

RenDanHeYi: Pioneering the Quantum Organisation

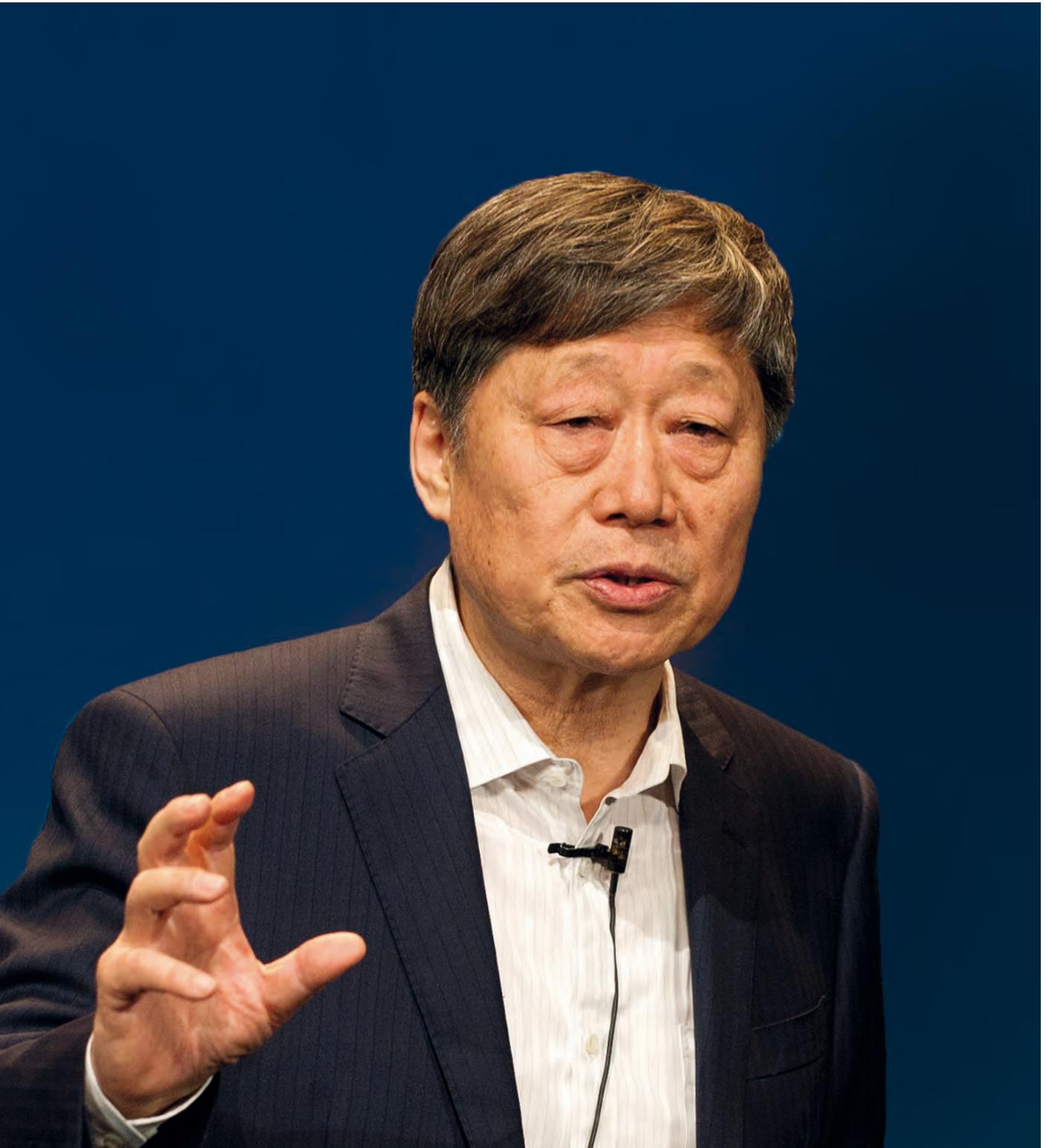
By
Santiago Iñiguez

Management lessons from Haier's experience: An interview with Founder and Chairman Emeritus, Ruimin Zhang

Haier, one of the world's leading home appliance companies, has grown over the past two decades not only through organic development, but also through successful acquisitions based on an innovative implementation process that puts people front and centre.

At the helm of this Chinese global home appliance giant was its Founder and Chairman for more than three decades, now Chairman Emeritus, Ruimin Zhang (1949, Laizhou, China), whose vision has transformed Haier into one of the most innovative corporations in its sector and on the international stage. Chairman Zhang began his career working on the production line, and so understands the workforce's experience and concerns. Over time, he also completed an MBA. Here he discusses a career characterised by a passion for other cultures, as shown in the many examples he uses to illustrate his ideas.





