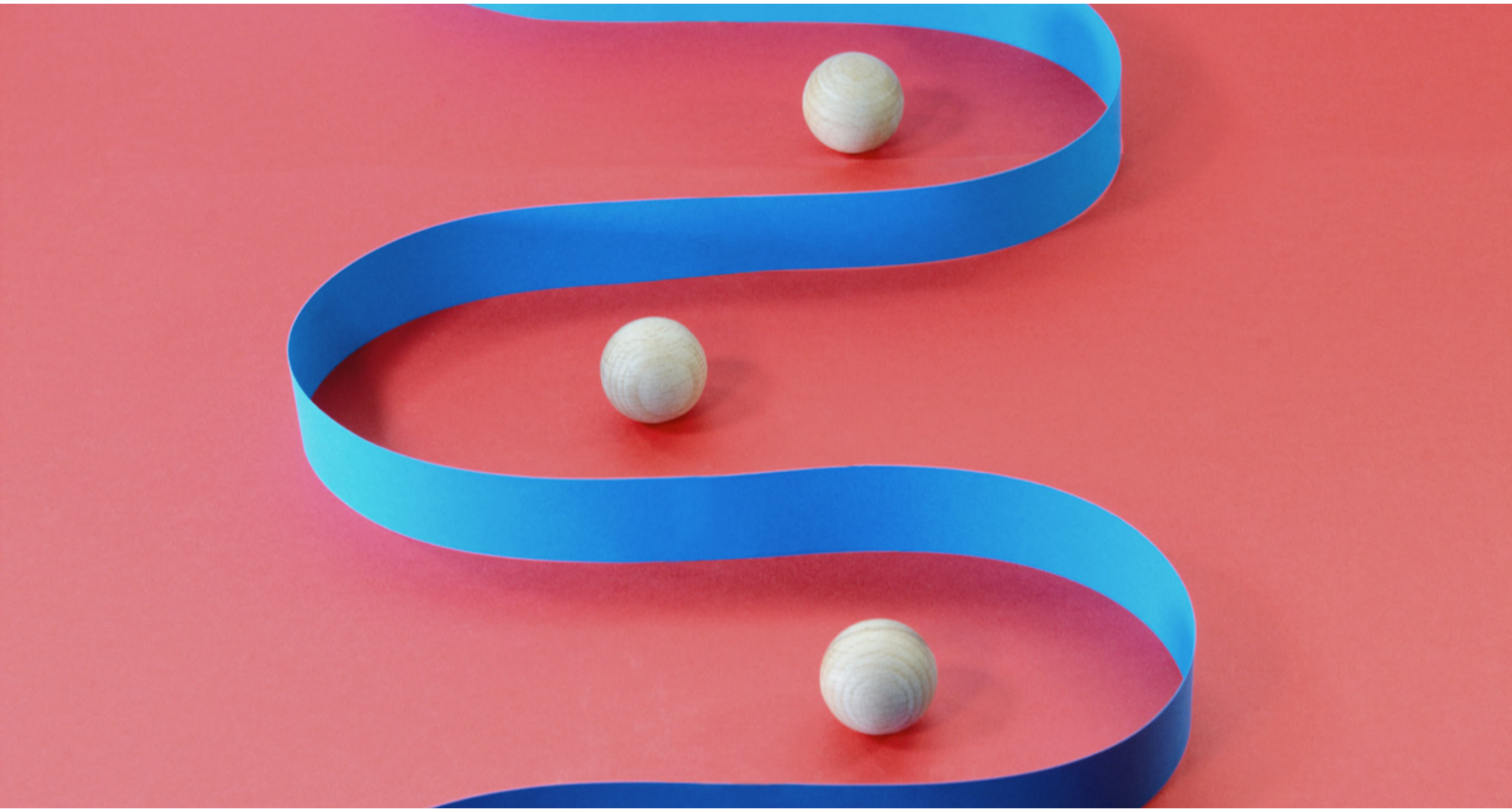
Building a start-up innovation ecosystem: A conversation with Jardine Matheson's Anne O'Riordan and Michael Poon

Two executives share how a three-pronged approach to partnering with start-ups has spelled success for an almost 200-year-old Hong Kong multinational.



