

# BUSINESS AGILITY

INSTITUTE | LIBRARY CASE STUDY

## Haier Elevation

by Doug Kirkpatrick

This case depicts a global manufacturing giant grappling with the challenge of unlocking the innovative and entrepreneurial spirit of its employees worldwide and linking them so tightly to its end users that it creates zero distance between employee and customer, driving superior levels of responsiveness and customer loyalty.

### PROBLEM

Haier entered the Internet Age with a bureaucratic, hierarchical company full of middle managers, hampering innovation and business agility. Its connectivity to external stakeholders, particularly customers, was less than optimal. Many employees lacked the skills to innovate and adapt to an environment of continuous change. Haier's CEO, Zhang Ruimin, had always been a visionary advocate of adaptation and improvement. His challenge was how to infuse that vision into a global manufacturing concern.

### STORY OF CONTINUOUS REBIRTH

A hungry dragon is stirring in the Far East. Its name is Haier.

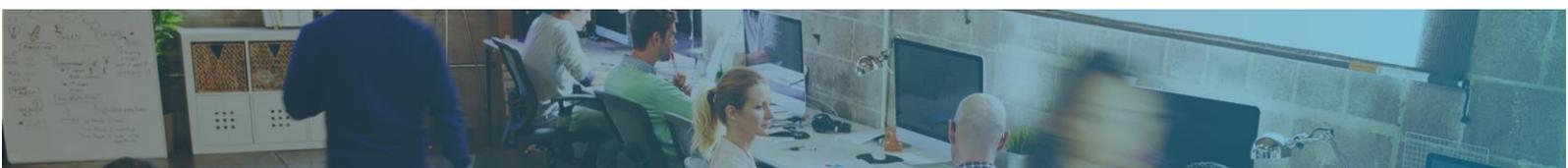
In the fall of 2012, at Haier (pronounced "higher") headquarters in Qingdao, legendary founder and CEO Zhang Ruimin, cofounder Yang Mian Mian, and other key leaders were meeting to plan the transition to organisational self-management.

At Haier's nearby Corporate Culture Centre, a giant sledgehammer — a symbol of Haier's birth in 1984 — greeted visitors. Walking through the centre and reflecting on Haier's journey, one felt the power of their story of growth from humble origins to global business legend.



According to Haier's website, Zhang, a young entrepreneur, took a post as director of Haier's precursor, the Qingdao Refrigerator Factory, in 1984. At the time, the company was drowning in debt and only produced about 10,000 refrigerators each year, with terrible quality. Workers were so unkempt and dysfunctional that Zhang had to stop them from urinating on the shop floor. In frustration, he lined up 76 defective refrigerators, handed out sledgehammers to the workers, and issued a command: "Destroy them!" Zhang himself smashed one of the refrigerators to drive home his key point: the existing culture must be demolished and replaced<sup>[1]</sup>. Out of this primal act of catharsis, the modern Haier Group was born.

Named by Forbes as one of the world's 100 most powerful women<sup>[2]</sup>, Haier cofounder and president Yang shared a keen interest with Zhang in the practicalities of self-managed organisational governance. As the key person responsible for corporate strategy and management policy, she voiced thoughtful questions that reflected her intense



curiosity about finding the proper balance of workplace freedom and accountability.

Today, Haier is the world's largest home-appliance manufacturer, with global revenues exceeding US\$32 billion and profits of US\$2.4 billion in 2014<sup>[3]</sup>. Haier's 70,000<sup>[4]</sup> employees run global operations, including 10 R&D centres, seven industrial parks, 24 manufacturing plants, and 24 trading companies<sup>[5]</sup>. To manage its sprawling enterprises, Haier created a localization mode of "three in one", which combines design, manufacture, and sales to provide ongoing support for global brand development. Boston Consulting Group called Haier one of the 10 most innovative companies in the world, and the most innovative company in the consumer and retail categories<sup>[3]</sup>. It is a true global powerhouse.

What makes it so unique?

Haier is a master of strategy. Zhang, Yang, and their team have arguably displayed some of the finest strategic business thinking on the planet over the last three decades. Jim Stengel, former global marketing officer of Proctor & Gamble and author of *Grow: How Ideals Power Growth and Profit at the World's Greatest Companies*, chose Zhang as head of strategy for a dream team composed of world's finest business leaders<sup>[6]</sup>.

Haier's results have been nothing short of spectacular. According to its website, the company grew from a small money-losing operation in 1984 to achieve global revenue of 188.7 billion yuan in 2015 and total profit of 18 billion yuan with 20% year-on-year growth<sup>[7]</sup>. Euromonitor International named Haier, with its 9.8% global market share by retail volumes<sup>[3]</sup>, the top major-appliance brand in the world for the seventh consecutive year in 2015. Even in 2013's sluggish economy, the company posted sales growth of 14%<sup>[1]</sup>. The Haier name is universally known in China and is one of relatively few Chinese brands with global recognition. Haier opened the first Chinese-owned factory in the US in South Carolina in 2000 to manufacture refrigerators for the American market<sup>[8]</sup>.

