

LESSONS FROM CHINA



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HAIER AND ITS IMPORTANCE FOR GLOBAL MANAGERS

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Less than 30 years from near-bankruptcy to global leadership; reinvention at least three times; trusting nearly 80,000 people to accept leadership roles in self-organizing, autonomous work units. Is this possible? Yes! Is it yet another new economy, Silicon Valley razzamatazz success story? Not at all! In fact, this is about a Chinese company making home appliances (white goods), and it's an incredible story about what is possible in old-economy, commodity markets. It's a story for us all.

It seems as if every form of business media today has gone gaga over start-up type success stories, with a group of twenty-something Silicon Valley entrepreneurs creating yet another miracle success, seemingly out of thin air. Yet, here is a company which was on the verge of bankruptcy in 1984, suffering from undisciplined workers, poor management, and over 1.4 million RMB in debt. Twenty-eight years later, it has become the world's largest home appliance manufacturer with a nearly global sales presence, and revenues of over 27 billion USD. And all associated with real people, making real products, and in a completely "red ocean" business.

The company is Haier, now one of China's most recognized global brands, and the products are as prosaic as washing machines and refrigerators. While there might be some youngsters running around with new ideas, this is really the story of everyday, average people, led by a mature leadership team, showing what they can do when it comes to business model reinvention.

Don't let the Chinese part of this story mislead you; this is not just another "China story" of incredible wealth generation. While China has certainly demonstrated astonishing growth and prosperity over the last 30 years, it is sobering to recall that not all Chinese companies survived the economic turbulence that accompanied this great success. The survivors were those that were able to appreciate the changing role and expectations of Chinese customers and to anticipate the need for adjusting new value propositions in response. They also differentiated themselves as much by making better managerial choices regarding talent utilization as they did regarding product and service offerings.

In short, they employed more appropriate business models for changing customer tastes, and then raised the probability of achieving those new business models by reinventing their corporate cultures to support the new approaches. Yet, few of these *China Winners* have been as successful as Haier, and as a result, we believe there are lessons in Haier's story that should be valuable to managers in any industry and any market.

Never satisfied with present success

Innovation has always been a core competency of Haier, at least since the fabled development of a washing machine to clean up fruits and vegetables for the free markets that were sweeping across China in the mid-1980s. But what has really distinguished Haier has not been product innovation, as important as that has been, but *business model innovation*, with which the firm has periodically reinvented its entire *raison d'être*.

Never satisfied with present success, Haier has made a practice of unapologetically pursuing periodic reinvention of both its business model and its supporting corporate culture in order to anticipate future market demands. The result has been at least three distinctly different business models, which Haier refers to as: *Brand building through focusing on quality and manufacturing excellence*, *Linking individual workers to the customer via business process reengineering and market chains*, and *Creating zero distance to the customer*. At present, Haier is forging yet another new business model for the future, which it calls *Creating a Platform Company*.

Under the leadership of CEO Zhang Ruimin, Haier has always launched these new efforts to reinvent its business model and corporate culture *before* a "burning platform" was required. Never did it have to fall back upon "survival" as the key reason for motivating change. At Haier, change has always been seen as a natural part of staying ahead of the market, and always welcomed as sound strategy. This is not easy to do. It requires both strategic acumen and great self-confidence to move in a daring fashion at the very moment when the firm is seemingly most successful. Yet it is so much easier to make big changes when optimism prevails and resources are abundant.

In addition, Haier has never made a big strategic move, no matter how revolutionary, without relying upon a foundation of what it already knows. Haier's story is "*revolution by accretion*," rather than revolution without references to the past. As a result, despite the boldness of their moves, they have

always taken place within a supporting environment that raises, rather than reduces, the probability of success.

None of this would have been possible without the advantage of strong, top-down, self-confident and visionary leadership from Zhang Ruimin and his senior team, who have overseen the Haier story from its beginnings. Big change is built upon small but significant managerial choices, each aimed at the same clear and inspiring target, and each reinforcing the other, which has resulted in several different but successful incarnations of the Haier spirit. Haier's story is repeatedly one of combining *Dreams and Details*: dreaming bigger than its competitors about what the future might look like, and then being more detailed and disciplined than others in executing on their dreams.

What are the lessons from Haier?

The Haier story shows how a giant company, in an old-economy, commodity-type business, can reinvent itself by embracing the contradictions of being simultaneously structured yet entrepreneurial, disciplined yet flexible, and tactical yet strategic. This can be seen in the pursuit of five themes that have characterized its strategic trajectory throughout this 30-year period:

- *More innovative*: Haier has consistently led the white goods industry in product, service, business model, and corporate culture innovation.
- *Faster*: Haier has consistently moved bigger, more boldly, more daringly, and always faster than any other competitor, foreign or domestic, in its industry.
- *Always customer-centric*: Everything that Haier has embarked on over the past 30 years has been with the ever-changing customer firmly in mind. Every strategic vision has been aimed at serving this customer better than before.
- *Talent at the core*: Zhang Ruimin has always regarded Haier's talent as its ultimate competitive asset, and, as a result, has always worked to relax the constraints that keep that talent from reaching its full potential. Without its talent, Haier is just another refrigerator producer.
- *Leadership*: Without the exceptional leadership that Haier has had, none of this would have been conceivably possible. Zhang Ruimin and his colleagues have mastered being *unreasonable* and *inspiring* at the same time; perhaps because their "unreasonableness" has always been in the pursuit of "inspirational" objectives.

While all of this may seem obvious, it is not easy. The household appliance industry in China has been a graveyard for well-intentioned, well-endowed and well-known firms, each of which most likely fully recognized the essential benefits of these five characteristics yet could not execute effectively on them. Globalization has become an even more formidable challenge. If not well managed, competitive arenas outside one's domestic market create significant distractions for leadership teams that have no slack for anything but executing flawlessly on their strategic visions.

Quite a few global household appliance incumbents literally "lost their way" in entering the China market (e.g., Electrolux and Whirlpool). Some even lost their home market while attempting foreign expansion (e.g. Maytag's loss of leadership in the U.S. market). All of these firms were well-respected within the industry, but that counted for little in the confusion of trying to address unexpected surprises in a relatively unfamiliar market such as China.

Haier, however, has not only won on the same battlefield, but it then went on to successfully defend its market leadership in China. It has also established manufacturing plants in the US and Europe, and acquired New Zealand's appliance giant Fisher & Paykel and Sanyo's home appliance business in Japan.

Haier is an excellent example of how the same visionary and daring strategic moves that we typically ascribe to new-economy start-ups can succeed in a giant, mature firm in a commodity-type business. Why be frustrated in trying to bring the lessons of Silicon Valley into your own Red Ocean, when Haier's lessons are so much more appropriate?

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