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In this episode of *The Venture*, we share a conversation with Anne O'Riordan and Michael Poon, senior executives with Jardine Matheson, a conglomerate with interests in various sectors throughout Asia. O'Riordan and Poon discuss with McKinsey's Andrew Roth how their organization has managed relationships with start-ups to benefit its legacy businesses, invest in new markets, and form successful joint ventures. At the close of the interview, McKinsey's Violet Chung offers her insights. An edited transcript of the podcast follows.

Podcast transcript

Andrew Roth: From Leap by McKinsey, our business-building practice, I'm Andrew Roth, and welcome to *The Venture*, a series featuring conversations with legendary venture builders in Asia on how to design, launch, and scale new businesses. In each episode, we cut through the noise to bring practical advice on how leaders can build successful businesses from scratch.

For our fourth episode of *The Venture*, I'm excited to welcome Anne O'Riordan and Michael Poon from Jardine Matheson, a 188-year-old multinational conglomerate based in Hong Kong. Jardines, as it is also known, operates in the property, retail, automotive, hospitality, construction, and energy sectors throughout Asia, and its subsidiaries include Hongkong Land, Mandarin Oriental, Dairy Farm, and Astra, to name a few.

Anne has been group director of digital since 2019, leading and developing the group's digital and innovation strategy and agenda. Michael is CEO of Innovate Jardines, an initiative within the larger organization designed to promote entrepreneurship across all business units.

Welcome, both.

Anne O'Riordan: Thanks, Andrew.

Michael Poon: Hi, Andrew.

Andrew Roth: Jardine Matheson is a huge organization that's been around since 1832 and is active across many verticals, with nearly 500,000 employees. Large organizations working with start-ups often face the challenge of figuring out their role in order to provide maximum impact from their unique advantages, be it the supply chain, partners, customers, data, and so on. How does Jardines go about partnering with start-ups? Can you share a few examples?

Anne O'Riordan: We approach start-ups in three ways: as a partner or vendor/supplier, as an opportunity to create a joint venture, or as a potential investment.

A good example of a partner relationship is an R&D partnership between one of our companies, Gammon Construction, and a Hong Kong start-up called Ampd Energy. They launched a product together in December 2019, but the relationship began when Ampd was producing batteries for hospitals. Gammon was trying to reduce its carbon footprint and asked Ampd to take the technology it had developed for hospitals and apply it to construction.

They worked together in an R&D capability, with Ampd visiting Gammon construction sites to see what was needed. The two of them developed a battery storage system powerful enough to provide the primary source of energy on a construction site. It's basically silent, emits zero fumes, and produces significantly less CO_2. It also serves as an on-site productivity hub that's 4G-enabled with real-time updates and control.

So we're moving from diesel-based, noisy power generation to a capability that's electricity as a service. We've put it into a number of our sites here in Hong Kong and found it to be very viable. It's much quieter, far more fuel efficient, and a sustainable solution for our construction sites.

Andrew Roth: You just mentioned how you were able to bring it onto some of your sites very quickly, which I imagine was a large value-add.

Anne O'Riordan: Yes, it was. And now we're helping Ampd with its go-to-market strategy to sell the product throughout Southeast Asia. So I think it's a good example of innovation, hard work, and dedication. They brought an extra set of skills to the table, while we had a depth of knowledge on construction-site requirements. And the beauty of those two things working together was good for us and great for the start-up.

Andrew Roth: I love that. You didn't have to think of some complex way to integrate or to learn from them. It was really figuring out how to help each other and bringing their value proposition to your businesses to get a proof point.

Anne O'Riordan: Absolutely. In terms of an example on joint ventures, Michael can talk about one that he personally led.

Michael Poon: There's a fintech company in Hong Kong called WeLab, which offers mobile-phone-based consumer-banking services. They've been very successful in Hong Kong and mainland China and have attracted tens of millions of users over the past five years.