As Zhang told the BBC's Peter Day<sup>[9]</sup>:

*"I believe in getting the best of both worlds, both from Chinese culture and from the West. The good thing about Chinese culture is that it treats something as a whole system, the forest not just the trees. You can see this in the difference of approach of traditional Chinese medicine*

*and Western medicine. Western medicine treats symptoms; traditional Chinese medicine treats the whole body, holistically. Western culture wants everything quantified... so we have also adopted some Western management concepts."*

Haier organizes around core values<sup>[10]</sup>. According to Haier's website, its success rests on three of those values. The first value is "Users are always right; we need to improve ourselves." Haier believes that this is the driving force to create value for users. The second value is that the twin spirits of entrepreneurship and innovation are at the heart of Haier culture. This value envisions the shift in mindset from being a managed worker to embracing the possibility, however challenging, of becoming the CEO of an entirely new enterprise. The third value is the idea of the ZZJYT, shorthand for *zi zhu jing ying ti*<sup>[11]</sup>, which translates to "independent operating units" — self-managed teams.

So exactly what does a ZZJYT look like, anyway?

## SEISMIC WAVE OF CHANGE

Zhang is extraordinarily well read. From Peter Drucker, he learned that employees realise their value by making decisions (in his presentation at the 2015 Global Drucker Forum, he described his vision of *rendanheyi* — connecting employees directly with end users)<sup>[12]</sup>. From Immanuel Kant, he learned that human beings should be treated as ends rather than as means<sup>[13]</sup>. And from Clay Shirky, author of *Here Comes Everybody: The Power of Organizing without Organizations*, he learned about the power of the Internet to collapse distances between customers and suppliers — and between managers and workers. Haier had been organized into a traditional hierarchy, with silos for R&D, finance, and the rest. Information was supposed to flow up and down the chain of command to create ultimate value for customers.

In 2009, Haier's visionary leader had had enough. He retooled the organisation to radically empower self-managed teams. Workers would have information about customers and markets via the Internet. All workers would be free to develop an innovative idea — for example, a new refrigerator model. If he or she could sell management on the idea, that worker would be given the chance to recruit and lead their own project team staffed with subject-matter experts

attracted to the idea, who would then receive a share of any profits.

By the end of 2012, Zhang had eliminated most middle management, allowing the self-managed teams, the multidisciplinary ZZJYTs, to flourish — which they did, quickly growing to some 2,000 teams. The sheer size and scale of the move was breathtaking — Zhang clearly believed that the risk of standing still far outweighed the risk of radical change. He did, however, recognize the risk of a system in constant upheaval. For example, organisational self-managers could organically shift back and forth between teams, which would form and then dissolve like the clouds over Qingdao harbour.

“I have to find a balance between reform and risk,” Zhang has said<sup>[1]</sup>. One of Haier’s inspirations is Morning Star, which began practicing organisational self-management in 1990<sup>[6]</sup>. “The most difficult thing is that in the past the employees would listen to their bosses, but now they don’t have any bosses; they have to listen to the users,” Zhang has observed<sup>[9]</sup>. His goal for Haier’s self-managed teams is to create zero distance to the customer.

Haier America has begun implementing the reforms, and Zhang intends to extend worldwide his vision of a company full of self-organizing entrepreneurs. As he said to Forbes contributor Jim Stengel in 2012, the future of organisation design will be more self-managed<sup>[6]</sup>.

## CHALLENGES

No disruptive change effort is without challenges.

First, in moving to a flat, self-managed ecosystem, Haier laid off 4,000 middle managers. The company invited many to reapply, but for entrepreneurial positions in the new, flatter company.

Second, Haier experienced a quantum of employee unhappiness as a result of the massive change. As Zhang noted:

*“This is a really difficult nut to crack. The only thing we can do is provide employees with a level playing field, where they can compete on an equal footing for opportunities within the company. In reality, however, even this isn’t good enough; many employees just don’t have the necessary skills. So, what*

*do we do? This is an issue we have yet to fully resolve.”*

The third challenge lies in the sheer borderless-ness of Haier’s web-based ecosystem. Not only are there no borders between stakeholders (customers, suppliers, universities, competitors, experts, etc.), but Haier’s leaders have had to rethink their entire business. As Zhang stated:

*“...We believe that there is no “inside” the company versus “outside” anymore. As a Haier executive, my goal is no longer to be a maker of home appliances, but to be an agent of interaction and networking among people who might be anywhere. I want to turn the company into an Internet-based company, a company unrestricted by borders. Whoever is capable, come and work with us.”*

Haier’s relentless effort to resolve these challenges continues.

## POWER OF HAIER PLATFORM

Haier’s powerful Internet platform allows limitless collaboration with suppliers, customers, universities, competitors, the public, and multiple other stakeholders.

When the company entered the water-purification business, it learned that consumers were more likely to buy water-filtering equipment while using Haier’s impressive website to customize household-appliance purchases. Haier trained its consultants to research complex details about water quality by neighbourhood and to install proper filters for the specific pollutants in a given area. The company created even more value by posting water-quality data for 220,000 communities in China on its website<sup>[14]</sup>.

In this example and others, Haier showcases stakeholder integration of the highest order, coupled with stellar organisational performance. Haier also demonstrates that individuals are never a means to an end, but the reason for one’s existence in the first place.

From its humble beginnings with 76 sledgehammers to the present-day workplace of the future (and

recent purchaser of GE Appliances<sup>(7)</sup>), Haier is finally acquiring the reputation for innovation and excellence it richly deserves — in its products, services, and organisational design.

The dragon is rising.

**- Doug Kirkpatrick**

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