IESE Business School
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Case 4 Hailing a New Era: Haier in Japan

As one of the most valuable brands in China, Haier designs, manufactures, and sells various home appliances, including refrigerators, air conditioners, and washing machines in over 100 countries. Under the leadership of its well-respected and visionary founder and CEO Zhang Ruimin, Haier Group has rapidly grown from a small refrigerator plant in Qingdao, Shandon province, China, to a global leader in home appliances. Haier's 2011 annual sales reached RMB151 billion. As part of its internationalization strategy, Haier entered the Japanese market in 2002 and formed a joint venture with Sanyo in 2007 to produce and sell refrigerators and washing machines in Japan.

In 2012, after five years of collaboration with Sanyo, Haier acquired Sanyo's white goods business in Japan and the related operations in six other Southeast Asian countries. Du Jingguo, president of Haier Asia International, moved from China to live in Japan in 1998 and learned the specificities of the Japanese culture well. Knowing his role in realizing Haier's globalization strategy that aims to turn each localized brand into a mainstream product in its respective market, Du is pondering how he can more effectively lead the team based in Japan. In particular, he needs to instill Haier's culture and innovative management system in its Japanese operation.

Company Background and Its International Expansion

Established in 1984, Haier has experienced four stages of expansion over the past 28 years, each representing the formulation and execution of different strategies: brand building (1984–1991), diversification (1991–1998), internationalization (1998–2005) and developing a global brand (2006–now).

1. Brand Building Period (1984–1991)

When Zhang took control of Haier in 1984 at the age of 35, the company was in financial distress and lacked basic standards and procedures. It was not uncommon for workers to steal materials from company premises or simply not show up to work. Zhang inherited a workforce that, due to the Cultural Revolution, was largely undereducated. To foster discipline and proper work processes, Zhang began by defining a list of simple rules of conduct (see Exhibit 1) that would later evolve into sophisticated policies. This was particularly important because Haier faced fierce competition from over 300 local refrigerator plants. At that time, demand in home appliance products in China was growing, and customers were willing to pay for second-rate products. Quality was a rare concept. Zhang, however, believed that customers would be willing to pay more for higher quality products and services. Hence, whereas its competitors strived to pursue economies of scale to meet increasing demand and ignore quality control, Haier focused on the manufacturing of refrigerators and strictly emphasized product quality. To demonstrate his commitment to high quality, Zhang once personally pulled 76 refrigerators with minor defects from the production line and smashed them in public. This event marked an inflexion point in Haier's culture and is still the object of commentaries by current employees today, almost 30 years later.

By 1990, Haier had become the leading refrigerator maker in China with an average 9.5 percent growth rate over the past decade. At this early stage, Haier had also already started its international collaborations. In 1984, Haier signed a technology licensing agreement with Liebherr, a German refrigerator maker. Later, Haier imported freezer and air conditioner production lines from Derby (Denmark) and Sanyo (Japan). Joint ventures with Mitsubishi (Japan) and Merloni (Italy) further introduced advanced technology and innovation into Haier's operations and culture.

2. Diversification Period (1991–1998)

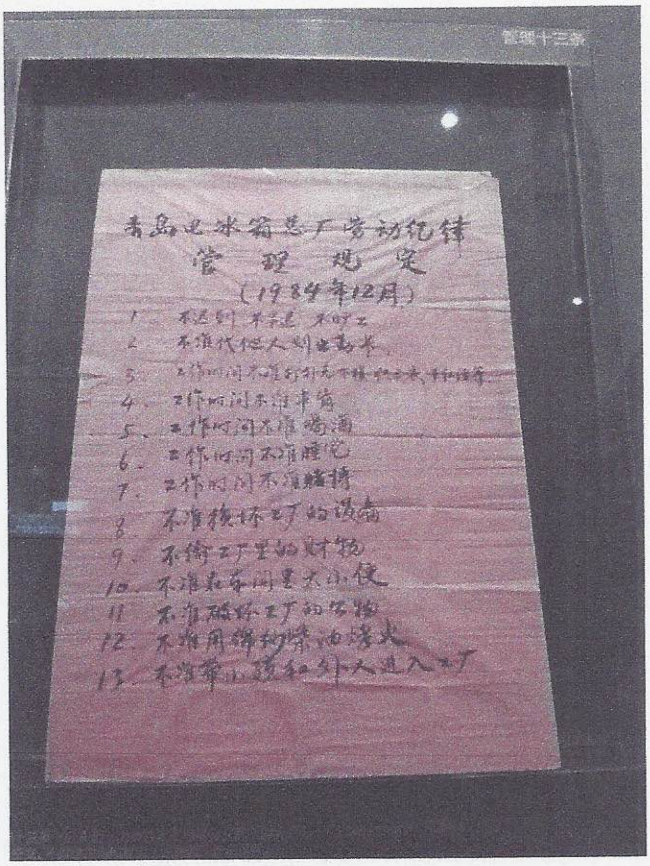
In its second phase, Haier adopted a stunned-fish tactic to diversify its product lines. "Stunned fish" referred to those companies that performed poorly due to weak management and yet owned advanced technology and equipment. Haier actively identified and acquired 20 of these companies and turned them around.

