

MARGINS INC.

When it comes to organization and management, the most innovative company in the world is not a high-tech start up from Silicon Valley, but a Chinese white goods manufacturer.

Stuart Crainer



In the 1990s the Brazilian business leader Ricardo Semler wrote a book entitled *Maverick!* about his bold and exciting experiments in management at the family company Semco. When the youthful Semler took over the company he immediately dispensed with 60 per cent of the managers. He went on to make rewards and remuneration at the company transparent and democratic, and much more. Today, Semler continues to lead Semco Partners.

I interviewed Semler in the 1990s as he brought his unique brand of management to the world. He was an inspiring and fascinating interviewee, but not to everyone's taste. I remember Sir Owen Green, who had created the British conglomerate BTR, was highly dismissive of Semler's notions of workplace experimentation and democracy. He was not alone. Mavericks get the column inches but they tend not to be warmly embraced by the corporate status quo.

There have always been experiments in running organizations. The Glacier Project in the UK from 1948 until 1965 sought to bring democracy into the workplace and to better understand employee engagement. It failed to make inroads into management practice.

Usually, such experiments are carried out at the margins of the corporate world. They are outliers. Big corporations plough relentlessly forward, largely unwilling to countenance experimentation in how they manage and organize themselves. If they dabble in alternatives, they tend to be geographically distant from headquarters or in unimportant start-ups they have inadvertently purchased along the way.

Consider the corporate titans of our times. Companies like Apple, Facebook, Google and Amazon are not famed for their managerial innovations. Indeed, if you remove the gimmickry of free food and the like, and the often eye catching architecture, then the twenty-first century corporate behemoth closely resembles its twentieth century counterpart.

And that is what makes the Chinese company Haier a truly unique story.

Unquestionably, Haier is the world's most pioneering large organization when it comes to innovating the way it works, manages and organizes its activities. Alex Osterwalder, author of *Business Model Generation*, believes that "Haier is right up there with Apple and Amazon" as a corporate benchmark for our times.

Haier, the world's biggest home appliances maker and fastest-growing home appliance brand, is one of the largest non-state-owned enterprises in China. It has annual sales of more than \$30 billion and, in 2016, bought GE's appliances business in the United States for \$5.6 billion.

"In the last three decades of dedication to entrepreneurship and innovation, Haier has been through five stages of strategic development, each of which represents a major endeavour of management innovation," says the company's charismatic chairman and CEO, Zhang Ruimin. "Our most recent strategic adjustment began in 2012 when we transitioned our company from being a traditional manufacturer to become a platform-based and networked organization in line with the lifestyle changes brought about by the internet.

“At the same time, our company has also become a business incubator, where we encourage our employees to be entrepreneurial and embrace innovation by starting their own microenterprises within our company. Hundreds of microenterprises have been created within Haier. A number of exciting innovations have been launched to the market with huge success, such as the Water Box (a web-enabled monitor of household water quality), the Refrigerator Box (a smart monitor of the refrigerator environment), and a self-cleaning washing machine.”

For Haier, management *is* a competitive advantage. Zhang Ruimin restlessly seeks out the latest business ideas. He is an avid reader of business books (surprisingly rare among business leaders) and meets and debates with a steady stream of thinkers. Haier’s website and Zhang’s public pronouncements are dotted with references to management thinkers – from Frederick Taylor to Alfred Chandler via Max Weber – as well as the odd philosopher (take a bow Immanuel Kant).

Lessons in management

Haier’s success is based on five foundations:

i. Change then change again

Even though the literature on change is enormous, the managerial and organizational appetite for change tends to be limited. In the same way as turkeys are not inclined to vote for Christmas, leaders of successful organizations are disinclined to change things if they are remotely successful. Few individuals or corporations have managed to change successfully, even fewer have done so repeatedly. Haier has done just that.

During the 1980s, Haier dedicated itself to *brand building*. Its realization was that to compete internationally it had to raise the standards of its products. Zhang Ruimin proposed the principle of “a late starter with a high starting point”. (To the Western ear, he has an aphoristic and somewhat cryptic turn-of-phrase. Elsewhere, he has observed: "When a storm comes, pigs can also fly in the sky -- although they don't know why.")

Famously, in 1985, after receiving letters from consumers complaining about quality problems with Haier refrigerators, Zhang joined employees in demolishing 76 of the sub-standard refrigerators with sledgehammers. The point was made: Haier had to match or exceed the highest quality standards.

In the nineties the focus shifted to *diversification* with a variety of mergers and restructurings. The Haier refrigerator brand was extended to a range of other home appliances – washing machines, air conditioners, microwave ovens, televisions, computers and more.

