A Critical Analysis of Tencent's Success: Factors and Strategies That Contributed to Its Achievements

Haoran Hong [1,*,†], Yiwen Xiao [2,†]

[1] Shenzhen College of International Education, Shenzhen, China

[2] Hangzhou Dipont School of Arts and Science, Hangzhou, China

* Corresponding Author Email: S20254.Hong@stu.scie.com.cn

† These authors contributed equally.

Abstract. Tencent is one of the largest Internet integrated service providers in China. This paper chooses Tencent as the main research background. And a simple introduction to Tencent's position in the market, how to maintain profit and so on are put forward. According to the background, this article mainly studies the management problems of Tencent. It includes three parts: employee incentives, management mechanisms and market decisions. This paper describes three different parts by literature review and searching for materials. And in the end according to the practice of Tencent company this research puts forward some suggestions to improve the current situation. Suggestions include that Tencent can plan future careers for employees who have left the company, improve multi-faceted management mechanisms and break away from conservative strategies to develop new technology and track with large volume. Researchers may also benefit from Tencent's management style, employee development, and flexible work, which demonstrates Tencent's great management.

Keywords: Tencent, management, motivation, decision making.

1. Introduction

Tencent, founded in November 1998, is currently one of the largest Internet integrated service providers in China. Tencent QQ is one of the well-known software. Although Internet users have long been mature, and under the slow development of China's economic market, Tencent can still maintain its profitability for several consecutive quarters. In November 2012, the market value of Tencent reached US $63 billion, which is only inferior to Google and Amazon in the United States. [1]. According to China Voice Cooperation Game Work Committee data, in 2021, China's game market sales revenue was 296.5 billion yuan, while Tencent's annual report of that year, Tencent's domestic game revenue was 128.8 billion yuan, Tencent's market share was 43%. In order to drive employees to better achieve the company's strategic goals, Tencent has established a comprehensive recognition incentive system covering both material and spiritual aspects. At the material incentive level, the compensation system is the core part, including annual pay raise, performance bonus, special bonus and share honorarium four parts, and the settlement plan provides employees with 500,000 yuan housing loan to help employees ease the pressure of down payment. Tencent also attaches importance to the spiritual motivation of employees. Tencent’s spiritual incentives include both honor recognition and promotion [2].

In the context of the Internet era, digital-technology companies are facing a rapidly changing market and a harshly competitive environment worldwide. Therefore, in such a complex environment, how to clear positioning, correct direction, formulate scientific and flexible strategies to take leadership has become inevitably important. As one of the most successful internet companies, Tencent has adopted a series of internal management measures and has made outstanding business decisions. Understanding how Tencent has achieved its success can provide insights into the strategies and management practices that have contributed to its growth and profitability. This knowledge can be useful for other companies that wish to prosper, particularly in the technology industry. Besides, studying Tencent can provide intuitive background information to those who are interested in the way modern digital companies work, from how their staff work internally to how some of their key products were designed. To be specific, using multiple facts and data from different dimension of a company, the review respectively discusses three aspects: measures that keep employees of Tencent motivated, information on Tencent's internal management system, and some vital decision making that contribute to Tencent's success, and has pointed out its limitations and provide constructive suggestions accordingly. The paper used following two methods in research:

Literature research is a methodical and systematic approach to identifying, analyzing, and synthesizing existing research and publications on a particular topic or research question. This review has studied previous related paper, company official website and authoritative reports from professional statistic firms, in order to figure out factors that lead to Tencent's success and provide detailed evidence for it.

A case study is a research method that involves an in-depth examination and analysis of a specific phenomenon, event, organization, or individual. Case studies typically involve collecting and analyzing a range of data, such as interviews, observations, documents, and other forms of evidence. This review refers to two classical cases in the field of social-communication software and mobile game separately: WeChat and Glory of kings. This is because as two of the phenomenal digital products of Tencent, they will greatly help understand Tencent's core ideas on marketing and strategy decisions.

2. Tencent's Management Superiority

Tencent as one of the largest companies in the world, is famous for its highly efficient management system and it covers aspects from human resource to finance. This essay here, will mainly analyze Tencent's team management and collaboration management.