Haier also started to demonstrate its capability in management innovation by introducing the OEC (Overall, Every, Control and Clearance) approach, referring to Haier's practice of planning, executing, and clearing every task and performance dimension on a daily basis. This practice proved to be instrumental to Haier's success in changing the mentality of its workers to the pursuit of high quality. Later, Zhang introduced the concept of Miniature Companies within Haier, whereby each employee's tasks and responsibilities would be understood in terms of income and expenses to be recorded in a personal bankbook that served as an individual profit and loss statement and determined a person's salary.

Whereas the various acquisitions provided access to advanced technology and sources of diversification, they also

This case was prepared by Professors Carlos Sánchez-Runde, Yih-teen Lee, and Sebastian Reiche, with the assistance of Yen-Tung Chen and Yuki Kotake, researchers, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. November 2012. This case was written with the support of SEAT Chair of Labor Relations.

EXHIBIT 1 The Rules Introduced by Zhang in 1984



Note: The rules in English:

1. No late arrivals, no leaving early, no absenteeism.
2. No signing in for others at work.
3. No playing poker or chess or knitting sweaters during work hours.
4. No visiting friends for personal reasons during work hours.
5. No drinking alcohol during work hours.
6. No sleeping during work hours.
7. No gambling during work hours.
8. No damaging the production facilities of the factory.
9. No stealing equipment from the factory.
10. No defecating and urinating on the work floor.
11. No damaging public goods in the factory.
12. No using cotton yarn and diesel fuel to make fires in the factory.
13. No bringing children or unrelated persons into the factory.

Source: Picture taken by the case authors at the Haier Museum in Qingdao, May 2012.

added a substantial number of workers with different profiles and who used different forms of work organization. Haier had then to align the acquired companies with its increasingly sophisticated management systems. The formalization of Haier's systems helped provide a guiding frame, but it was insufficient by itself to unify the entire workforce. In fact, the pressure to quickly turn around the acquired companies meant that Haier had to socialize the new workforce into Haier's corporate culture and operating systems, often within short periods of time. Haier started to provide formal training, which later led to the creation of Haier University. The company also deployed staff from its Corporate Culture Center to the newly acquired companies to help with the integration.

3. Internationalization Period (1998–2005)

After Haier's refrigerators outperformed Liebherr's in a blind quality test held by a German magazine, Haier decided to develop its own brand globally. Influenced by successful Japanese and Korean companies such as Sony and Samsung, Haier also decided to bear the cost of building up the firm as an independent brand overseas. Haier adopted a strategy to enter more difficult, mature markets first and leave the easier ones for later. Initially, Haier focused on the European and U.S. markets, which contributed to over 3 percent of group sales. In the late 1990s, China joined the WTO, and the government called on enterprises to follow its national policy of expanding operations overseas. In 1999, Haier established the Overseas Promotion Division and aggressively pursued exports and overseas production in Asia (Indonesia, Philippines, Pakistan, India, and Japan), the Americas (South Carolina), Europe (Italy and Germany), and the Middle East (Dubai, Saudi Arabia, Iran, Algeria, Syria, and Jordan).

The internationalization period tested Haier's ability to effectively manage its workforce across an increasingly wide network of foreign operations. Although Haier had successfully integrated a host of different product divisions into its domestic organization and created an overarching management system, moving across borders meant that Haier now faced the challenge of expanding its systems abroad and managing across growing geographic and cultural distances. In contrast to many multinationals that staffed their foreign operations with managers from headquarters, Haier selected experienced local staff to manage its foreign operations from the beginning. Haier was convinced that, to ensure proximity to local customers, the company needed local people to develop the sales and distribution channels and better understand local customer needs. Although many aspects of Haier's systems were successfully transferred to other countries, Haier also adapted specific practices to the local context. For example, after the practice of having low performers publically share their mistakes in front of their peers was deemed a violation of human rights in the United States, it was replaced by having top performers share best practices. The European context required further adaptations of Haier's management practices.

4. Global Brand Period (2006–Present)

Since 2006, Haier has continued to evolve its business models and extend its global reach. During the latest pnase, Haier developed a global brand strategy. Unlike its previous internationalization strategy, which saw Haier expand to international markets while maintaining a focus on its home market, the new strategy aims to make each localized brand of Haier a mainstream product in the respective local market with the ultimate goal of leading local market trends.