They formed a joint venture with Astra International, an Indonesian automotive conglomerate and one of our subsidiaries. It was a win-win scenario where both sides brought complementary assets to the table. WeLab brought technology, the ability to run a start-up, and a mobile-based lending business. Astra brought local-market knowledge, offline presence, existing financial-services customers, and the relationships and knowledge of the regulatory market in Indonesia. The joint venture launched in September 2018 and to date has more than 1.5 million customers.

Andrew Roth: That seems very quick, since it's more complex than bringing them into your businesses, like on Anne's first point. So it seems surprisingly fast.

Michael Poon: Yes. And this is where the value of working with a traditional business comes into play. If a start-up were to create a similar product, they would have to market their name, market the product, and try to educate customers about the company. Because Astra is one of the largest companies in Indonesia, most people already know and trust the brand.

Andrew Roth: You mentioned the third piece around investment. Anne, anything you can share there?

Anne O'Riordan: The third model we have been employing is investments in a start-up or parent company. Gojek, an Indonesian super app providing more than 20 services, is a really good example. Back in February 2018, Astra invested about $150 million in Gojek's Series E fundraising round, and we did a follow-up investment in March 2019.

Astra owns a large portion of the offline transportation market in Indonesia. But with the rise of ride sharing and online transportation services that Gojek pioneered in that market, it was an opportunity for Astra to learn. As the two companies got to know each other, they realized there was an opportunity to bring the offline and online together.

Astra and Gojek launched a company called GoFleet, an online automotive-rental marketplace. Gojek provides the customer base, online platform, and services, while Astra provides the cars, trucks, maintenance, and insurance services. So for Astra, it's an opportunity to participate in that growing new economy with capabilities they've been honing for years.

It's a great opportunity for Astra to grow as the economy evolves in this more digital space, but it's an equally great opportunity for Gojek to access services they can easily bundle while they remain focused on their customers. So it's a really nice partnership between the two, where you're melding the online and offline worlds.

Andrew Roth: One thing I'm hearing in common across all three of these ways to participate in the start-up ecosystem is speed. In this last example with Gojek, it's not like you just cut a check. You quickly launched something new with them, which is interesting.

Anne O'Riordan: And it all goes back to the basic innovation methodology of test and learn, right? Let's look at the situation; let's look at what you're trying to achieve, what we're trying to achieve. What can we bring to the party? What can you bring to the party? That's the essence of good partnership building.

There are many formats these partnerships can take. As I said, they can be R&D partnerships, they can be joint ventures, or they can be investments. But, ultimately, we have to remain focused on bringing a different value proposition to the emerging Asian consumers.

Andrew Roth: Michael, on that point about integrating start-ups and the core business, what are some of the guiding principles that you've established between your portfolio businesses and these partnerships across the three types we just discussed?

Michael Poon: There are probably two really key, fundamental principles for us. The first one is that any partnership needs to create value for our customer. We can't ever lose sight of the fact that everything that we do is for the betterment of our customers, whether it's improved product, improved service, or faster service.

The second principle is to always ask ourselves, "Can we do this on our own, or do we need outside help?" And if we feel we lack the capabilities, experience, or ability to get it done fast enough, that's when we look to a partnership.

Given how large we are, we get a lot of requests, both externally and internally. So we try to maintain a certain level of discipline and focus.

Andrew Roth: I'd like to switch gears and discuss capability building, since you've created what sounds like a multipronged strategy to maximize impact and integrate with the start-up ecosystem. What are some of the common capabilities across your core businesses and adjacent businesses that you're building? What are some of the capabilities that require more investment?

Anne O'Riordan: Bottom line, to drive a more innovative culture, you need to enable the people and capabilities in the organization. And it starts on the outside with who we are trying to serve and what we are trying to serve them with.

We have B2B companies and B2C companies, so we're constantly asking ourselves how to service our consumers and customers in a different manner. There's so much happening in both these spaces, so there's a constant evolution of demand from our customers and in technological progress.

With B2C, that could include delivery or loyalty, while in the B2B world, it entails moving away from the traditional ways of construction and engineering into the Internet of Things space or even the BIM space for design.

Andrew Roth: For those in the audience who might not know, what is BIM?

