

Smashing way to start a global business

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Image copyright Haier

Image caption Zhang Ruimin has transformed the business

I will never forget my first encounter with the Chinese business leader Zhang Ruimin almost 10 years ago.

There, in a glass case in the boardroom of his company Haier was a sledgehammer, not something you normally encounter in corporate surroundings.

But Mr Zhang is no ordinary chief executive, as I was reminded in another meeting a month or two ago in his now rather more elaborate headquarters in the Chinese port city of Qingdao.

The sledgehammer has been removed to the new corporate museum, something that Chinese businesses are very keen on. But though the story has been frequently told, it is still a good way to explain the remarkable company Zhang Ruimin has created over the past 28 years.

The Qingdao Refrigerator Plant was close to failure when Mr Zhang was sent in at the end of 1984.

Production at the time was at a low ebb, and there was no money to pay the staff. Mr Zhang borrowed some cash from a countryside workers' co-operative, and set about seeing what could be done about the disastrous state of the company his municipal employers had sent him into.

Early notices (now on display in the company museum) banned urination and

defecation in the factory.

Pretty soon Mr Zhang was confronted with complaints from fridge buyers. In response, he gathered the workers in a yard outside the plant, and in front of them 76 substandard fridges were smashed to pieces.

A quality quest to revive the plant started from that symbolic sledgehammer attack. And it worked.

Cultural blend

Qingdao has historic links with Germany; the city's Tsingtao beer - originally brewed by German expats - is now sold all over the world. So echoing its German partner Leibherr, the fridge business adopted a new name - Haier.

Then began a remarkable expansion which has turned it into one of the few current Chinese global brands. With 80,000 employees across the globe, it is now one of the biggest manufacturers of white goods in the world.

And when you listen to Zhang Ruimin talking about what he has done, you begin to realise that this is not just a dramatic story about a sledgehammer approach to corporate quality.

Using a canny blend of Western management thinking and ancient Eastern ideas, Mr Zhang has created a management philosophy which is deep-seated and far-seeing.

At first sight, it might seem to be management jargon plus Confucius, Taoism and Sun Tzu's Art of War all jumbled up. But Mr Zhang has developed some potent insights of his own into how a company might evolve in the face of huge new global challenges. And he is still developing them.

"I believe in getting the best of both worlds, both from Chinese culture and from the West," says Mr Zhang.

"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.



Image copyright Haier

Image caption Haier is one of the world's largest makers of white goods

"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."

"Last week, I was talking to a marketing guru in the US and he told me, 'Good companies meet demands, great companies create demands.' We want to be a great company."

'Catfish management'

Zhang Ruimin set out for me the evolution of his management ideas.

"In the 1980s we mostly learned from Japanese companies," he says. "In the 1990s, we learned from American companies: General Electric's Six Sigma insistence on quality, for example.

"But now we have incorporated many of those best practices into building our own innovative business model. It's called the win-win model, aligning employee goals with user needs."

So (for example) Haier is trying to use the internet to put customers in touch with the people who make the goods, and workers in touch with the product-people who design them. But doing this is hard work.

"We're still in a trial and error period and we're still exploring new models," says Mr Zhang. "In the past we had examples to follow but now we are in uncharted territory."

Zhang Ruimin calls this "management without leaders". Workers are supposed to be led by the consumers of the things they make.

He adds: "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."

To make this practical, Haier has broken down its 80,000 workforce into hundreds of internal micro companies, each with a profit and loss account even when they are only supplying internal corporate customers. Employees with a good idea are encouraged to find a team to develop it and get it made.

Another striking Haier innovation is "catfish management". In fact it's an acknowledgement that there are still leaders even in a so-called leaderless organisation. They may be a bit paranoid, though.

It's explained like this: in the sea, a lone catfish creates a commotion when it swims near a school of other fish. Live salmon are transported to market with a catfish in the tank, to keep them active and lively.

Haier gives each of its many division bosses a "catfish" shadow manager, who is poised to take over if the man or woman in charge falters. Three months of missed targets, and the catfish deposes the leaders he or she has been shadowing.

Sounds ruthless, but the manager (of air conditioners) who I heard from thought it reasonable and even stimulating. Not sure whether Mr Zhang has a catfish, though.

High standards

When Zhang Ruimin was busy creating waves at Haier in the 1980s and '90s, the great Chinese industrial revolution was changing the whole global landscape.



Image copyright Thinkstock

Image caption Zhang Ruimin took a novel approach to boosting early quality control

The country was becoming the industrial production house for the world. But most new Chinese companies were making things ordered, devised and designed by Western companies. They made what other people wanted from them.

Haier wanted to export its own goods itself... quite a different philosophy, though fridges and washing machines were not exactly state of the art technology. Something else stands out about Haier's export strategy: the company started off in the developed, tough Western markets - Germany, the USA.

Mr Zhang says: "Most Chinese companies would choose the other way, the easy markets first and then the more difficult ones later. Many of them started with Africa and South East Asia because those markets had lower expectations of quality.

"But we decided to enter the German market first, and people thought we were crazy.

"But we tried an experiment. We said, 'Let's put German products and Haier products together and take out the brand and let people see which one is the worst... we hoped it wasn't us.'

"We wanted to set the standards high and thus force us to solve all the problems and to meet those high standards.

"The Chinese people say, 'If you want to play chess, you need to play it with the master,' because that's the only way you learn."