RenDanHeYi: Pioneering the Quantum Organisation

2016

When we bought GEA in 2016, the head of the company asked: "Now you have acquired us, how are you going to manage us?"



Chairman Zhang: We started the business in 1984, and we only made refrigerators at that time, but we gradually began producing other home appliances. Our objective at that time was clear: to establish an international home appliances brand along the lines of Matsushita, GEA and Sony. However, with the arrival of the internet, I adjusted these objectives, not with a desire to create a product brand, but to make an ecosystem-brand. In simple terms, products are now inexpensive, there are no consumer gaps, there are numerous players, and the same categories of products are all part of a discount price war. Therefore, I believe that certain products will be replaced by ecosystems. For example, you don't make a smart home based on just one product, or even from just one industry. So, if you don't make this product into an internet appliance and connect the two together, into a service for users, that is, a user-experience service, then this product will have no value. This is because everyone feels that the household internet is actually a personal internet, and that bringing people together creates a personal emotional experience and emotional needs.

Santiago Iñiguez: *One of the riskiest business growth strategies is mergers and acquisitions (M&As) especially among international corporations. They generally destroy value, as the objectives that justify them—exploiting synergies, scale or scope economies, entering new markets—are difficult to implement. In addition, the conflict between the two cultures of companies after an acquisition often hinders integration, along with other obstacles arising from the dynamic interaction between the various stakeholders. Were you aware of these risks, in addition to the potential negative reaction that procurement by companies in China can generate?*

Chairman Zhang: When I merged with or acquired other companies, I was always looking at the experience of others, including those bought by Chinese or foreign outfits, and I noticed that many M&As had failed, which meant we had to act differently. This meant addressing the problems faced by companies which had failed. Where did their problems lie? Principally in the belief that the methods used to make their own companies successful could be replicated in the company they were merging with or had acquired. However, this is just one of the changes to the model. I believe that the most significant reason why these M&As were not successful was a failure to motivate the workforce.





I believe that within global companies, regardless of their nationality, everybody who works there all have one objective, which is to see their self-worth and self-respect reflected in that company. This was identified by the 20th century psychoanalyst Carl Jung in his work on the collective unconscious,¹ that is, the realisation of our identity through belonging to a larger reality, even if we don't fully understand the process. So, we implemented our RenDanHeYi model.² The basic meaning of RenDanHeYi is that each employee should directly face users, create user value, and realise their own shared value by creating value for users. Employees are not subordinate to posts, instead, they exist because of users. Without user value, there would be no employees.

Taking General Electric as an example, I knew that American society is highly individualistic, so I thought I could also ask them to take their original leadership services and change them into user services. When we bought GEA in 2016, the head of the company asked: "Now you have acquired us, how are you going to manage us?" To which I replied: "I have not come here to manage you, I am only your shareholder. We both have the same leader, and that is our users." This means that you only have to create value for your users, and this will reflect your own self-worth and self-respect. Regardless of the individualism of the United States or the collectivism in Japan, the RenDanHeYi model is working for them, our subsidiaries in these two places have been enjoying double-digit growth during the current pandemic. Therefore, I feel that it is not just a case of buying a company, but that its subsequent development must be people-oriented, and therefore must reflect the maximisation of an individual's personal self-worth.



RenDanHeYi: Pioneering the Quantum Organisation

12,000

Haier shed 12,000 middle managers, eliminated the middle management layer, and established 4,000 micro-enterprises, each made up of approximately 10 people

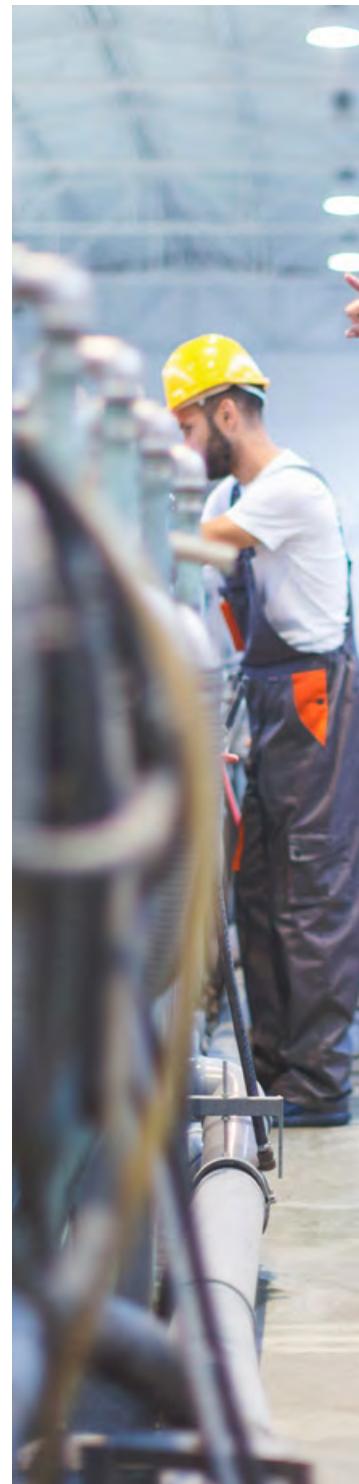


Santiago Iñiguez: *Unlike other companies, where workers wait for their bosses to assign them tasks, Haier has adopted the Individual Goal Approach, whereby employees set their own objectives, work on how to innovate their products, interact with potential users, and their compensation is calculated based on the value they generate for customers. Haier has implemented this system in successive acquisitions, so that the workforce feels motivated and stays with the company, unlike what happens with many other mergers.*