As the company grew larger throughout the years, Zhang noticed that it was becoming harder for Haier to respond to the market in a speedy and timely fashion. Recognizing the need to adapt to the Internet era with a high level of speed and responsiveness to customers, Zhang introduced a new business strategy called a Win–Win Mode of Individual-Goal Combination to (1) link each employee more closely to the clients he or she serves, and (2) satisfy clients' specific needs by consolidating R&D, manufacturing, and marketing resources through the Internet. To implement this strategy, Zhang proposed a restructuring that would organize employees into self-managed units (called ZZJYT, the abbreviation of zizhu jingyin ti—自主经营体 in Chinese) with an inverted triangle structure. Haier also made a conscious effort to develop the corresponding corporate culture. (The system will be discussed in more detail later.) Haier has been experimenting with this model in China and aims to gradually implement it overseas.

It is in this context that Du was asked to acquire Sanyo's white appliances operations in Japan and Southeast Asia and turn them into an integral part of the Haier Group in building its global brand.

Haier's Innovative Organizational Structure and Culture

Since 1984, Zhang has continuously proposed new strategies, most of which combined Western management concepts and Chinese philosophical thought. Although unable to receive a systematic, formal education due to the Cultural Revolution, Zhang is a diligent autodidact and has educated himself in different ways. He reads extensively, especially on topics related to traditional Chinese philosophy and literature and Western management theories, from which he created the unique Haier management models. In many public interviews, Zhang has consistently maintained that it is the ancient Chinese teachings, such as Confucius' Analects, Lao Tzu's Tao-De Ching, and Sun Tzu's *The Art of War*, that helped him face Haier's various challenges and form its management philosophy and corporate culture.

As a result, Haier adopted Western management theories, infused them with Chinese ancient philosophy, and executed them according to local practice. These concepts emerged gradually and developed by trial and error over time. ZZJYT is a vivid example. ZZJYT refers to a self-operating, self-managing entity that determines goals, recruits members, and formulates rules. The concept was already mentioned by Zhang in 2002, when he witnessed how the Internet changed traditional business models in various industries. To address the essential transformation from manufacturing to services and customer-centric models of operation, Zhang proposed an inverted triangle corporate structure to serve customers in the future. With the aim of leading the company into the Internet era, Haier formally adopted ZZJYTs in 2007.

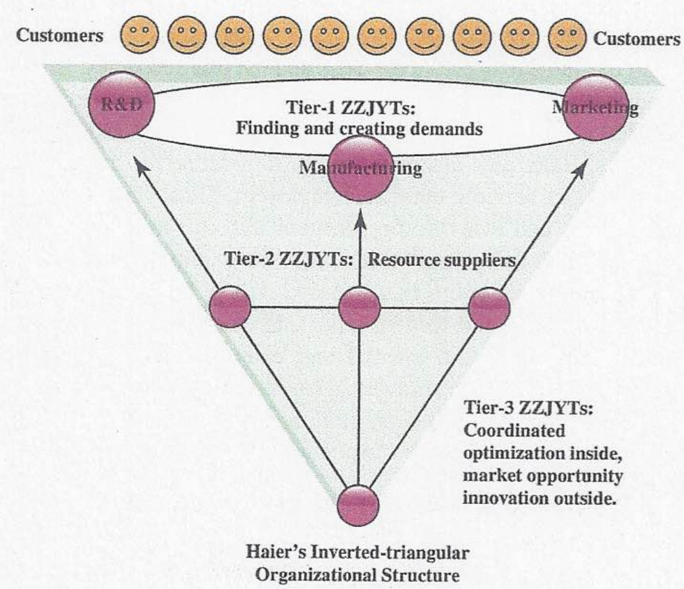
ZZJYT (Self-Managed Unit) and the Inverted Triangle

Traditional management theory tends to see a company as a triangle that locates senior executives at the top, followed by middle managers in charge of different functional areas, and employees facing the markets and other external stakeholders at the bottom. In such a structure, top executives assume traditional roles as decision makers. Employees then follow managers' instructions and guidance in their daily operations. By contrast, the ZZJYT concept subverts this organizational structure by adopting an inverse triangle. At the company level, Haier differentiates between three vertical levels. Each level consists of specialized ZZJYTs (see Exhibit 2).

The first vertical level consists of ZZJYTs of manufacturing, marketing, and R&D functions that directly face customers. Employees of this level will directly contact customers, assess demand, and formulate and execute projects to efficiently satisfy customer needs. For instance, with the support of marketing and sales colleagues, R&D staff will communicate with customers and identify customers' needs onsite. As a manager of Haier explained: "Employees don't get orders from executives, but rather actively listen to the market. They are their own CEOs." In Zhang's view, the most unique characteristic of ZZJYTs was their ability to shorten the gap between internal and external users. It would be the employees who would closely coordinate with each other to directly create value for their internal and external customers, achieving zero distance between Haier and its end users.