Tencent's team management is based on a system that, with staff divided into different small teams [3], has an accurate division of work, a clear process of production and brilliant leaders. Tencent's internal team is divided by function, mainly by product planning team, R&D team, and operation team. To be specific, the idea of a product first comes from the planning team, then R&D team is responsible for developing the product. Finally, operations teams will advertize and sell the product. And of course, all of the teams are able to share their information during the process to guarantee efficiency.

As for the collaboration management, the way of control between early companies was mainly financial control to establish clear relationships financially. Financial control was stable and based on theory of property rights. However, as the rapid development of internet and coming of digital economy era, more and more firms begin to use the information control, which is to place itself between the marketers and consumers using all the data gained by the company [4]. With the help of QQ, WeChat and their derivatives, Tencent has gained enormous data and information which would be used to know customer's preference and sellers' circumstances hence helping them to match each other's needs.

3. Tencent's Motivation Strategies

Employees are the key link to enterprise development. If the needs of employees are not met, their degree of work completion and work efficiency will be reduced. So businesses have to find ways to motivate people if they are not working to their full potential in the company. So it's very important for business, In the short term, a lack of motivation may lead to reduced effort and lack of commitment.

If employees are watched closely, fear of wage cuts or redundancy may force them to maintain their effort even though they are not motivated. This is negative motivation. In the long term, a lack of motivation may result in high levels of absenteeism, industrial disputes, and falling productivity and profit for a business. It is argued that well-motivated employees will be productive, which should lead to greater efficiency and profits [5]. Tencent has some measures to motivate its employees. The first is to give employees stock in the company. Like most companies, Tencent has two share incentive plans, stock options and restricted stock. Stock options, which Tencent calls equity purchase plans, give employees the right to buy Tencent shares at an agreed price at a certain time in the future. The employee's return is the difference between the actual price of the stock and the exercise price. Restricted stock, which Tencent calls a share incentive plan, grants shares directly to employees at no cost. Of course, restricted stock comes with conditionals-shares have a lockup period of a year or several years, and employees need to meet certain performance goals before they can actually receive them [6]. So based on Tencent's huge annual revenue, employees who are allocated a certain amount of equity can get a huge amount of money. This undoubtedly gives employees a great incentive. Only by running the company well can employees earn a lot of money. This approach is clearly reflected in Tencent's good performance. The second method is Tencent's corporate culture incentive. Since employees are highly motivated materially, they still need spiritual motivation. Tencent's corporate culture has always been deeply rooted. Tencent uses its corporate culture to give employees a sense of belonging, accomplishment and self-esteem, and finally, to bring out their full potential. Therefore, compared with material incentives, corporate cultural incentives have a more long-term and useful impact on employees. This is one of the big reasons why Tencent has been able to maintain its profitable growth in the current era of rapid development [7]. The final motivator is a good work environment. Tencent provides a comfortable working environment for its employees, so they often have a sense of belonging to the company. In addition, employees working in a comfortable and quiet environment can stimulate their work efficiency and creativity. Moreover, it can show that the company cares about the employees and make the employees more loyal to the company.

Although Tencent's incentive system for employees is perfect, there are still some areas that could be improved. Tencent offers good benefits to its employees, but now the labor pool is abundant. First, Tencent company in order to ensure that the company has fresh blood, can bring sustainable development to the company. So Tencent will lay off staff in some departments. As a result, the laid-off employees may find it difficult to find the next suitable job, so Tencent can provide employment planning for some employees after they quit. In this way, employees' satisfaction with Tencent will rise sharply, and it also protects the interests of employees. This method can attract more excellent employees to work in TenCent. Second, Maslow's hierarchy of needs theory of needs which is a good reference standard to apply to motivate employees. There are some parts of it. First, physiological needs, e.g., wages high enough to meet weekly bills, good working conditions. Second, safety needs, e.g., job security, and safe working conditions. Third, love and belonging, e.g., working with colleagues that support you at work, teamwork, communicating. Fourth, esteem needs, e.g., being given recognition for doing a job well. Fifth, self-actualization, e.g., being promoted and given more responsibility, scope to develop and introduce new ideas, and taking on challenging new job assignments. If Tencent can find the most suitable incentive method according to these conditions, it will get twice the result with half the effort.