Anne O'Riordan: BIM is building information modeling. It's basically a process of generating and managing building data during the design and construction process. It's a new way of using technology to do 3-D modeling and project management, maintain better control over the construction process controls, and allow cross-disciplinary collaboration with your vendors. It increases project-management capabilities, improves decision support, and derisks the execution of a construction-project environment from design to execution.

Andrew Roth: You'd mentioned that there's sort of a connective learning going on, especially during the past several months of everyone working remotely. When it comes to capabilities, are you seeing any trends? Are people more curious about design, about data science?

Anne O'Riordan: We see it evolving week by week because of the data we're getting from these platforms as people are downloading their interests. And while people may begin by trying to understand data or artificial intelligence (AI), they quickly realize they actually need to understand customer journeys and design thinking instead. Because, fundamentally, the data are kind of the output from understanding your customer a little bit better.

So you can see a kind of evolutionary pattern of self-learning with respect to all of the hype that's out there in the market, but, really, how do you make it practical in your own organizations? Interestingly, we also found a lot of people searching about high-performing teams and how to get the best out of their own people. So there's a real desire to upskill and help their teams to be the best they can possibly be.

Andrew Roth: In the past ten years, there's been a lot of talk about digital transformation, innovation, venture building, accelerators, incubators, and so on. Michael, people in your position often have to figure out how to transform the core business, how to integrate with the start-up ecosystem, and how to build and launch unicorns. It's a lot to juggle. What's your perspective? How do you keep everything in balance?

Michael Poon: The reality is, we have to keep the pedal on the floor for all three in parallel, since they all serve somewhat different purposes.

For instance, innovation within the core business of working with suppliers and vendors helps us internally in terms of automating processes, budget, understanding customers, and improving our analytics, which drives efficiency and some cost savings as well.

Joint ventures tend to be more on the customer-facing side, where we're finding partners, like WeLab, whose experience and capabilities allow us to be closer to customers in the digital world and serve them in the way that they want to be served.

When it comes to investments, we do this in parallel with the first two to maintain the proper balance in our portfolio moving forward. It's important that, five or ten years from now, we are in companies that remain relevant for our customers.

Anne O'Riordan: We do partnerships with start-ups, and we do R&D partnerships with start-ups. We do joint ventures, and we invest. So there are many ways of looking at it. And yes, we have also helped our own companies to grow new capabilities within their organizations.

United Tractors is a good example of that. They got some seed funding from the organization to innovate around their mining technology. But after that, they built themselves an amazing team of more than 100 people focused on digitizing their customer portals, improving their vendor systems, and using AI to help them identify better sales leads.

They really built out a whole capability for themselves on the back of a small internal investment and then built an organization that's really fun to work with. They're very high energy, very different. But over the past three years, they've been able to make a really significant impact on the efficiency and the effectiveness of their core operations.

So it's a really good story, and there are a couple more of those across the organization, where a little bit of seed funding, very close proximity to the business, and the right leadership allowed them to create a culture of innovation within their own organizations.

Andrew Roth: I think that's a great point to highlight, because the difference between the growth of a start-up versus an incubated start-up within an incumbent organization is that 80 percent or more of start-ups fail, right? For an incumbent that launches a start-up with some seed funding, growth doesn't mean massive valuations. It might mean what you just described, which is learning from that seed funding impacting the core business.

Anne O'Riordan: There are lots of philosophies on how you change an organization. And, honestly, I think any of them can work. If you're working with the right start-up and it has enough impact on the organization, you certainly can make a difference that way. If you've got the right business case, the right leadership, the right culture, and the right determination, a small investment can make a change in the organization as well.

There's a good book out this year called *Loonshots*, which talks about how to make these kinds of changes happen, but it really comes down to the fact that you need two things. You need an environment that has the right level of "dynamic equilibrium" and is ready to make that change. Then you've got something that has enough critical mass to make an impact.

So those tensions—whether it's a start-up or a traditional organization with good leadership that wants to make change happen by creating the right culture and capabilities and doing that at scale—are really the true ingredients for success.