Chairman Zhang: This is a problem being explored by companies everywhere. We previously collated various methods used by US corporations, that is, we carried out a personnel evaluation. We no longer do this, as we believe you cannot carry out a static evaluation; you cannot say that this person is doing well or not, because you do not know the potential that every individual has. But Haier is not a Western company where you can divide employees into different levels, and where you don't have KPI indicators, so what do you use? If you have an opportunity to set up a business, you can create

value yourself. So, Haier shed 12,000 middle managers, eliminated the middle management layer, and established 4,000 micro-enterprises, each made up of approximately 10 people.

These micro-enterprises could create value in the market themselves, and they could collaborate and combine into a connected chain of groups, that is, an Ecosystem Micro-community (EMC), with between 10 and 20 micro-enterprises connected together. Ultimately, after implementing value-creation, they were able to go to market and become their own bosses. So, this method was a little like quantum mechanics. There is a very interesting phenomenon inside quantum management, known as Schrodinger's cat.³ If you apply this within a company, it means, how do you know, if you have not given this person an opportunity, whether or not they are capable? So that means that we do not have the same evaluation system as the big companies in the rest of the world, who this person should be, who this person is, what kind of academic background or qualifications they have, and in actual fact, this is not how you create value, or reflect your own value.





Santiago Iñiguez: *Haier's experience with Sanyo and GE shows that RenDanHeYi can be applied to a variety of cultures as a way of identifying people's contribution to their businesses.*

Chairman Zhang: We started using the RenDanHeYi model in 2005, and since then a lot of people have visited Haier to learn about RenDanHeYi firsthand, which allows them to see it from different perspectives. Traditional management models see people as middlemen. In contrast, we believe that to be entrepreneurial, the workforce should be autonomous. This means that the enterprise does not manage people. This approach is beautifully argued in many of the maxims 17th century Spanish philosopher Baltasar Gracián's provides in *The Art of Worldly Wisdom*,⁴ a classic book that became a best-seller again in the 1990s. For example, *The Art of Worldly Wisdom* mentioned: "More is needed nowadays to deal with a single person than was required with a whole people in former times." That means you shouldn't "deal with" a person, but help a person to demonstrate his/her own wisdom.

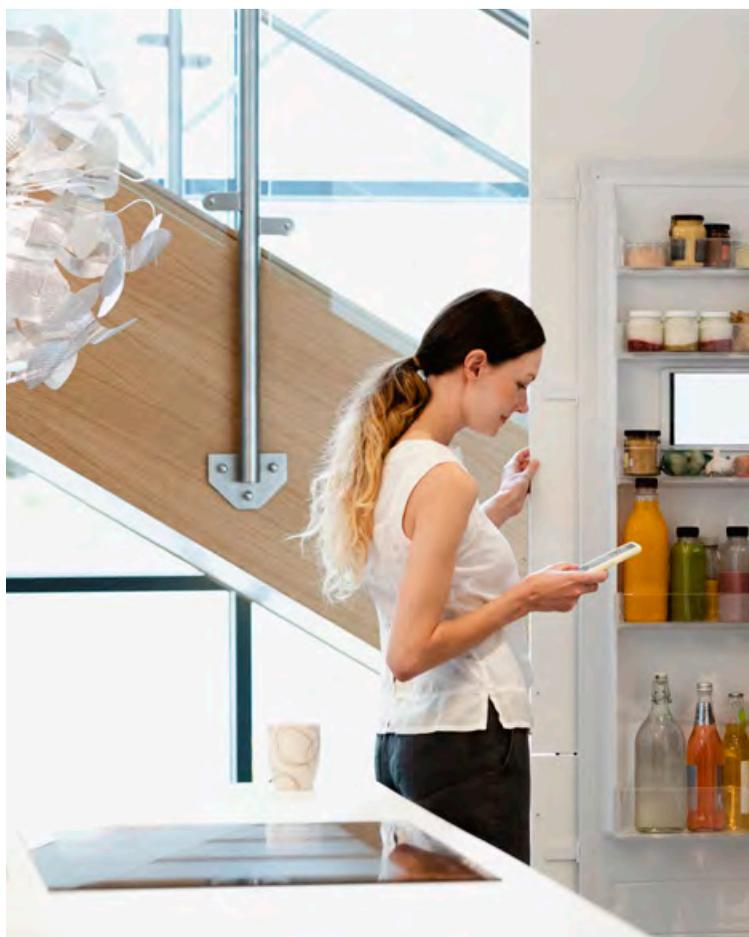
RenDanHeYi: Pioneering the Quantum Organisation