The second level of ZZJYTs comprises a number of platforms that provide support to first-level ZZJYTs, including specific R&D, human resources, and finance support. The third level, the same as the executive level in a traditional triangle

EXHIBIT 2 ZZJYT and the Inverted-Triangle Organizational Structure



Source: Haier, 2012.

organization, is responsible for identifying and formulating strategic opportunities. It is expected to support the second-level platforms and facilitate resource allocation to the first-level ZZJYTs. In other words, the second-level and third-level ZZJYTs, serving as a resource platform and resource allocators, stand behind the first-level ZZJYTs to integrate ZZJYTs and employees and achieve another zero gap in Haier internally. This also translates into a zero inventory policy that requires specific planning of user resources to avoid any inventory. Manufacturing only produces according to the specific orders that sales units provide—and that is agreed upon in an internal order contract.

According to Zhang, ZZJYTs transform the company from a static organization into a network of units that can offer customized solutions to satisfy the unique, fragmented users of the Internet era. In Haier's jargon, users and hence markets not only represent external customers and stakeholders but also internal customers, that is, other ZZJYTs. The adoption of the ZZJYT concept goes as far as replicating the three-level inverted triangle structure within each ZZJYT. By 2012, Haier had established more than 2,000 ZZJYTs among its 80,000 employees. The ZZJYTs usually comprised between nine and 30 members. Although the majority operates in China, Haier aims to transfer the concept to its foreign operations too, notably to the newly acquired operations in Japan and the rest of Southeast Asia.

As independent and self-governed organizational units, ZZJYTs function in an open-system fashion to motivate employees to reinforce this self-driven mechanism in their respective ZZJYT. Specifically, Haier implements this open system in the following aspects. The degree of autonomy is such that it is basically for tax purposes that each unit does not become a fully independent company by itself.

Win–Win Mode of Individual-Goal Combination (人单合一双赢) It is the founding philosophy of ZZJYTs. Here, "individual" refers to employees; goal refers to customer orders in general but further implies the needs and value of resources of both internal and external users. Thus, the Individual-Goal Combination focuses on the integration of employees' capabilities with the value they create for users and the user resources. Unlike traditional management theory that defines an enterprise in terms of the contract relationships between the company and its employees, Haier uses this new concept to redefine its organization as a network between users and employees. Thus, Haier becomes a dynamic and evolving organization that can meet end users' changing and fragmented needs. The win–win principle is shown in the incentive system that is based on the ZZJYTs managing their own profit and loss statement, in close collaboration with other units (including internal and external clients), to create profit. As a result, each individual has to achieve key performance indicators that, in turn, determine their salaries. Ji Guangqiang, general director of Haier's Corporate Culture Center, explained:

> *"Haier doesn't provide a job for you—you are working in an open market. As an employee you need to find your own job and resources to meet your ever-changing goals. Of course, you can't always grow, but your targets may continuously change and it is your responsibility to account for these changes. Maybe your customer doesn't want a three-door fridge anymore, but rather prefers four or five doors. It is the customer that demands and you will need to follow suit to succeed."*

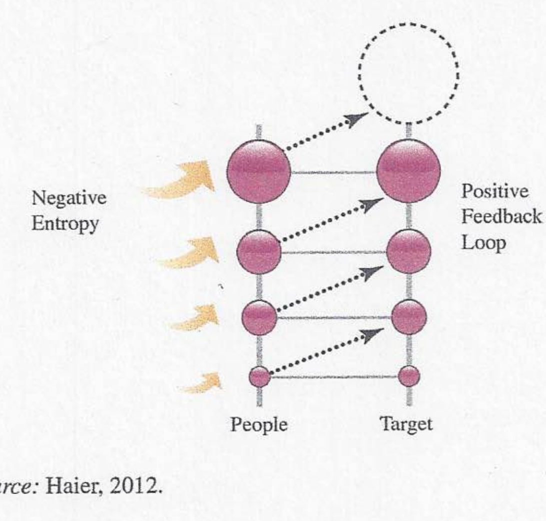
Catfish Mechanism The team leader is elected through a voting process with each ZZJYT member exercising voting rights. The voting process can be initiated at any time. This results in a dynamic optimization of operations and equal opportunities for all employees. It also actively encourages internal competition for positions. If a ZZJYT member showed higher performance levels than the current leader, he or she could then assume the leadership of the unit. In addition to the actual team leader, ZZJYTs also comprise a leader-in-waiting—a role that Haier, drawing from a Norwegian tale, referred to as the catfish. The team leader is responsible for taking care of and developing the catfish so that the latter may be able to step in and substitute for the leader in the future.

Negative Entropy and Positive Feedback Loops. Negative entropy refers to the constant influx of first-class talent into Haier. For example, ZZJYTs are temporary organizational units in the sense that if they do not perform, they are quickly disbanded. The positive feedback loop emphasizes the positive correlation between Haier employees' capabilities and market objectives. Based on new talent and a positive loop between talents and their market goals, Haier aims to form a self-managed, virtuous cycle in its ZZJYT structure (see Exhibit 3).

