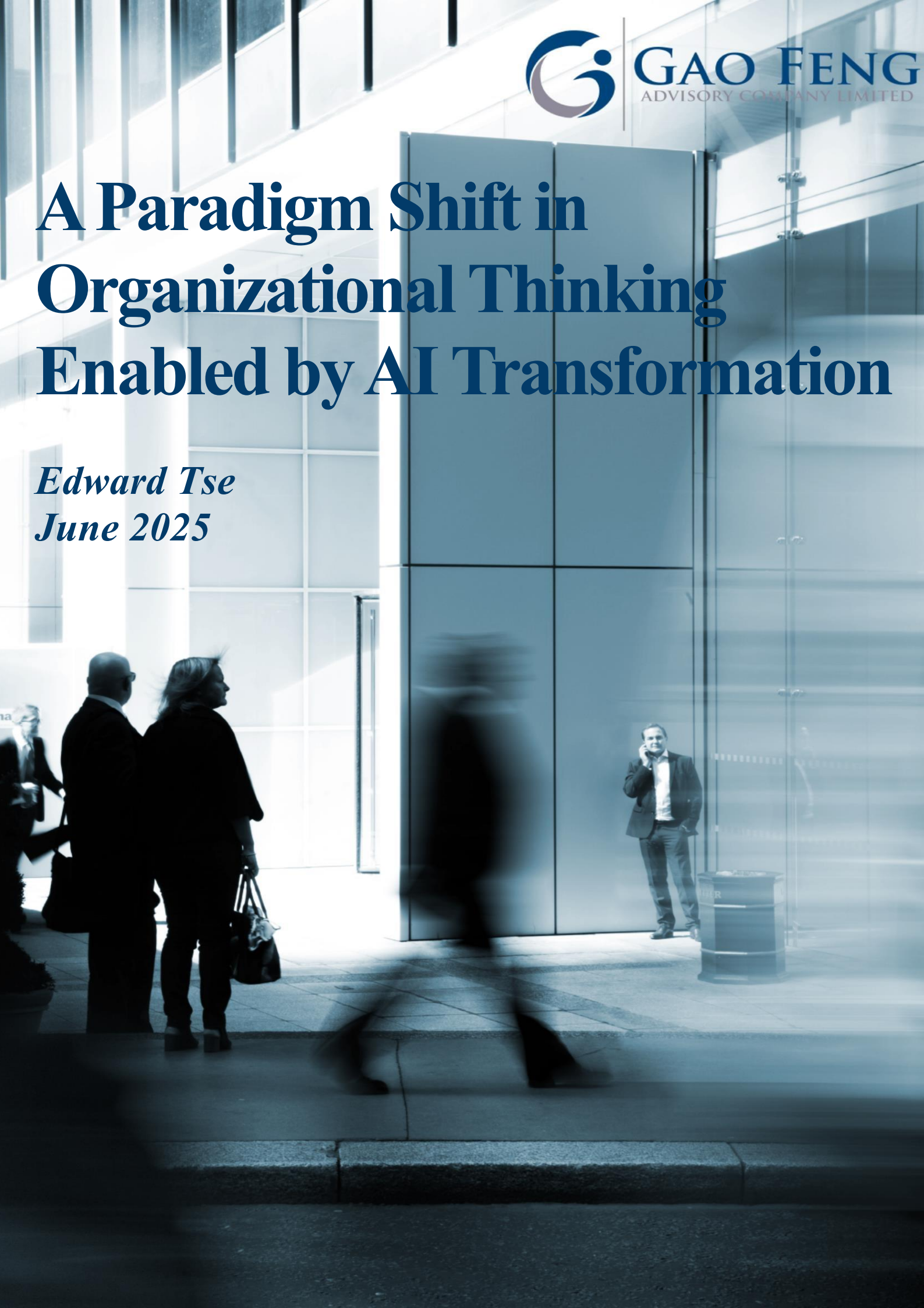


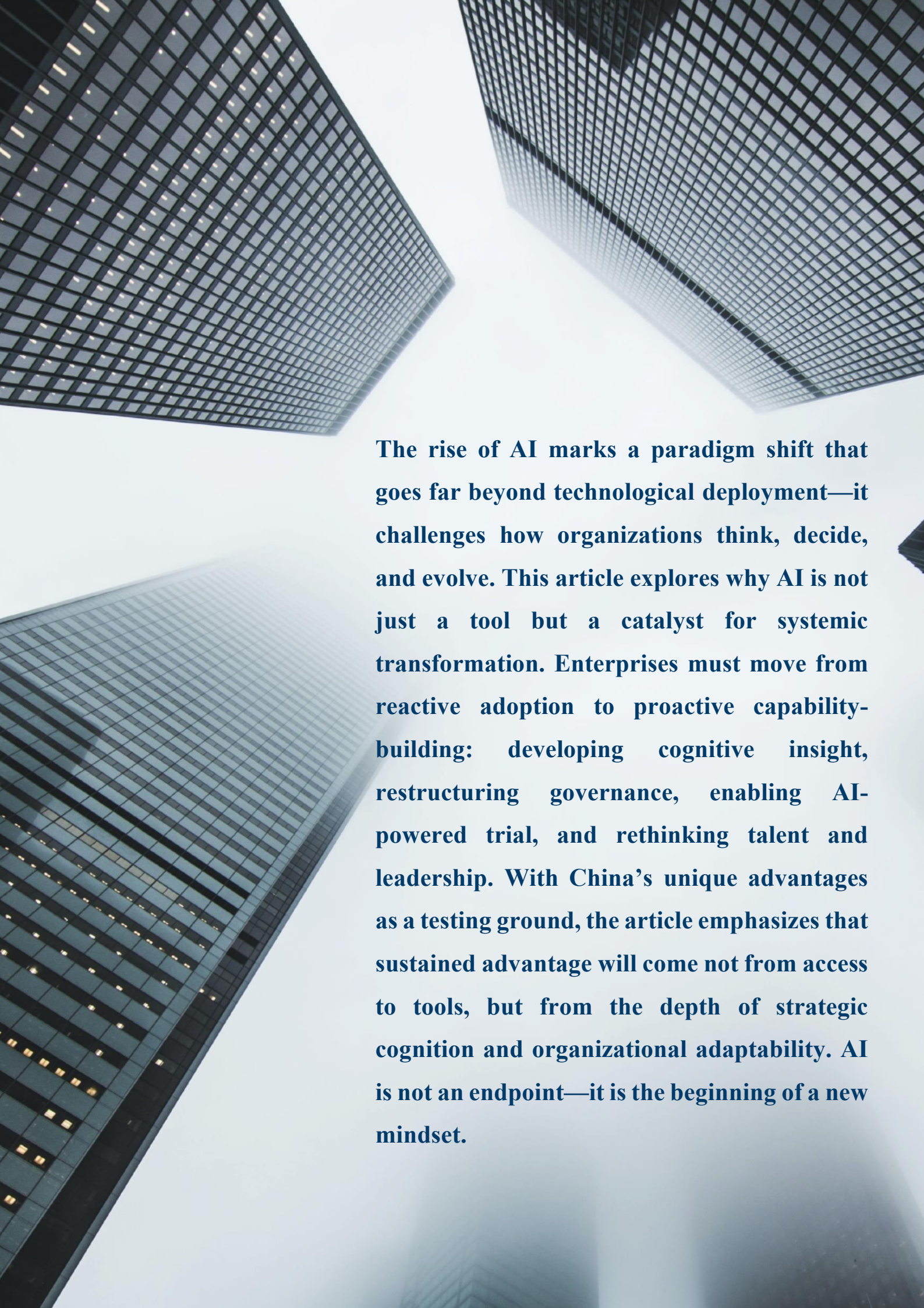


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A Paradigm Shift in Organizational Thinking Enabled by AI Transformation

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The rise of AI marks a paradigm shift that goes far beyond technological deployment—it challenges how organizations think, decide, and evolve. This article explores why AI is not just a tool but a catalyst for systemic transformation. Enterprises must move from reactive adoption to proactive capability-building: developing cognitive insight, restructuring governance, enabling AI-powered trial, and rethinking talent and leadership. With China's unique advantages as a testing ground, the article emphasizes that sustained advantage will come not from access to tools, but from the depth of strategic cognition and organizational adaptability. AI is not an endpoint—it is the beginning of a new mindset.

