



The Multinational Fuelled by Thousands of Entrepreneurs

Haier's business model has created a worldwide entrepreneurship movement.

In this year's **Global Talent Competitiveness Index**, we have seen how vital entrepreneurial talent is for a thriving economy. Haier CEO Zhang Ruimin's transformational *Rendanheyi* business model is one example writ large of how this resource can expand a business. The revenue of Haier, the world leader in white goods, was nearly **US\$40 billion** in 2017.

As one of the most innovative business strategists worldwide – ranked #24 in *Fortune's World's Greatest Leaders* – Zhang has formulated an entrepreneurial business theory steeped in multiple philosophical traditions to create a way of working that, at its heart, puts the user front and centre.

It was not always so. Zhang crystallised his vision of the future as a networked economy with *Rendanheyi* in 2005: “*Ren*” for employees; “*Dan*” refers to user value; and “*Heyi*” is the connection between each employee and the needs of the users. With *Rendanheyi*, each employee can create value for users or customers while also realising his or her own value. Rather than ticking off corporate KPIs, employees serve user requests as directly as possible.

With *Rendanheyi*, Haier has created a global organisation of entrepreneurs. It is now a networked organisation with only three types of workers: the

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platform owner, the microenterprise owner and the entrepreneur. The company empowers its workers to make large and small decisions, including personnel selection and profit sharing.

In an interview at INSEAD, Zhang explained how at Haier “all innovation is driven by new needs and then creating new opportunities and new markets rather than achieving incremental growth on what already exists.”

Motivating entrepreneurs

By removing the middle management level, *Rendanheyi* transformed the company's administrative organisation. The number of registered employees has decreased by 45 percent since its peak, and the Haier ecosystem now creates more than 1.9 million work opportunities for its employees and their networks.

Central to this work ethic is a self-motivated workforce. “The task is not to turn Haier's internal staff into entrepreneurs, but rather to attract all the entrepreneurs in society onto our platform,” Zhang told *Fortune*.

Inspiring workers to release their entrepreneurial talent can be difficult and the obstacles to this can be cultural. Organisations, like countries, have

individual cultures and *Rendanheyi* has had to work around entrenched beliefs.

International expansion

As Haier expanded, it exported its unique entrepreneurial business model around the world. Two acquisitions demonstrate unique hurdles: Sanyo's white goods company in Japan and GE Appliances in the United States.

Sanyo's white goods division, acquired by Haier in 2012, had excellent technology and products, but its employee model was not focused on talent expansion. The appliance maker had adhered to the tradition of **age-based promotion** rather than having employees rise through the ranks based on merit.

Zhang told me that "the lack of mobility and openness in Japanese society was one of the obstacles in implementing our *Rendanheyi* model." Yet the company began to try to pursue a new business model, with patience and informal communication about "**how to think like CEOs**". Entrepreneurial talent combined with an impressive technology background allowed Sanyo to reverse its losses within eight months of its acquisition by Haier.

At GE Appliances, Haier needed to overcome distinct issues in its quest to spread entrepreneurialism. It didn't roll out *Rendanheyi* throughout all divisions of the American white goods supplier at the beginning. Starting in seven microenterprises like the water heater microenterprise, the strengths of Zhang's business model – stimulating creativity and enthusiasm – were demonstrated to American employees.

"It's a 100-year-old company," Zhang explained, "so the biggest problem is that it has complicated and detailed management systems." These procedures were not concerned with users' needs; they met requirements that had been created by silos. Employees were "no longer incentivised to do the right thing, so we are helping them to build microenterprises instead. These enterprises consist of people from previously different departments, from R&D, from manufacturing...to build a new team. They wind up being responsible to the market," he continued.

The move to microenterprises and crowdsourcing innovation has led the CEO of GE Appliances Kevin Nolan to describe the long-established brand as "**a two-year-old start-up**". The first year after its acquisition, the company had its best performance in 10 years, with double-digit profit growth in 2017.

Customers at the centre of the business

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Entrepreneurial talent at Haier is not only in their small teams. Instead of being encouraged to satisfy shareholders, the microenterprises are told to answer to their users.

In China, Haier is well known for its networked appliances. It focuses on IoT as a community endeavour, the ultimate expression in a networked economy. Users interact directly with products and their producers, so meeting their changing needs means employees must be free to make decisions. An empowered workforce leads to more entrepreneurial talent.

"We can only set up a mechanism through which users force [employees] to innovate rather than having the leader forcing you to innovate," Zhang told me. Product innovation based around end-users' evaluations has the best chance of being favourably reviewed online. Zhang described Haier's IoT white goods appliances as not only a connected fridge, but as "a solution to address the lifestyle needs of users."

Keeping customers at the centre of the business is not only about selling products, it leads to the creation of ecosystems – furthering entrepreneurial talent, extending a microenterprise out and connecting it with a larger network.

For Zhang, the purpose of employment is not only products and salaries. He referred to it as creating "an enabling platform" to help employees realise their ideas. *Rendanheyi* unites employees around the fundamental idea of excellence from the users' perspective. This unity encourages entrepreneurial talent.

When asked how management thinkers in the future will look back on his work, Zhang Ruimin told me that his legacy will be "changing a hierarchical and bureaucratic enterprise into an ecosystem, changing a whole garden into a rain forest. There are parts of it that die off and parts of it emerge, but on the whole, it's ever living and it's ever evolving."

Significant financial performance

The evolution of Haier's organisational structure is detailed in a chapter of the GTCI 2019. In the current stage, with *Rendanheyi*, it has fostered great entrepreneurial talent and achieved significant financial performance. By the end of 2017, HCH Ventures, Haier's incubation, investment and acceleration platform, gathered more than 2,000 entrepreneurship projects. Haier has 24 incubators in nine countries around the world, providing a treasure trove of innovative resources for entrepreneurs.

Transformation is disruptive by nature. Rather than

rejecting the expectations of *Rendanheyi*, workers in Asia and North America have embraced the creativity and responsibility provided in Zhang's business model. Looking forward, the next step could be the introduction of *Rendanheyi* in Europe as **Haier's acquisition** of the Italian appliance maker Candy has been approved by the European Commission. Haier's acquisition and settlement of Candy was completed on 8 January 2019.

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