ZZJYT in Practice

The ZZJYT and inverted triangle system is continuously evolving. Sometimes even managers at Haier's Qingdao headquarters find it difficult to define how the system works because it is constantly revised. Operationally, Haier uses three forms to assess the performance of a ZZJYT: a Strategic Income Statement, a Clearance Form, and a People-Goal Incentive Form. Different from the traditional balance sheet, income statement, and cash

EXHIBIT 3 Negative Entropy and Positive Feedback Loops



Source: Haier, 2012.

flow statement, Haier designed its Strategic Income Statement to track the performance of each ZZJYT and each individual employee. Based on managerial accounting theory, the Strategic Income Statement emphasizes pre-budget and execution. It contains four quadrants: user value created, human resources, process (forecasting and accounting), and gap-closing optimization. The performance of each individual employee is thus determined by the user value created rather than the completion of tasks or seniority in the organization. The Clearance Form comes from the OEC (Overall, Every, Control and Clearance) approach that was implemented by Haier several years before and referred to Haier's practice of planning, executing, and clearing every task and performance dimension on a daily basis. This form, in support of the Strategic Income Statement, tracks the progress of pre-budget plans and pursues zero discrepancy between plan estimation and actual result. Finally, the People-Goal Incentive Form sets goals for each employee in relation to market factors (rather than internally determined targets). Employees' salaries are calculated based on customer value recorded in this form. Ultimately, this means that the salary is paid by the market, not Haier. As Zhang explained:

> *"The ZZJYT concept completely changes traditional incentive systems. Before, you were paid a salary from the company. Now, however, you are paid by the market, not Haier. There is no glass ceiling for what you can earn. If you want to get paid more, you need to develop your capability to meet more customer needs. People who leave the company often complain about the low salary they received from Haier, but the main problem is that they don't feel comfortable with being their own boss."*

Naturally, income can also go down because of underperforming. For instance, in 2012, a new 24-hour delivery for all home appliances was established by Haier in China. If the goods are not delivered within 24 hours, the customer receives them free of charge, and the responsible employee is made to personally pay for them. During the year, this actually happened just four times, which is still considered a success. Similarly, if a given unit does not perform adequately, the unit is disbanded and its members are left on their own to find a place in another unit that is willing to hire them, or leave the company. This is no different from actually starting a new firm and failing. Nobody will give you any guarantees in case of failing in your new venture.

Although the pressure to perform is relentless, Haier recognizes employee loyalty. Employees who have served the company for a long time are often given less demanding jobs that allow them to still keep pace with the Haier rhythm. A Haier manager explained that "it is a bit like a chair. You don't need four legs to sit on and yet you won't cut off the fourth leg."

In the end, the CEO likes to stress that the key to success is not in doing or not doing something specific, but in being aligned with the major tendencies of the times. In that sense, Haier does not aim at being successful (such success comes and goes too easily) but at being a "company of the times," thus moving in the flow of the overall context, worldwide.

Haier in Japan

Due to a traditional preference for local brands and strong competition among Japanese home appliances makers, Japan is one of the most difficult markets in the world for foreign brands to step into. Haier officially entered Japan in 2002 when it established an alliance with Sanyo Electric Co. In 2007, this alliance was formalized through a joint venture between the two partners, in which Haier owned 60 percent. Under this alliance, Sanyo products were sold under both the Sanyo and Haier brand names in China through Haier's sales-and-service network. The joint venture in Japan was responsible for sales of Haier products in Japan through Sanyo's distribution and service outlet. This was the first time a major Japanese company ever promoted Chinese products. Such an alliance, however, was a smart move for both sides because they were able to take advantage of each other's resources. It helped Haier break into the Japanese market and gradually establish its brand name through unique design and competitive prices.

On July 28, 2011, Haier and Sanyo Electric signed a merger and acquisition (M&A) memorandum of understanding. In October 2011, both sides agreed for Haier to acquire Sanyo's white goods business in Japan, Vietnam, Indonesia, the Philippines, and Malaysia.

The first delivery was made in January and the whole process was completed in March 2012. All remaining parts of Sanyo were acquired by Panasonic. During integration, Haier implemented a system-wide M&A approach to maximize synergy among the various functional teams in different countries and sustain its global brand strategy. Specifically, it rearranged resources in technology, manufacturing, marketing, and sales, and the service network. Ultimately, Haier came to comprise two R&D centers; four manufacturing bases (in Kyoto and Tokyo); four manufacturing bases in Hunan Motor (Japan), Vietnam, Thailand, and Indonesia; and six marketing frameworks for six Asia-Pacific regions. The company adopted a dual brand strategy, with Haier and Aqua brands focusing on different market segments.