From there, Haier moved to *internationalization* with an emphasis on localized R&D, manufacturing and marketing. Its international moves were bold – eschewing easier and closer markets it headed to the United States and Europe where markets were highly competitive and quality expectations high. Following on was Haier’s *global brand* stage, its acceptance as a powerful brand presence worldwide.

In December 2012 Haier announced its entrance into a fifth development stage: *networking strategy*. This, Haier explains, aims “to

connect the networking market with the networking organization”. “The internet mindset for a business should be a zero distance and networked mindset,” Zhang Ruimin has explained. “The internet has eliminated the physical distance and enabled businesses to become networked. The competitive tension among a company, its employees and its partners should be defused with the aim of building a collaborative, win-win ecosystem.”

The challenge of change is to instigate it from a position of strength. Repeatedly, companies attempt to change things as their performance deteriorates or their market strength evaporates. Not Haier. Indeed, the more successful it has become the greater its apparent appetite for change.

“What Haier has done is be more aggressive and more comprehensive in the way they’ve thought about reinvention,” says Bill Fischer, co-author of *Reinventing Giants* (with Umberto Lago and Fang Liu). “They have moved before they needed to: whether it was building a brand reputation or quality, or whether it was about being a great service provider, or being intimate with the customer. Each of those was done earlier, when resources were abundant, and people felt good about the company, rather than later. Many of the Western firms tend to jump late, tend to postpone heroic reinvention until it’s too late, until resources are scarce and everybody’s afraid. One of the things that Haier has done very well is to really think strategically about when it’s time to give up the old and embrace the new.”

With the intellectually restless Zhang Ruimin at the helm there is no sign of Haier's appetite for change abating.

2. Small, self managed teams

The dynamos of constant change at Haier are small, self-managed teams. There is nothing new in this. Management history features a number of organizations which have used such teams successfully. Lockheed Martin's "skunk works" teams in the 1940s were based on small groups and the principles of "quick, quiet and quality". In 1974 Volvo opened its Kalmar car plant which was designed around the idea of small teams rather than endless production lines being used to produce cars. Consulting firms and other professional service firms continue to utilize small teams to work on projects.

The reason why small, self-managed teams are not automatically embraced by the world's great corporations is simple: they create an organizational mess, a chaotic free-for-all of talent and ideas. This, Haier counters, is the point: innovation and leading edge thinking is not necessarily a tidy business, a ferment of ideas and activity is preferable to rigidity and stagnation. More orderly organizations beg to differ – and have held sway for corporate generations.

At Haier its employees ("makers" in Haier parlance) have been reorganized into over thousands of self-organizing units. Within the company these independent units are labeled as ZZJYTs (standing for *zi zhu jing ying ti*).

The divide between employees and non-employees at Haier is

becoming increasingly blurred. Indeed, putting a figure on the actual number of people it employs is becoming ever more difficult. In practice, when there is a new project to be worked on several people bid for it and come together as an independent business unit. The unit dissipates after the project is over and everyone goes back into the marketplace. This effectively creates competition within the organization but also fuels entrepreneurship. The person who loses the bid becomes part of the ZZJYT, known in the internal jargon as a “catfish”, nipping at the tail of the winner to ensure the best possible performance.

3. Users first

“If, in the past, the mission of a company was to create customers, today the mission should be to engage customers from end to end. In the past, customer participation wasn’t an end-to-end experience; now it must become one,” Zhang Ruimin has said. Haier talks of moving from “complete obedience to leaders” to “complete obedience to users”.

Every so often the pre-eminence of customers over other stakeholders is re-stated. In the 1980s the publication of *In Search of Excellence* re-introduced the American corporate world to service. In recent years, customers have tended to take a back seat – regarded as either too dumb to really understand the technology or relegated in importance behind the needs of talented employees.

Haier is intent on putting users first. Its oft-stated belief is that users are more important than managers. "The bosses are not customers, why should the workers listen to them?" asks Zhang Ruimin. Haier

aspires to management without bosses. One of Haier's core values is that “Users are always right while we need to constantly improve ourselves” and its professed future priority is to produce products to meet the personalised demands of consumers.

The results of this are already many and varied. In white goods the only colour is no longer white. Haier makes mass customization work. Order a Haier product on the internet and you can specify the colour and features. This is then relayed to the factory so that even washing machines are now customized.

Listening to users means that Haier has developed affordable wine fridges and mini fridges build into computer tables for the student market. It has also developed freezers which include ice cream compartments which are slightly warmer so the ice cream is ready to eat. Products are tailored for individual markets. Pakistani users require larger washing machines for their robes rather than the smaller machines preferred by Chinese users. There are even extra durable washing machines with large hoses which can be used for washing vegetables by Chinese farmers.