The rapid rise of artificial intelligence is profoundly reshaping the global business landscape, becoming a strategic imperative that no enterprise can afford to ignore. From manufacturing and retail to healthcare and finance, the impact of AI transcends a mere technological upgrade—it represents a systemic challenge and reconfiguration of traditional operating models, organizational structures, and even management philosophies. In this wave of profound and far-reaching transformation, businesses can no longer afford to stand by and wait. Only by proactively embracing AI can they gain a competitive edge in the next phase of industrial evolution, achieving a strategic leap from passive adaptation to leading the transformation.

Chinese enterprises have already demonstrated a first-mover advantage in both the practical application of AI and the deeper strategic thinking surrounding its adoption. Whether in intelligent manufacturing, digital marketing, or smart customer service, Chinese enterprises have already carried out large-scale exploration and deployment across multiple cutting-edge application scenarios. This early leadership is no coincidence; it is rooted in China's complex and dynamic market environment, highly digitalized user behavior, and the “commercial DNA” of enterprises characterized by strong sensitivity to new technologies and rapid responsiveness. However, being at the forefront of AI adoption also means confronting a range of deep-rooted challenges ahead of others. As AI moves from the periphery to the core of business operations, enterprises are increasingly encountering a series of non-technical, structural issues; these challenges go beyond technology to touch on the reconstruction of organizational capabilities, the redefinition of management boundaries, and the systemic evolution of corporate cognitive frameworks. These challenges can no longer be addressed through piecemeal optimization or short-term tactical responses. Instead, they demand a strategic perspective, systematic thinking, and a long-term approach.

Building the Cognitive Foundations for the AI Era: Systemic Awareness and Insight

The pace of AI development far exceeds that of any previous general-purpose technology, and its implications are broader and deeper. Faced with the constant emergence of new algorithms, models, and platforms, companies that continue to rely on anecdotal experience, fragmented information, or traditional path dependency are at risk of falling into cognitive inertia—missing critical strategic windows. Even leading AI cloud providers, as we have observed, are struggling with this very issue. It has become essential for businesses to establish a systematic and structured mechanism for technological awareness and insight.

“This mechanism must be supported not only by internal data analytics capabilities, but also by an open “external knowledge network” that leverages academia, the industry ecosystem, capital markets, and startups.”

By establishing frequent interactions and collaborative mechanisms with universities, research institutes, AI startups, industry think tanks, and venture capital firms, enterprises can capture emerging trends earlier and gain deeper insights into both the potential and limitations of new technologies, ultimately providing more forward-looking and insightful inputs for strategic decision-making. Some leading Chinese firms, such as a diversified international conglomerate we are aware of, are already working toward building such “industry knowledge networks” through regular publications like white papers. Of particular importance is corporate venture capital (CVC), which allows companies to participate in the AI startup ecosystem, observing innovation and failure mechanisms up close. Xiaomi’s entry into the electric vehicle sector, heavily reliant on CVC, illustrates the strategic value of this approach. The same principle applies to AI: CVC enables not just technical and business synergy, but also forward-looking “cognitive investment” and organizational learning—allowing companies to track trends, experiment intelligently, and absorb insights through their investment activities, thus sharpening adaptive strategic capabilities.