In China, we also have a saying which translates as: “10,000 people seek autonomy.” This means that even the most intelligent person in the world cannot deal with 100 people, and much less 10,000 people. Applying this to a company or an organisation means that it is better to give the workforce a platform they themselves can develop. The solution is for everybody to be autonomous, this is the foundation. Our experience is that many people come to study Haier’s RenDanHeYi model but fail to grasp this concept because they are not willing to allow employees to become autonomous.

The second point is the organisation. The RenDanHeYi model has become a micro-enterprise, it has become an organisation. Unlike traditional companies, it does everything itself. I went to Spain a few years ago and was impressed by the architect Gaudí. He had a saying: “The straight line belongs to men, the curved one to God.”⁵ Companies are the same: traditional ones are linear, and we are creating one which is not. These companies are changing on a daily basis, and have full autonomy to be entrepreneurial.

Finally, there’s mindset. For many years, everyone thought that this model would fail. Everyone believed it was impossible, because the world doesn’t work like that. However, we have insisted upon doing this until now, and we



were compared to Don Quixote. I guess we have a little of the Don Quixote mindset, that is, to be single-minded in pursuing our objectives.⁶ To date, the RenDanHeYi model has proved a success, because the entire company has changed into an ecosystem type organisation, focused on the internet.

This is one of the outcomes of the organisation during the process of its self-evolution. This outcome, you could say, presents both a scenario brand and an ecosystem-brand, and these are what the internet needs. However, what is the interlinking axis connecting these two things together? Value-added sharing. If you create value for the user, everyone is able to share that value. If you cannot create, then you need to disband. We do not have a human





resources department, and we don't pay fixed salaries, so if I don't give you a fixed amount of money, then all I need is for you to create value for the user, and then, the higher the creativity, the more that you can share this. However, sharing and traditional organisations are not the same thing, it is not the sharing of any department, but the possibility of sharing this with the company's external collaborators. That is to say, traditional organisations might be a zero-sum game. This means that I don't care if others make money or not; as long as I earn money, that's all that matters. However, we create together and share together, creating value for the user together, and we share this.

gf

About the Author

Santiago Iñiguez is President of IE University.

Footnotes

- 1 According to C.G. Jung, the human collective unconscious is populated by instincts as well as archetypes or universal symbols. *Collected Works*, (H. Read, M. Fordham, G. Adler, W. McGuire eds.) Vol 9. P. I (Princeton, NJ: Princeton University Press, 1957).
- 2 The literal interpretation of RenDanHeYi is based on "Ren", which refers to the employee; "Dan" refers to the user value; and "HeYi" means combining the user value realisation with created user value. A further explanation of RenDanHeYi (Individual Goal Combination model) in: L. Zhou and R. Jing, "Management After Acquisition Inside Multinational Companies from Emerging Economies: The Haier Experience", in S. Iñiguez de Onzoño and K. Ichijo (eds.), *Business Despite Borders. Companies in The Age of Populist Anti-Globalization* (London: Palgrave Macmillan, 2018), pp. 213-24.
- 3 The Schrödinger's Cat is a thought experiment in which a hypothetical cat is placed in a sealed box with a sealed vial of cyanide, above which is suspended a hammer attached to a Geiger counter aimed at a small lump of mildly radioactive uranium. The box is sealed, and the experiment is left to run for some set amount of time, perhaps an hour. In that hour, the uranium, whose particles obey the laws of quantum mechanics, has some chance of emitting radiation that will then be picked up by the Geiger counter, which will, in turn, release the hammer and smash the vial, killing the cat by cyanide poisoning. The idea is that until the box is opened and the cat's status is evaluated, it will remain in a superposition of both living and deceased. See D. Castelvecchi, "Reimagining of Schrödinger's cat breaks quantum mechanics - and stumps physicists", *Nature* 18 September 2018. <https://www.nature.com/articles/d41586-018-06749-8>
- 4 Gracian, B., *The Art of Worldly Wisdom* (New York, NY: Doubleday, 1992). Gracian notes: "There is more required nowadays to make a single wise man than formerly to make seven sages, and more is needed nowadays to deal with a single person than was required with a whole people in former times."
- 5 This quote is attributed to Antoni Gaudí, the Spanish architect (1852-1926).
- 6 Cervantes M., *Don Quixote* (New York, NY: Penguin, 2003)