The Leader in Japan–Du Jingguo

Du Jingguo, the current president of Haier Asia International (HAI), has served at Haier since 1985. With an engineering background, Du started his career as an engineer on the production line before being promoted to manager and product developer. He was then assigned to introduce the technology transfer from Germany and became involved in operations management in the refrigerator plant. Later, he was in charge of business management, including sales service and advertisement, and was named president of the Haier Sales Company. In 1998, Du left Haier and moved to Japan for three years due to family reasons. During this period, he learned the language, customs, and business practices of Japan. In 2002, at the age of 36, Du rejoined Haier and was responsible for the overall management of Haier's operations in Japan, including sales and R&D. He has also been the key person leading the

Haier-Sanyo joint venture since 2007. In 2011, Du executed the acquisition of Sanyo's white goods business and established HAI.

As the presence of Haier in Japan gradually evolved from a simple import center to a joint venture, and finally to acquiring Sanyo to enter the mainstream market, Du realized that he had to instill the Haier system and culture in its Japanese operation, yet at the same time adapt to the local cultural values and traditions. Although for Western outsiders the Japanese culture may seem close to the Chinese, the invisible divides can be huge. What is more, Haier is implementing an unconventional organizational structure and management system in an attempt to be an "enterprise of its time that can adapt well to the trend," in the words of Zhang. Du needs to introduce this system in the units he leads in Japan and the operations in other Southeast Asian countries.

Challenges in Leading the New Haier in Japan

Du adopted the following guiding principles in leading Haier Japan: respecting Japanese culture, integrating Haier culture, and, finally, shaping a unique local culture of Haier Japan. CEO Zhang commented: "It is very easy to merge and purchase any enterprise with capital, but success can only be achieved with culture and strategy, and culture integration is the most decisive factor." As a keen follower of Zhang's management philosophy, Du paid special attention to cultural differences and made extra efforts to communicate with workers at different levels to ensure a better mutual understanding and a smooth introduction of Haier's system.

In total, Du leads 350 employees in Japan and 6,700 workers in other Southeast Asian countries. In implementing the ZZJYT and inverted triangle system in Japan, Du faces huge challenges, which are intensified by the many cultural differences. How can he lead a Chinese brand to break into a market that has been traditionally dominated by well-known Japanese brands such as Hitachi, Panasonic, Sharp, and Mitsubishi? Also, customers in China and Japan, much like the employees in Haier and Sanyo, hold a different understanding of quality. Although generally Haier enjoys a reputation for its product quality, the quality standard in Japan tends to be higher and customers are much more demanding, not tolerating, for instance, a slight scratch on the packaging materials of an otherwise perfect product.

Internally, a strong collectivistic culture in Japan prevents companies from adopting a more individual-based compensation system, which is the core of the Individual-Goal Combination mechanism in Haier. While leading the joint venture, Du once wanted to distribute individualized incentives and encountered strong objections from Sanyo managers, who insisted on the importance of team spirit and equality.

Moreover, traditional lifelong employment and seniority-based reward and promotion systems, though gradually abandoned by some Japanese companies, still exist in big Japanese firms. This makes merit-based promotions extremely difficult to implement. Finally, Du also faced the ultimate question of whether Sanyo workers would be willing to join Haier, since they had the choice to stay with Sanyo, now part of the Panasonic Group. When Du first started running the Haier-Sanyo joint venture, a Japanese director came to him with a provoking comment: "Each Chinese individual alone is smart and competent, but when you put two Chinese workers together, they will not be able to perform. The Japanese are different—we play collective games."

Aiming High

One day, Du was reviewing the first post-acquisition annual sales target prepared by the sales team. "JPY7 billion seems a bit low," Du thought. But he didn't want to impose a sales target on the team.

Du had always kept in mind the vision of CEO Zhang of making Haier the number one brand in home appliances in the world, and he decided to move quickly toward this goal. He was determined to revise the first sales target of JPY7 billion and push it higher. As Du remarked:

> *The goal is to one day be number one. Although we cannot reach it overnight, we need to start with number five, then number three, then eventually reach the place of number one. I did a calculation based on the idea of being number five in the market as a baseline for the discussion, but I did not reveal it to the sales team.*

He then called a series of meetings with the sales team and asked them to explain how they derived the JPY7 billion figure. The team pointed to the specific constraints they faced for a higher target. For example, the team emphasized that several negotiations would still be ongoing, leaving uncertainty as to the overall project. It would take three months after the January delivery date to withdraw all old products from the market. Furthermore, more time would be required to prepare the new product launch. Communication and coordination with the marketing team would also take time. In total, it would take another six months to improve the products and develop new designs.

Du then went through the list of constraints and asked the team for alternatives in overcoming them. Du explained, "I wanted them to operate as an inverted triangle. They would make decisions and I would offer support and resources."

