

## Haier Is the Sea: CEO Zhang Ruimin's Innovative Management

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### INTRODUCTION

The chief executive officer of the Haier Group, Zhang Ruimin, wrote the philosophical text 'Haier Is the Sea', published in Chinese in 1994, and since then Haier has gradually built up a 'sea culture' that has guided its organizational transformations for over twenty years. The latest reform, in 2014, reorganized the giant corporation into the Haier Open Partnership Ecosystem (HOPE), which is like 'a sea of entrepreneurs', to achieve the goal of 'management without leadership and organization without borders' [管理无领导, 组织无边界] (see discussions in Schrage, 2014 and Ye & Teng, 2015). This radical organizational change astounded its peers and competitors at home and abroad. Even in the internet era, most white-goods companies still rely heavily on 'economies of scale' to reduce their costs to compete in the market, which in turn requires a pyramidal management structure. However, if we review the thinking of its leader for thirty years, we will understand that the 2014 reform was not radical but, rather, followed a smooth trajectory building on the past.

In 1984, Zhang took over what was called the Qingdao Refrigerator Factory and quickly realized the factory's potential liability: although it was highly profitable in an era of booming demand for refrigerators because, at the time, having such an appliance in the home was a novelty in China, many consumers complained that the new refrigerators they bought had problems and needed repairs, a problem that was common among Chinese brands. However, Zhang was not satisfied with the factory's quality control. At the time, a refrigerator cost about two years' of an ordinary worker's wages, and Zhang saw the mission of that factory as not only creating profit but also achieving excellence to serve the nation [敬业报国, 追求卓越] as he emphasized again in his writings ten years later. In a dramatic performance, Zhang had seventy-six malfunctioning refrigerators smashed with hammers in a public display, which not only created marketing news but also had

a prolonged impact: Three years later, Zhang's factory won a national gold medal for quality. Three decades later, Zhang wielded his hammer again in the HOPE reform – this time not to fridges but to the whole company.

Zhang's personal preference for the 'sea' was first evident in 1991, when the factory was given a new name borrowed from the name of its German partner: 'Haier' came from the last two syllables of the Chinese transliteration of Liebherr (Li-bo-hai-er). At the same time, the Chinese characters used to spell Haier are quite symbolic: Haier [海尔] literally means 'you are the sea'. In Chinese culture, the sea symbolizes openness, inclusiveness, and humility. This imagery is used in his 1994 writing, in which Zhang quoted the saying 'God created myriad creatures but does not claim dominion over them; and he produced them but does not boast about his deed' [生而不有, 为而不恃] from the *Dao De Jing* [道德经], the sacred text of Daoism.

In fact, Zhang's writing from 1994 can be easily translated into Daoist management philosophy. 'Sea' and 'water' are frequently used in the *Dao De Jing* to portray the Dao (creator of the world). For instance: 'Why are rivers and seas able to absorb all the valley streams and thus become king over them? It is because they are in a lowly position' [江海之所以能为百谷王者, 以其善下之, 故能为百谷王]. 'There is nothing in the world as soft and weak as water, and yet the firmest and strongest cannot stand up to it' [天下莫柔弱于水, 而攻坚强者莫之能胜]. 'The highest good [Dao] is like that of water. Water benefits all creatures yet itself does not strive to be superior to others; rather, it is content with the places that all men disdain. This is why the Dao may be likened to water' [上善若水, 水善利万物而不争; 处众人之所恶, 故几于道].

It is not a coincidence that in the mid-1990s Haier was under pressure to 'absorb all the valley streams and thus become king over them'. In the early 1990s, China experienced its first recession since the 1978 economic reform and opening up. A majority of companies were either on the edge of bankruptcy or weighed down by debt. Local governments were eager to push those companies into the arms of well-operating firms to avert large-scale bankruptcy and unemployment. It makes sense because, at the time, both healthy companies and the 'stunned fish' were state owned. Nonetheless, Zhang risked leading Haier into a debt crisis as well if he accepted many 'gift' companies from local governments. Many other well-performing companies decided that it was in their interest to specialize rather than diversifying. However, Zhang's determination to achieve 'inclusive development' is well reflected in his writing 'Haier Is the Sea'. By the end of 1996, Haier had 'acquired' eighteen local companies and retained most of their employees.

Zhang's wisdom, as shown in his writing, is not to passively take over those factories but to proactively transform them with Haier's culture. In order to revitalize the 'stunned fish', Haier implemented Overall Control and Clear (OCC) management – that is, overall control and sorting out of everything that every employee finishes on his or her job every day, in order to 'accomplish what's planned each day and improve on what's accomplished the previous day'. This

innovative management approach encouraged employees to constantly challenge their previous performance and became the cornerstone of Haier's culture.

More importantly, Haier's employees were aligned to the sea culture, as emphasized in Zhang's writing that 'the purpose of the sea is to serve human society, and yet not claim rights from what it has done'. In other words, Haier's priority is to serve customers, and this goal should not be driven by profit. This work ethic almost perfectly resembles Max Weber's study of the causal relationship between the Protestant work ethic and the rising of capitalist entrepreneurs – only this time, it is taking place using Chinese methods based on traditional Chinese culture, in which Haier's employees are transformed into customer-centered practitioners. For example, in the late 1990s, a farmer in the Chinese countryside complained to Haier that his washing machine was full of dirt and not functioning well. The local distributor sent a technician to the farmer's house, where he discovered that the farmer had been using the washing machine not to wash clothes but to clean sweet potatoes. Instead of teaching the farmer the 'right way' to use the washing machine, the company soon released a vegetable washing machine, designed to accommodate the extra grime and soil of the tubers. Soon afterward, the Chinese farmers' market for washing machines was dominated by the Haier brand.

Nurtured in Haier's sea culture for twenty years, dedicated and customer-centered employees are well prepared for the HOPE program, which empowers them to be real entrepreneurs. However, this time the Haier model comes with a warning: unless your employees have been well trained with the spirit of entrepreneurship, copying the HOPE program will have a bitter end. The sea culture for two decades has formed a unique and unparalleled firm in China and the world: Haier.

Through the spirit of sea culture, Zhang's Haier embraced open innovation and rebuilt itself using the HOPE program into a platform of mass innovators and entrepreneurs. Through the sea culture, every employee is a disciplined CEO and even a leader of future business. The humanizing of the business process (Chapman & Sisodia, 2015) is a pioneering approach in management innovation (Hemal, 2007; Jin, 2010). It also represents a workforce revolution for more independent employees and freelancer (Gillespie & O'Brien, 2015; Lewin & Xing, 2013) perfected at a Chinese state-owned enterprise.

In 2015 Zhang was honored with the 'Ideas to Practice' award and ranked among the Top 50 Global Management Thinkers. However, if we look back on when Zhang wrote his article, hasn't the metaphor of open and inclusive innovation been used already? Haier is the sea.

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