4. Tencent’s Outstanding Decision Making

Apart from its incentive measures and management system, success in marketing strategy and decisions are also contributed factors of Tencent’s development over the past 2 decades.

Tencent's business system is mainly divided into four categories, namely communication and social networking, digital content, financial technology services, and tools. The essay mainly discusses two of the most famous and influential digital products made by the company: Glory of Kings and WeChat.

4.1. WeChat

As the country has a population over 1.4 billion, China has the largest and most potential consuming market, including social media platform industry. WeChat, as the largest multifunctional social communication and instant message application, has achieved great success since it was first released by Tencent in 2011. According to Tencent’s website, it had already got more than 1 billion monthly active users by 2018.It had also acquired more than 0.8 billion active accounts in Tencent’s mobile payment system by then [8].

WeChat offers a wide range of functions, including messaging, social networking, mobile payments, gaming, and e-commerce. Users can send text, voice, and video messages, create group chats, share photos and videos, and make voice and video calls. WeChat also has a Moments feature, similar to Facebook's News Feed, where users can share posts, photos, and videos with their friends. However, Tencent make WeChat Indispensable in Chinese people’s daily life by building its own ecology as well as binding itself tightly to the daily life of people.

On one hand, WeChat had made efforts to build its own ecology in early time: The “moments” function was nearly at the same time released along with WeChat itself. It allows users to share updates, photos, and videos with their friends and followers. Similar to the Facebook newsfeed, Moments is a feed of updates from a user's contacts that can be commented on, liked, or shared. The feature has always been a popular way for users to share their daily lives and experiences with their friends and followers, as well as a way for businesses to share marketing content and engage with customers. In addition, WeChat also released WeChat Public Account in 2012, a year after the launch of WeChat, as a platform for organizations, businesses and individuals to create an official account to reach out to WeChat's massive user base, and provide users with access to multiple kinds of information.

On the other hand, WeChat has also become increasingly irreplaceable due to its function on mobile payment by WeChat pay, along with WeChat’s service function. WeChat pay is an online mobile payment system, with the help of a series of protocols between users and banks, QR code, and face scanning technology, the system guarantees users both convenience and safety. According to the report by Statista, in 2020, China was the world's largest digital payment market, with a digital payment scale of US$2,496.5 billion, accounting for 45.6% [9]. And the number of online payment users in China reached 854 million, an increase of 86.36 million from March 2020, accounting for 86.4% of the total Internet users [10]. Rooted in the biggest digital payment market in the world, with 1.151 billion annual active users, WeChat Pay ranks first in the world at the end of 2020 [9]. Besides, WeChat also allows users to pay their bills, make appointments for going to hospitals, and book tickets for trains.

With the advancement of technology, information control has emerged as a new form of control system. However, internet companies cannot solely rely on information advantages to restrict businesses, as dependence on information for restraining businesses can also lead to increased uncertainty. Therefore, a better option is to use both information control and financial control, benefiting from the user stickiness and data analysis advantages by the former and the stability brought by the latter.

WeChat has gained remarkable achievements, but there are still some aspects that could be improved: Nowadays commuting among countries has become increasingly frequent, due to the wave of globalization in the past fifty years. However, people who live in China can hardly experience the same level of convenience in terms of paying when travelling abroad. In this case, collaborating with or integrating other international trans payment companies could be a choice to expand its oversea business.

4.2. Glory of Kings

Another phenomenal product by Tencent is the mobile MOBA game Glory of Kings. Glory of Kings has been nearly seven years since it was opened in 2015 and has always taken the first place in China’s mobile game list over the period [11]. During the time, Timi studio, who was responsible for the game, adopted several methods to attract players and enhance its influence. Tencent had developed QQ and WeChat and has enabled users to log into their games through the two communication apps. Considering the large base of users of QQ and WeChat, Glory of Kings undoubtedly benefits from their influence power. Secondly, Tencent utilizes live broad and competition marketing to keep the game in discussion. Competitions like TGA Grand Prix and KPL were set up and broadcasted to live platforms such as Tiktok and BiliBili. Lastly, use of cross-border marketing also helped to promote the game. By collaborating with brands like MAC and New Era and launched products involving elements from the game [12], a large number of people get to know the game. Glory of Kings thus obtains influence worldwide gradually.