Andrew Roth: Let's key in on that a little bit more—the readiness of the organization to create the culture and momentum, to do innovation, to scale innovation, to try to experiment. Anne, what are some of the other lessons learned that can be fed back into the core businesses?

Anne O'Riordan: I think leadership is hugely important. First, you need a vision and a passion for how you want to serve your customers differently or better or to be more relevant to them going forward. And then you need the courage to actually lead that change, to genuinely lead it.

One of our leaders spoke to us yesterday, and, in his view, there are three things preventing innovative change in organizations. One was hierarchy, two was bureaucracy, and three was not having the permission to experiment, or not creating an environment where it's OK to experiment.

That's what you face in a lot of traditional organizations. And as a leader, you have to challenge all of those things. You have to make it acceptable for great ideas to come from multiple facets of the organization, give them the permission to percolate through the organization, and then foster environments in which they can thrive. That involves changing the culture. It involves changing the capability. And, sometimes, it involves changing the key performance indicators and how you allocate capital.

Andrew Roth: That permission to experiment sounds directly related to how you're trying to change the culture across all the portfolio companies. And this, by the way, is one of the toughest subjects to wrap your arms around—culture. Because it's tough to measure. It's tough to sort out. Anything else that's guiding this culture of innovation?

Anne O'Riordan: I do think it comes down to demonstrating how you want people to behave and giving them the permission to do so. We've even had a lot of success with physically altering office space, just changing the environment in which people work, to give them more flexibility. You also need to promote diverse teams, whether they are culturally diverse, gender diverse, or diverse from an age perspective.

Andrew Roth: I agree on environment, and your point that it's something that needs to be role-modeled from the leadership down. And factors like permission to experiment, which is another way of saying permission to fail, is a topic large organizations don't like to talk about.

I've really enjoyed this conversation. Some of the key themes and principles I've heard were focused on the customer, not just on optimizing or changing the technology. And there seems to be a theme around speed when it comes to the ecosystem building that we talked about in the beginning, which is not something most people would associate with larger organizations.

And in terms of capabilities, we're hearing a theme echoed in other discussions—one about building academies on specific capabilities across different parts of the organization, which leads to a change in culture.

It's that last part around permission to experiment that I think we'll end on. And people listening should really ask themselves how they are enabling and allowing the permission to experiment in their organizations. Anne and Michael, thanks for joining us. I appreciate the conversation.

Anne O'Riordan: Thank you.

Michael Poon: Thank you. Great speaking with you.

Andrew Roth: Now it's time for a segment where we invite founders and experts from McKinsey to provide more context and draw practical insights. I'm joined by Violet Chung, a partner in McKinsey's Hong Kong office.

Violet, we spent a lot of time with Anne and Michael talking about their three approaches with the start-up ecosystem. We spoke about how they provide start-ups with distribution; we spoke about joint ventures and their investment with Gojek. What's your experience been? What are you seeing in this space? How are incumbents starting to engage start-ups in a more meaningful way?

Violet Chung: I work mostly with financial institutions, so I'll speak more from that angle. For the past two to three years, we've seen a gradual trend of traditional financial institutions investing significantly in fintech. They're also looking for either joint ventures or joint partnerships with fintechs to help them with particular areas where they lack expertise.

This can come in many forms. They either start a fund that invests specifically in these fintech firms or are quite tactical in terms of what specific capabilities they want to leapfrog on. For example, it could be cloud; core banking; finance, banking, and insurance analytics capability; or lending capability.

For example, I've seen a lot of fintech firms in China with either a specific payment capability or robo-advisory capability working with some of the large incumbents. And I think the mindsets of traditional financial institutions are evolving away from trying to do everything on their own to one that recognizes it's sometimes better to cooperate with or invest in fintechs to achieve their goals.

Andrew Roth: One example we spoke about was WeLab coming into Indonesia through a joint venture with Astra, so then Astra can enter this fintech space around loans. Can you cite any examples of similar joint ventures, and would you say you're seeing more joint ventures or larger funds coming from incumbents?

