



# HOW INTERNAL ENVIRONMENT OF AN ORGANIZATION ENABLES IT TO PROSPER ON A GLOBAL SCALE: A STUDY IN CHINA'S HAIER GROUP

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The changing circumstances of the business environment have had a quite impact on the organizations as many organizations had to go through internal change processes to meet the demands of the external environment and global competition. The purpose of this paper is not only to examine the internal environment of the organizations in order to shed light to what extent they enable it to survive in a global knowledge economy, but also; how it enables them to capitalize on international marketing strategies with the aim of accomplishing prosperity and expansion on a global scale. To achieve this objective, this paper will be structured based on a main element and it is stated as:

- How the internal environment such as structure, culture, leadership and employee engagement enables companies to survive and protect their existence.

A literature review was undertaken to explore the nature of global knowledge economy. Subsequently, findings were compared with the China's Haier group to consider their implementations which help them to protect their existence while they manage sustainable growth.

For the past 20 years, global economy was rather influenced by newly industrializing countries such as China, India, Russia, Malaysia and Mexico. The rising importance of China's multi-layered, customer focused, domestic markets had given China's global brand Haier Group the chance to achieve sustainable growth domestically as well as the ability of responding well to the challenges of global markets. China's Haier Group's global success connected to its remarkable leadership attributes engaged and committed workforce, concerted organizational structure and culture as well as right international marketing strategies that the company is strictly bounded.

## **Keywords:**

International Marketing, Engaged Workforce, Transformational Leadership

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## Introduction

The changing circumstances of the business environment have had quite an impact on the organizations as many organizations had to go through internal change processes to meet the demands of the external environment and global competition. It is possible to see such examples on the structure of the organizations as they now moved from hierarchical to “flat, focused, flexible and adaptive ones that are capable of rapid responses to change.” (Odger and Kelling, 2006 cited in McLean, 2006; 16). The purpose of this paper is to examine the internal environment of the organizations in order to shed light to what extent they enable it to survive in a global knowledge economy.

To achieve this aim, a literature review was undertaken to explore the nature of global knowledge economy. Afterwards, the importance of the internal environment was examined in order to find out the contributing factors that enable it to survive and prosper in changing circumstances of the new shifting economy. Subsequently, findings were compared with the China’s Haier Group to consider their implementations which help them to protect their existence while they manage sustainable growth.

### 1) Background to Organization

For the past 20 years, global economy was rather influenced by newly industrialising countries such as China, India, Russia, Malaysia and Mexico (Duysters, et al., 2009). The rising importance of China’s multi-layered, customer focused, domestic markets (Haier Group Interim Report, 2011) had given China’s global brand Haier Group the chance to achieve sustainable growth domestically as well as the ability of responding well to the challenges of global markets (Duysters, et al., 2009).

China’s Haier Group started as a small manufacturer of refrigerators and “burdened by a debt of RMB 1.47 million” (Li, 2004; 50) has managed to achieve implementation of a series of business plans and internalization of the company. When they managed to strengthen their position in domestic markets, they entered the Western markets as an OEM exporter (original equipment manufacturer). Afterwards, they merged with local companies in Yugoslavia where they built their first plant (Duysters, et al., 2009). At the end of 2000<sup>1</sup>, it is possible to see eight country offices of Haier Group across the globe (Duysters, et al., 2009).

As a result of their growth strategy, Haier Group has become a global brand with more than 70.000 employees and its products are distributed in 30 European countries. Haier Group also managed to achieve persistent growth over the last three decade with a “record turnover of \$20.7 Billion in 2010.” (Haier Group, 2010).



## 2) Global Knowledge Economy

The rising interest in Knowledge Economy in the last two decade, brought different aspects of knowledge to light. In the world of globalization, and international challenge, Global Knowledge Economy mainly refers to “knowledge economy beyond the boundaries of one nation” (Roberts, 2009). Based on the different explanations and definitions, it is possible to highlight eight core elements of the knowledge economy which have impact on a global scale. As Roberts and Armitage (2008, cited in Roberts, 2009) stated, these factors follow;

- Rising emphasis on knowledge forming the new economy,
- The expansion of information and communication technologies (ICT's),
- The increasing attention on knowledge as an economic output,
- “The growing commercialization of knowledge through, for instance, intellectual property rights (IRP)”,
- Increased fraction of knowledge workers around the globe,
- Increased impact of knowledge around all industries and sectors,
- As a result of that, increased attention on knowledge management processes,
- Globalization.

While the elements above, exalt knowledge to become the most important internal asset for organizations, they also enable knowledge economy to reshape the external business environment for the companies. One of the main component that companies need to keep up with, in order to adapt and survive in the external environment, is a growing need for innovation. As it is seen to be the main “strategic resource for companies in the knowledge economy” (Drucker, 1993; Spender, 1996; Porter, 2002 cited in Johannesen and Olsen, 2009), innovation has become the deciding factor in the competitive environment as knowledge has direct impact on the ability for innovation (Johannesen and Olsen, 2009).