For enterprises, the return on investment (ROI) in AI is critically important. They must clearly assess whether each AI initiative is a justified investment. Following the surge of enthusiasm around DeepSeek earlier this year, we’ve received feedback from many entrepreneurs expressing that the “returns fell short of expectations” and that they “cannot invest indefinitely”. At the same time, companies need to realign their investment logic in AI to match a deeper strategic understanding. AI is not a one-off tool or a deliverable-based project; it is a strategic asset that evolves continuously and gains value over time. Unlike traditional IT infrastructure or capital investment projects, the value of AI unfolds in a phased and compound manner. As one AI lead at a top Chinese innovative pharmaceutical company put it, “Many pharma companies still expect to make a big breakthrough with a single upfront investment, but in reality, AI’s value can only be realized through continuous iteration.” This calls for a fundamental shift from conventional ROI calculations to a multi-phase, multi-dimensional return assessment framework. Such a framework

must be coupled with the aforementioned external knowledge network to form a dynamic, continuously validated, and strategically adaptive feedback loop.

Driving AI Transformation: Governance Mechanisms and People

As AI becomes embedded in core business processes, the complexity of decision-making rises significantly. The dynamic and iterative nature of AI environments demand a new form of “dynamic thinking” for organizations capable of making frequent decisions, continuously learning from small-scale failures, and operating in high uncertainty. For large enterprises in particular, this means adjusting their internal governance and mechanisms to support AI transformation.

First and foremost, strategic decisions related to AI cannot be made in isolation by a single position or technical team. Nor can they be left to a handful of individuals making top-down judgments; there should be a dedicated center for AI-related decisions, comprising stakeholders from different functions with different roles. In practice, however, we still observe major corporate groups making critical AI decisions based on the opinions of just a few people. Companies should strengthen the engagement and leadership of senior management, and AI strategy must become part of the CEO’s agenda. Senior executives must take on the role of “AI transformation champions” to lead the strategic alignment and capability coordination of the organization. This requires not only technical literacy but also the leadership to guide organizational culture, governance, and business cognition alongside AI transformation. Companies should consider establishing dedicated AI strategy teams or appointing a Chief AI Officer (CAIO) to lead an end-to-end transformation—encompassing strategic insight, technology integration, organizational coordination, and cultural guidance. AI must be embedded into the enterprise’s “nervous system”, not remain an “external plug-in”.

Secondly, AI transformation requires smart trial and error and a deliberate mechanism and culture that tolerates failure within acceptable boundaries. Enterprises must be able to make small mistakes but avoid catastrophic ones. Failure should be treated as a controllable and predictable cost of exploration. However, unlike the iteration cycles of the Internet era, AI experimentation involves significantly higher risks and costs. This makes it essential for organizations to follow certain principles—to fail intelligently. Enterprises should tolerate small-scale, contained failures and treat them as integral to systemic learning and capability building, rather than idealistically demanding “only success, no failure”, or responding to

each setback with sweeping organizational frustration. Instead, businesses must develop an innovation system with clear boundaries for exploration and explicit fault-tolerance mechanisms, allowing them to iterate continuously and move forward steadily in a complex environment.

Crucially, advancing transformation also demands the organizational ability to communicate and align with diverse stakeholders. This is both an art of judgment and a test of cross-functional coordination. Smart transformation efforts must be pursued not only through structured planning, but also with tactical finesse across departments and organizational boundaries.

Finally, none of this AI transformation is possible without the right talent. As we look toward the “endgame”, it is evident that AI will not only reshape how people work—it will fundamentally transform organizational capabilities, talent structures, and cultural dynamics. The enterprise of the future will be highly dynamic, adaptive, and symbiotic. Traditional organizations designed around static processes and rigid job roles will be replaced by data-driven, intelligence-responsive, task-oriented models. In this context, the real talent shortage lies in hybrid professionals who understand data, can apply AI, and drive business innovation. Repetitive back-office functions will be dramatically reduced. Ping An Insurance, for example, has already automated over half of its internal processes through AI. This shift challenges not just operational departments but also business units to rethink how work is done.