4. Create a marketplace of ideas

In the 1990s Tom Peters colourfully observed that “middle managers are cooked geese”. Some geese were longer lived and, as the company developed, a flock of middle managers assembled at Haier. A student of Max Weber, Zhang Ruimin was hardly likely to allow unproductive

bureaucracy to flourish. He regularly quotes Lao Tzu's quip that, "The best leader is one whose existence is barely known by the people". The role of managers was imaginatively reconfigured and the company recreated as an open marketplace for ideas and talent. The traditional pyramid structure has been all but flattened.

Crucially, this re-invents the role of managers. Haier regards them as entrepreneurs and "makers". "It's better to let employees deal with the market rather than rack our brains to deal with and control them," Zhang Ruimin has observed. Managers are effectively cut loose. Haier talks of its "Win-win Model of Individual-Goal Combination" which means that the objectives of individual employees and the organization are on the same trajectory.

In practice this means that Haier employees identify an opportunity based on their knowledge of the needs of users and a team is built to develop a product or service to meet the user need. The end result can be a free standing business. "Haier doesn't offer you a job but offers you the opportunity to create a job," runs the company's slogan.

There have already been some 200 "micro-enterprises" established under the Haier umbrella. So far, only a relatively small number have become fully independent and able to draw all their revenues from market-oriented innovations. The most fully developed business which has spun out of Haier's entrepreneurialism is Goodaymart, originally its logistics arm. Goodaymart is now ranked among China's

leading brands. Its deliveries cover the home appliance, home furnishings, home improvement and home decoration industries.

In this way, Haier is effectively acting as a corporate venture capitalist, incubating and resourcing fledgling business ideas. Once again there is nothing new in this. Corporate venture capital has a long history but it has usually been at a distance from the core of the company, an indulgent extra.

5. Borrow and adapt

Management is a magpie science, borrowing ideas from psychology, sociology and elsewhere. Haier has proved adept at borrowing ideas and giving them a fresh and distinctive spin of its own. Japanese-style Total Quality Management was absorbed and, later, the Six Sigma management model. Self-managed teams and a focus on users are hardly ground breaking ideas, but wide scale application of the ideas is.

Many of Zhang Ruimin's pronouncements wouldn't be out of place coming from a standard big company CEO. He talks of a free market for talent and executive cream rising to the top. But all come laced with a distinctive Chinese cultural nuance. And they now have a track record of working wherever Haier operates.

For example, after acquiring the Japanese company, Sanyo White Goods in 2011, Haier introduced its Win-win Model of Individual-Goal Combination. The seniority-based compensation system deeply rooted in Japanese firms was broken. Instead, the emphasis was on rewarding

people according to how much value they created for users. Managers who generated value found themselves promoted rather than sitting around waiting their turn for elevation. Haier turned the loss-making business around within the year.

The end result is that Haier is reinventing the large corporation so that its role is to be as close as possible to customers and to distribute resources while being effectively without a centre.

Haier regards the company as a platform for other activities, services and products. Zhang Ruimin describes a future Haier as a service-oriented platform of innovative groups and creative individuals with an array of Haier teams offering niche services to customers. In this model the CEO is a co-ordinator rather than a dictator, working with the consent of the self-managed teams.

The corporate net is widening. Haier taps into the needs and aspirations of users. But it has also spread its R&D network to include widespread collaboration with users, academics, designers, competitors and anyone who has a useful insight. “The entire world is our R&D department,” Zhang Ruimin is fond of saying. Haier talks of Communities of Interest, creating dynamic hubs of bright ideas to develop new business models, products and services, as well as brand new businesses. It is twenty-first century management.

Stuart Crainer (stuart.crainier@thinkers50.com) is co-founder of the Thinkers50 and author of *The Management Century*.

In 2017 Thinkers50 will publish a book chronicling the story of Haier.

Resources

Colvin, Geoff, “Zhang Ruimin: Management’s next icon”, *Fortune*, 15 July 2011

“Haier and higher”, *Economist*, 12 October 2013

Fischer, Bill; Lago, Umberto; and Liu, Fang, *Reinventing Giants: How Chinese global competitor Haier has changed the way big companies transform*, Jossey Bass, 2013

Kleiner, Art, “China’s Philosopher-CEO Zhang Ruimin”, *Strategy+Business*, 10 November 2014

Zhang Ruimin, speech at the 29th anniversary of the founding of Haier, 26 December 2013; “Three what questions”, speech, 16 January, 2014; speech at Wharton Global Forum, 14 June 2014