Violet Chung: Typically, we see two scenarios where a joint venture makes sense. For example, we've seen quite a few joint ventures when the Alibabas and Ping Ans of the world launch fintech subsidiaries overseas. And these new subsidiaries are looking for partnerships with incumbents in new markets they may not understand, but they have the capabilities and learnings from their home markets.

The second thing is related to the first scenario, and that's when large incumbents try to go overseas for licensing reasons. We see quite a bit of that in China these days as asset-management and wealth-management markets open up. So we see players such as Vanguard and BlackRock trying to partner with some of the fintech firms here, both for licensing and disruption capabilities.

And lastly, relationships with regulators are pretty important as well. So most players are doing investments, while select players are doing joint ventures.

Andrew Roth: So the motivation for joint ventures between the incumbent and the start-up goes both ways. The start-up wants to enter a new market, so they form a joint venture with the incumbent to help get local knowledge and know-how. And if the incumbent needs to enter a new market, they may form a joint venture with a start-up in that market for licensing, relationships with regulators, and know-how. And, in general, you're seeing an increase in overall investment activity. Is that right?

Violet Chung: Yes, that's correct.

Andrew Roth: Later in the conversation with Anne and Michael, we discussed capabilities and culture, so I wanted to get some of your reactions to that. Also, what sort of trends are you seeing, and where are the gaps? Is it in design thinking? Is it in analytics? Is it around recruiting and people management?

Violet Chung: There are a few things we've seen over time. One is when doing start-ups or innovation within a large incumbent, you need to sandbox it. And that's important because innovation actually requires a very different talent mix in the sandbox.

The second thing is the need for a very different kind of governance. Quite often, innovation fails in a large corporate setting because you're expected to run before you even know how to crawl. Or you're required to quickly demonstrate a proven minimum viable product and be able to iterate on top of that, which just isn't possible. So you need a very different type of governance and measure of success.

The third thing, which often gets missed, is that you actually need to stage-gate the funding, and this goes hand in hand with the previous point. Stage-gating is important because you have two very extreme scenarios when large corporates try to innovate. They may try to invest too much on something that's not viable, and they keep on testing and hoping something will click. Or they may try to prove they can be profitable too early. So you need to stage-gate the funding according to the right milestone.

Andrew Roth: When it comes to innovation and corporate venture-building capabilities, there's lots of talk around design thinking and analytics, but you're keying in on capital management. And I've also seen stage-gating work, or not work, where you just let the initiative run too long and you're just throwing money at it or you're killing it off too soon. That's a big point.

Violet Chung: Everyone says, "Customer first," but how can you be extremely agile and iterate your understanding, your journey, and your proposition so that it actually becomes much closer to what the customer wants? It's actually a very difficult task because of traditional corporate culture.

So you need to break through the walls of functional departments, because traditional financial institutions are extremely siloed. And disrupting these processes and the DNA of these organizations is typically the hardest thing to accomplish. But that's also the most important breakthrough in making these innovations work.

I would say the first component is having a common vision and breaking things down to biweekly, weekly, and daily tasks. The second thing is celebrating small successes along the way. Because in the early days of a start-up, it's so important to have multiple successes and milestones that one can celebrate along the way. And that actually builds a culture and foundation for the team.

Andrew Roth: I agree with that. I've always said great culture comes from winning. It doesn't come from the foosball table and the free craft beer on Fridays, right?

Violet Chung: Exactly. And I think, too often, many large companies trying to innovate plan too far ahead. They ask for a three-year plan and want you to be exactly correct on all the milestones. I think the best approach is creating the right balance between the short and the long term. You need to make sure people are clear on the objectives and that you have clear, achievable goals.

Andrew Roth: I agree about culture being measured by shorter-term wins or goals, and not just the vision statement. Thank you so much, Violet. I appreciate the comments.

You have been listening to *The Venture* with me, Andrew Roth. If you like what you've heard, subscribe to our show on Apple Podcasts or Spotify, or wherever you listen.

Andrew Roth is an associate partner in McKinsey's Singapore office, and **Violet Chung** is a partner in the Hong Kong office. **Anne O'Riordan i**s the group director of digital for Jardine Matheson, and **Michael Poon i**s the CEO of Innovate Jardines.