The R&D team originally planned to start developing new products for Haier Japan after the initial delivery of the M&A, with a possible launch date around March/April 2012. However, Du came up with a bold strategy; he decided to launch all new products right after the M&A delivery. To achieve this, he would need the R&D team to start working on completely newly designed products even before the Haier R&D office and facility were ready and the employees had been officially transferred from Sanyo to Haier. Du rented an empty building near Kyoto that would be the future R&D Center of Haier washing machines and asked the R&D staff to start designing new products with the objective of launching new products on January 6. For some weeks, the building had no windows, yet the team was already working inside. It was

EXHIBIT 4 Commitment of the Sales Team to the JPY35 Billion Target

In the photo: Du Jingguo, president of Haier Japan.
Source: Picture taken by the case authors at the Haier Japanese headquarters in Osaka, July 2012.

winter and extremely cold. "The team needed to wear heavy coats and worked very long hours in the building without the protection of windows in the cold winter to meet the deadline," Du commented.

Finally, they accomplished the challenging goal and launched 33 new products designed for Japanese customers on January 6 and had them distributed all over Japan within two weeks. This "instant launch" was something never before seen and surprised Japanese competitors.

When Du met with the sales team and they together found solutions to overcome the obstacles one by one, they were able to move the target of JPY7 billion first to JPY27 billion, then to JPY32 billion, and, finally, to JPY35 billion. All members of the sales team expressed their commitment to reaching the target of JPY35 billion in their own way, displayed as an inverted triangle in the office of the sales team in Osaka (Exhibit 4). In July 2012, this target was 100 percent on schedule, with the sale of Haier washing machine and refrigerator brands occupying third and fourth place, respectively, in the Japanese market. Du remarked:

> *In fact, Japanese workers are very diligent and hardworking. It is only that they could not imagine that reaching such ambitious goal within such a short time was attainable. Once I broke these mental obstacles and set up clear goals for them, they became committed to the goals and did their best to make them happen. When they saw the first results, they knew that it was really possible and gained the confidence to achieve future challenging goals.*

Bridging Cultural Differences

Having lived in Japan for years and being married to a Japanese woman, Du had learned about Japanese culture and was able to clearly see the cultural differences. When Du first took charge of the Haier-Sanyo joint venture in 2007, Japanese workers would often not express their feelings openly to Du. To communicate better with the Japanese workers, he divided the 160 employees at that time into 16 teams of 10. Every few nights, he would go out drinking with a team. After two years of drinking, the Japanese workers finally felt comfortable talking and drinking with Du in a more open way. "However," Du said with a wry smile, "I got all kinds of gastric and duodenal ulcers after that." Little by little, in his way, Du gained acceptance from the Japanese workers.

Merit-Based Rewards and Promotions

One of the core concepts of ZZJYT is to connect each worker's performance with the market and reward him or her accordingly (i.e., individual-goal combination and win–win). This means that workers do not receive equal amounts of incentive bonuses but rather receive rewards according to their contribution. For Japanese workers, this practice was hard to accept. While leading the joint venture, Du spent six months communicating with the Japanese team on this issue. Finally, he decided to withhold the part of the bonuses representing Sanyo's share because his Japanese counterpart did not agree with his approach, but insisted on implementing the system in the Haier way and gave out

60 percent of the bonuses that represented Haier's share in the joint venture.

Similarly, Du at one point wanted to promote a 35-year-old worker to the position of director. However, it would go against the Japanese value of seniority if he got promoted sooner than an older colleague. Over the course of a year, Du publicized the performance of this young man in the company and indicated the problem of the current appraisal system that failed to reveal the outstanding performance of the young man. Two years later, Du promoted the young man to director, at the same time assigning the more senior colleagues titles of Responsible Director with clear roles and responsibilities so that they would not feel ignored. Little by little, the merit-based system embedded in Haier's ZZJYT was accepted in Haier's Japanese operation.

After the acquisition, Du talked to former Sanyo salespeople and tried to convince them to sign an Individual-Goal Combination contract, offering them higher incentives for higher performance (win–win). Some of them did not feel comfortable and refused to sign it in the beginning. Rather than pushing them, Du tried to help them understand the underlying logic of the contract.

Retaining Japanese Workers

When Haier was about to acquire Sanyo's home appliances operation, Du and his management team estimated that about 30 percent of employees might quit. Indeed, many workers had joined Sanyo with the idea of staying there until retirement. They were afraid of moving to a Chinese company. At that moment, Sanyo had very limited new product development and resource investment, but Du kept communicating with the employees about the plan, system, and prospects if they stayed with Haier.

Cultural Integration as an Ongoing Process

Haier Japan seemed to be off to a successful start under the leadership of Du, who attributes his achievement to the well-devised strategy and management system defined by Zhang. "What I am doing is simply trying to understand the thinking and strategy of Mr. Zhang, trying to align my operation with it, and continuously adapting it to local realities," said Du. Yet, cultural integration is an ongoing process; challenges may persist and require further effort to handle them. For example, some Japanese workers continue to feel confused about the structure. They see Haier Japan functioning as a star (i.e., the juxtaposition of a normal and an inverted triangle). Du and Haier Japan will need to continuously experiment with the ZZJYT system (still quite new and in a fine-tuning stage back in China) and instill the Haier values into the Japanese operation.

