

A Chinese Billionaire's Instruction Manual for Innovation



By Quy Huy , INSEAD Professor of Strategy and Director of the Strategy Execution Programme, and Yidi Guo , INSEAD PhD Student in Strategy

Ironically, a rulebook for innovation could be the best approach for shaking up rigid organisational culture.

Longfor Properties is one of the business miracles of modern-day China. From its humble beginnings as a Chongqing-based startup with only one project in the mid-1990s, it took less than 15 years to metamorphose into a leading real estate developer nationwide, garnering more than 33 billion yuan (US \$5.3 billion) in annual sales. Longfor's blockbuster success made its co-founder, Yajun Wu, the world's richest woman for a brief time, according to wealth research firm Hurun. Madam Wu, a dressmaker's daughter and former journalist who shunned the spotlight, was hardly your typical billionaire.

Her early Chongqing projects stood out for their aesthetic appeal, giving over valuable acreage to green spaces at a time when China's developers were fixated on the functional. Longfor once sent a design team to Europe for a month to master fine points of construction and aesthetics, an unusual practice in a country known for kitschy copies of iconic European architecture. Unlike its competitors, Longfor gave customers a voice in the design of their future homes: When a focus group expressed preference for central over wall-mounted heaters, the company changed plans for a development-in-progress, absorbing the extra cost of 50 million yuan (US\$8.05 million).

Even more remarkable than Longfor's success, however, was how that success was achieved: namely, by flouting the rules, ironically with yet more rules, as we found out when researching our forthcoming case study "Longfor: Organising for Innovation in an Emerging Market".

Preserving an Organisational Culture

In 2005, Longfor found itself at a crucial juncture. Madam Wu's ambition was to go national, but she feared that scaling up would threaten the unique culture she'd built, while Longfor's senior team felt the existing talent pool lacked national ambition, systematic thinking and initiative.

To ensure the company's differentiated identity could survive national expansion and an aggressive external recruiting drive, the senior leaders resolved to formalise its culture in a pamphlet titled "Longfor: Personnel, Organisation and Culture", which exhaustively detailed policies and practices that, in the Chinese context, were deeply countercultural.

Longfor's "Flat" Breakthrough

To maintain the flat structure, considered vital to Longfor's development, the pamphlet minimised the role of HQ and decentralised decision-making to the regions. Close relationships with customers were put front and centre. This devolved governance enabled managers and employees to take action as soon as problems emerged.

Within empowered local branches, employees could rise to senior positions based on successes at the local level, not on relationships with leaders at the head office.

According to the pamphlet, “Local branches are the main business innovation centres, while the headquarters is the management innovation centre and the strategy centre in certain fields.”

No More “Yes Men”

The pamphlet went far beyond broad strokes and first principles, listing “employee behaviours that Longfor advocates, and those it opposes”. Amongst its many decrees it insisted that:

- Among employees, there is no need to call the boss “general manager”
- During discussions about important business, the one who ranks the highest should make the speech last

Prohibited practices included:

- Full-time secretaries or assistants for leaders
- Offices of leaders that were bigger than 20 square meters or had the best light on the floor
- Demands that subordinates carry bags, open car doors, offer lift service, bow and scrape, give gifts and treat for meals with leaders
- The arrangement of tables according to the ranking of positions in an internal dinner
- The advocating of an “army culture” or “family culture” or “school culture”

The cumulative effect of all these micro-edicts was a meticulous dismantling of the conventional Chinese workplace. At Longfor bosses went without the unquestioned authority and perks enjoyed by many of their peers while the advancement of junior employees was tied, not to social capital earned within the system, but to their capabilities and, perhaps most importantly, customer satisfaction.

Why It Worked

One Chinese habit Longfor did maintain was its demand for long hours and serious commitment from everyone on the payroll. Workdays often lasted 12 hours or more, with the internal IT system pushing more than 100 “to-do” items to senior managers each day. At the same time, the company was attentive to employees’ quality of life. Employment at Longfor, the pamphlet stated, would be a ticket to the “modern middle class”.

Longfor's senior leaders set the egalitarian example, Madam Wu herself very much included. She kept such a low profile that she was once prohibited from entering one of her own construction sites when the security guard failed to recognise her. Most notably, it is said that one of the reasons Madam Wu chose to resign from her position as CEO in 2011 was that she felt she was becoming too powerful. Though she stayed on as chairperson, she wanted to ensure that hers would never be Longfor's sole deciding voice.

Longfor's Challenges

Longfor's rise had its share of trials. There was a wave of defections among management once it became clear that Madam Wu's devotion to innovation and openness was more than lip service. Replacements who came from state-owned companies had to overcome their ingrained inhibitions against plain and outspoken speech.

Longfor staff sometimes ran into problems when interacting with government officials, an unavoidable aspect of China's real estate industry. One young manager ruffled feathers by announcing "OK, let's begin" at a formal government banquet, where etiquette dictated that the most senior person present be the one to call the gathering to order. "We resolve these situations by senior leaders' involvement and more training but we prefer this type of naïve person than politicians at Longfor," an executive explained.

The company's zero-tolerance bribery policy was a further threat to smooth relations with government officials. But its exceptional results and eye-pleasing developments (which lifted land prices and served as showpieces for ambitious cadres) helped ease the way, earning Longfor an exemption from corruption, which until recently was considered a mandatory cost of doing business in the region.

Takeaways

At first glance, Longfor's pamphlet may seem paradoxical, even ridiculous. Can a company really order people to start thinking for themselves? Can an innovation culture be imposed from the top down? Strange as it may appear to some, Longfor's instruction manual for innovation was instrumental in giving employees permission to think beyond China's prevailing hierarchical

business culture. In cultures without an education system that encourages people to think independently, a top-down approach may be the only one with enough validity to accomplish real change. Putting egalitarian values in writing and making sure senior leaders walk the walk are important measures to demonstrate that your pursuit of these values is not mere rhetoric.

Of course, Longfor is not the only successful developer in China. It is greatly outnumbered by peers who have not made an explicit commitment to innovation. So where is the value in bucking the tide? We would point out that in 2012, seven years after Longfor issued its pamphlet, China's president Xi Jinping put in place "eight rules against extravagance" for Party officials that are reminiscent of the constraints Longfor placed on its managers. Like the pamphlet, Xi's rules targeted windy rhetoric at official meetings, welcoming parties for touring leaders, and fawning articles about leaders' personal lives (Longfor banned the publication of an internal newsletter).

Obviously, Xi was not copying Longfor, but Madam Wu possibly was able to gauge the way the wind would blow. And that is one important advantage innovative companies have over their competitors.



Quy Huy is Professor of Strategy at INSEAD. He is also Programme Director of the **Strategy Execution Programme**, part of INSEAD's suite of Executive Development Programmes.

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About the author(s)

Quy Huy is the Solvay Chaired Professor of Technological Innovation and a Professor of Strategic Management at INSEAD. He is also a director of the [Strategy Execution Programme](#), part of INSEAD's suite of Executive Education programmes.

Yidi Guo Yidi Guo was a PhD candidate at INSEAD.

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