Cognitive Leap Determines Strategic Success

Globally, we are witnessing the rise of a new generation of “AI-native” enterprises—companies that are not simply traditional firms adopting AI, but entities fundamentally rebuilt with AI logic at their core. These organizations are reimagining every aspect of their industry—from product design and business models to organizational structures and customer relationships. For incumbent enterprises, this represents a paradigm-level challenge. Meeting this challenge requires more than a willingness to change—it demands the courage and capability for self-disruption.

“Enterprises must be willing to incubate new AI-driven business units internally, experimenting in frontier use cases with leaner resources and faster cycles, shaping their own “future form.”

Chinese companies have already achieved leading-edge results in some AI scenarios, and this momentum should be translated into a broader strategic capacity to set industry standards and shape global paradigms. In doing so, they also offer a unique “lab” and partnership platform for multinational corporations to explore AI innovation in the Chinese market.

Yet turning today’s advantage into sustainable strategic value requires a deeper transformation. This is not about how many models you deploy or how much AI software you purchase—it’s about whether your organization has achieved a simultaneous upgrade in strategic cognition and organizational capability. The true winners will be those who treat AI as a strategic imperative and leverage it as a catalyst for organizational transformation. The era of AI places an extraordinary demand on corporate leaders’ “strategic cognitive capacity”.

As the AI age deepens, competition among enterprises will no longer hinge on tool usage alone. Once access to data, models, and platforms becomes relatively equal, the differentiators will be: how insightful a company can be in the face of complexity and ambiguity; how clearly it can define direction; and how deeply, quickly, and rhythmically it can innovate. Creating and sustaining advantage will require leaders to internalize the “AI mindset” and act as thought leaders in their organizations’ transformation. All corporate leaders must embrace this “AI mindset”, which is a new, systemic paradigm of thinking—not only involving an understanding of AI technologies and applications but also requiring a comprehensive restructuring across strategic positioning, organizational architecture, business processes, talent models, and corporate culture.

AI is not the destination—it is the point of departure for redefining the very essence of business. May every enterprise on the path of transformation move forward with systemic vision, strategic clarity, and organizational strength—toward a more resilient, innovative, and intelligent future.

About the Author



Edward Tse, founder and CEO of Gao Feng Advisory Company. He became one of the pioneers in China's management consulting industry by building and running the Greater China operations of two leading international management consulting firms (BCG and Booz) for a period of 20 years. He has been a consultant to hundreds of companies, investors, start-ups, and public-sector organizations (both headquartered in and outside of China)

on all critical aspects of business in China and China for the world. He has also advised the Chinese government organizations at different levels on strategies, state-owned enterprise reform and Chinese companies going overseas, as well as the World Bank and the Asian Development Bank. He is the author of several hundred articles and six books, including *The China Strategy* (2010), *China's Disruptors* (2015) and 《变局思维 2》 (*Mindset for Mega Changes 2*) (2025).

ABOUT GAO FENG ADVISORY COMPANY

Gao Feng Advisory Company (www.gaofengadv.com) is a professional strategy and management consulting as well as investment advisory firm with roots in China. It has global vision, capabilities, and a broad resources network. We help our clients address and solve their most critical business and management issues that arise in the current, fast-changing, complicated and ambiguous operating environment. We commit to putting our clients' interests first and foremost. We are objective and we view our client engagements as long-term relationships rather than one-off projects. We not only help our clients "formulate" solutions, but also assist in implementation, often hand-in-hand. We believe in teaming and working together to add value and contribute to problem solving for our clients, from the most junior to the most senior levels.

Our senior team is made up of seasoned consultants previously at leading management consulting firms and/or ex-top executives at large corporations. We believe this combination of management theory and operational experience delivers the most benefits to our clients.

Our name Gao Feng is taken from the Song Dynasty Chinese proverb Gao Feng Liang Jie. Gao Feng denotes noble character while Liang Jie refers to a sharp sense of integrity. We believe that this principle lies at the core of management consulting – a truly trustworthy partner who will help clients tackle their toughest issues.

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