Conversations among Japanese Employees

The day after a regular visit of Du to the washing machine research center near Kyoto, three senior managers and two chief engineers of the center had lunch together.

"We knew Sanyo was not performing at the levels at which it used to perform some years ago," one manager said. "In fact, the company was putting itself in the same position that other companies faced in the final years of the last century, when Sanyo bought them. In the end, it all worked out for the best, for the former independent companies and for Sanyo. So we keep asking ourselves if this is not the same situation."

"Yes, the situation is similar, but there are some differences. Haier is a Chinese company, and when we talk with Mr. Du we feel confident about his capabilities and his intentions. But where will Mr. Du be in 20 years? With Sanyo, we did not have to think about this, because we were confident that Sanyo was going to be there for us always, forever. We used to say that we were Sanyo employees the same way I say I belong to my family. Can we say the same now? Are we going to 'be' Haier employees, or should we say that we are 'now' Haier employees?" added another manager.

"There is little we can do about that," commented one chief engineer. "We will never see ourselves as Haier employees the same way we saw ourselves as Sanyo employees, but Haier provides us with important challenges in developing new technologies, and the market will respond to that. In fact, Haier is being very brave entering the Japanese market, competing head-to-head with the most advanced brands and products. It shows an amazing drive to succeed in the most difficult environment. And this is our environment. If we succeed here, we will succeed anywhere. There was a time when we felt exactly the same with Sanyo, but that was gone well before Haier acquired us. We just might have an interesting combination: a resourceful company, strong market prospects, and the will to face all the technological challenges. What else do we need?"

The other chief engineer responded, "Well, we need to combine those aspects into a new way of organizing ourselves through the inverted triangle, and this does not seem easy. Mr. Du is telling us that we are an inverted triangle but he talks from his top position. I would like to see how that works in practice."

"Actually, Mr. Du says that he is the one who wants to see how it works—that he is here to see (not us) and we are here to act (not he)," explained one senior manager. "Also, I find that the idea of an inverted triangle is promising in helping us move beyond country issues. So far, it makes a difference for us to think in terms of whether our boss is Chinese or Japanese. But if the inverted triangle idea works out the way it should, there is nobody above us, neither Chinese nor Japanese, just our customers. It is just us figuring out the best way to produce something. Haier probably has an advantage here in terms of how to deal with global and local tensions (as long as the idea really works, obviously)."

"Actually, Sanyo had tried some empowerment approaches in the past that somehow remind us of the inverted triangle, but they never really worked. They seemed to be very fashionable in the United States, but not here," echoed one chief engineer.

"Indeed, but we need to be careful. If possible, I would still prefer a Japanese boss," said one manager. "On the other hand, the Chinese seem to behave differently from the Japanese. We prefer someone who is Japanese because we think of how Japanese leaders behave. But these people are not

Japanese; they will behave differently, so it may not be relevant at all whether they are Japanese or not. Mr. Du and most of the Chinese Haier employees in Japan actually speak very decent Japanese. They do not speak like us, but they are closer to fully mastering our language than anyone who has been around here in the past. It may actually be easier for them to adapt to us than the other way around. And yet, this idea of the inverted triangle can be very powerful; it may relativize these differences. We need to see how it really works."

"That is up to us," said a manager. "Remember, we are not here to see it happen, we are here to make it happen. It is for headquarters to see that we, not they, do it."

Yet, another chief engineer commented, "A few days ago I performed a little experiment at home with my two kids. They are 16 and 14 years old. I told them that we at Haier were going to begin to work under a different system, the inverted triangle. I asked them how that would work in their school. They could not understand at all what I was telling them. They were afraid their class would turn into total chaos if the teacher proposed something like that, and that students would not know what to do. My wife nearly suggested that I was a little bit crazy. The question is whether we are prepared for this: to become our own bosses and answer not only for our work and hours, but for our initiative and creativity as well. It is like we have been under a school system, with someone always monitoring our work, and now we have to become the teachers. This is not going to be easy, at least not for the older people, and they are our masters. Should we expect everybody, absolutely everybody, to be able to perform under this new system? I am afraid it may create a division between those who enjoy the system more, especially the younger people, and those who have worked too many years under the Sanyo system. How are Haier and Mr. Du going to deal with this?"

Case Questions

1. How far has Haier come since its creation in 1984?
2. What is special about Haier's current management system? Why did the company create this system?
3. What role has CEO Zhang played in Haier's development? How would you describe him as a leader?
4. What kind of tensions could arise for Haier when implementing its management system in Japan?
5. How did Du manage the tensions during his leadership of Haier Japan? Please assess Du in terms of how he goes about reconciling cultural differences. In which aspects would you agree with him and in which would you not?
6. Should Haier adapt to the Japanese culture and change its management system? Or should Haier impose its system in Japan?
7. What types of cultural challenges might Haier face in other cultures? What would you suggest that Haier improve in order to better manage the cultural complexity of its global footprint?