In addition, in terms of Glory of Kings, it can be improved in multiple regards: Firstly, it has always been criticized by the players in poor gaming experience and variable product quality. As a MOBA game, Glory of Kings involves a lot of communication, conflicts and quarrel. Due to the weak in-game punishment in Glory of Kings, this also puts some players who abide by the game order at a greater disadvantage, and over time will gradually deteriorate the original good game environment. If the operator still tries nothing to solve the problem, this will absolutely cause steady outflow of players. Secondly, although the game has always been doing well domestically, it achieves poor scores in the overseas market. According to the list of the top 30 Chinese mobile games by overseas revenue in the past three years from 2019 to 2021 released by mobile application data analysis company SensorTower, Glory of Kings ranked 25th in 2019, and was not listed in 2020 and 2021 in the following two years. This is particularly because of its lack of a core storyline and featured characters, whose figures vary dramatically among countries. A better method is to maintain constant figures and appearance for characters and to create a more specific storyline that could help to build the characters better.

5. Conclusion

The first part is about Tencent's incentives for employees. Tencent has done an excellent job of motivating employees both spiritually and materially. In the material aspect, Tencent will give some excellent old employees some shares as a reward. In terms of spirit, Tencent's excellent corporate culture deeply influences the hearts of employees, making them maintain a high degree of loyalty to the company and work efficiently. However, Tencent can also add some unfinished work planning for the departed personnel to facilitate the improvement of resignation satisfaction. The second part is about Tencent's efficient management mode is clear division of labor and teamwork. This clear division of labor allows each employee to maximize the role, and the fastest speed to complete the best quality work. While such management is efficient, but also prone to many problems. For example, employees may have conflicts due to disagreements in teamwork, so Tencent can adopt different management methods for different positions. Therefore, Tencent can avoid more employees' dissatisfaction at work and improve the efficiency and quality of work. The third part describes the concept and significance of market decisions. Tencent has developed many famous games. This is the proof of Tencent's successful market decision, Tencent has a unique vision and superb technology. Many chat software and game software developed by Tencent can bring huge revenue to Tencent. But times are advancing and technology is developing at a rapid pace. In particular, technology companies like Tencent need to pay more attention to breaking the comfort zone and creating new products to increase their competitiveness in the market. This article is beneficial to employees and cadres of Tencent company, because this article analyzes the problems and suggestions about these two chunks. Employees can increase their interests in the company according to the article, and leaders can get new ideas on management and market strategy planning to break the old model of the company. However, Tencent's management system is not only reflected in the two parts described in the article. Scholars can still learn from Tencent's leadership, staff training and flexible employment. These can reflect the excellent management of Tencent and can learn from the place. At the same time, they can also understand different management aspects, which will reflect different problems. After the problems are exposed, appropriate methods can be adopted to solve the problems of Tencent and make it better and more competitive in the market.

References

[1] Ji W. Research on the impact of Tencent's equity incentive on the expected growth ability of enterprises. 2021.

[2] Xiang T. Discussion on Tencent's Management Model: Based on the Perspective of Management Psychology. Communication and Copyright, 2019, (12): 72-74.

[3] Wang J, Wang Z. Tencent's team management model to talk about the advanced experience of team management. Western leather, 2018, (07): 32-33.

[4] Zhang J, Zhang Y, Yan R. Tencent WeChat Platform: From Financial Control to Information Control. Financial Management Studies, 2021, (01): 1-7.

[5] Wu X A. preliminary study on the construction and importance of employee incentive system in enterprise management. Times Finance, 2015, (35): 212+221.

[6] Yang J. Analysis of the implementation effect of Tencent's equity incentives. 2021.

[7] Li X. Analysis of internal communication of Tencent's corporate culture. 2019.

[8] Tencent. Tencent Announces 2018 First Quarter Results. 2018.

[9] Statista. Digital Payments Report 2021. 2021.

[10] China Internet Network Information Center (CNNIC). The 47th statistical report on internet development in China. 2021.

[11] Qimai Data. China App Store Top Sellers-iPhone-All Games. 2021.

[12] Huang Z. Analysis on the Market Strategies of the Game Glory of Kings. Atlantis Press, In 2021 3rd International Conference on Economic Management and Cultural Industry (ICEMCI 2021), 2021, 3125-3129.