Besides these factors, it is possible to see that the organizations serving knowledge economy are also compelled to come up with better service and products and modify the way they do business to strengthen their position in the changing circumstances of government policies, consumer behaviours, technology, domestic and global markets etc.

In order to adapt to the fast changing circumstances of the business environment and survive in domestic markets as well as challenging international markets, organizations need to maximise knowledge creation through different business plans and processes such as structure and culture of the organization, employee engagement and leadership.

### 3) Organizational Structure and Culture

Knowledge has become the conclusive factor in competitive business environment rather than the land and the capital in the last decade (Chen, 2008). In order to achieve sustainability and persistent growth, companies need to manage and direct “knowledge workers” (Drucker, 1959, Miller, 1977 cited in Paton, 2013; 20).

For knowledge creation, many business processes need to be performed. Hence, the design of organizational structure is a decisive element for creating the appropriate work environment (Claver-Cortes, et al., 2007).

In the case of knowledge economy, organizational structure could help enabling internal or external information flow, but at the same time it could hinder the processes. In that respect, it has direct impact on what organizations can “see and perceive and, therefore, what it can learn.” (Claver-Cortes, at al., 2007; 48). Therefore, organizations tend to move into more flat and flexible structures rather than hierarchical and horizontal organizations (Claver-Cortes, at al., 2007).

The number of levels on the hierarchical structure often hinder not only the processes that are important for organizations in order to readjust to the external environment, but also disabling the internal information flow. For that matter, as Sheth and Eshghi (1990, cited in McCalman, 1996; 510) argued “organizational structure is as important as organization strategy.” Therefore, the flatter organization structure with “an individual managers having larger numbers reporting to them” (McCalman, 1996; 509) is suggested to create an appropriate work environment for knowledge to occur. Flat structure mainly contains “top management, strategic groups and project teams (Wang and Ahmed, 2003; 55).

Another important enabler of knowledge creation is organizational culture. In order to increase knowledge creation in an organization, and enable knowledge accumulation through the different layers of an organization, knowledge-sharing culture needs to be implemented (Deshpande, et al., 1993, cited in Kao, et al., 2011) as it “opens up informal and formal channels to dialectical thinking, debates, and critiques” (Bhatt, 2000; 94).

Organizational culture, that is defined as “a complex set of values, beliefs, assumptions, and symbols” (Barney, 1986; 657) has a direct impact on the members of the organization, at the same time it also has an effect on the efficiency for innovation (Carmeli, 2005) and knowledge creation capability (Wang, et al., 2011).

#### 3.1. Haier Group’s Organizational Structure and Culture

Before they went through a structural change, Haier Group’s pyramid structure consisted of different hierarchy levels as it follows (Lin, 2009; 44-45);

- “Headquarter – Planning centre”



- “The product-line divisions – Investment centre/Profit centre”
- “Sales department – Revenue centre”
- “The factories and service departments – Revenue centres”
- “Work teams – Quality centres”

To adapt and survive in global knowledge economy, Haier Group put emphasis on the need for structure change. In order to achieve a successful change, executives of Haier Group “spent six months educating managers and workers.” (Lin, 2009; 43). In the Haier Group Annual Report (2009), they highlight the importance of giving the opportunity to individuals to make decisions rather than receiving instructions from superiors. In order to do so, they aimed to create “customer centered autonomous unit systems” (Haier Group Annual Report, 2009; 12) which will enable the information flow between the customer and the employees so that employees respond effectively to customer needs. By valuing the possession of their staff members, Haier Group was aiming to create a “win-win relationship between the enterprise, the client and the staff members” (Haier Group Annual Report, 2009). By disabling the walls between departments and encouraging the horizontal communications, Haier Group has managed to grow their departments to become more able to take advantage of initiative and be more interactive on business processes.

Although they mention that it would take a long time to achieve their autonomous systems plan, it is possible to see on the following year’s interim report that they value the importance of new structure. Haier Group Interim Report of 2010 stated that they will continue to try to establish the new autonomous units, but this time with an emphasis on “flat structure” (Haier Group Annual Report, 2010; 15). By decreasing the hierarchy levels, Haier Group is aiming to “develop a self-initiated enterprising culture (Haier Group Annual Report, 2010; 15) which will help different departments to become self-decision making units. It is also stated on the report that (Haier Group Annual Report, 2010; 15);

*We require all senior managers to break their boundaries that provide subordinates with a self-initiated operation platform and delegate authority.*

Another crucial element, that Haier Group believes to be important, is to remain loyal to core values of the organization as it follows (Haier Group Annual Report, 2010);

- “Consumer understanding,
- Brand building,
- Product innovation
- Make to order
- Modular production
- Customer oriented product design and solutions.”

An emphasis on customer satisfaction and understanding show itself on different system implementations. By favouring external market challenges to turn into internal challenges, Haier Group managed to promote individual employees as well as teams to be responsible for each customer they are interacting with which helps every employee provide the best performance in order to meet their customer’s needs (Lin, 1999).

The blend of new flat structure and the core values that Haier Group promoted were a great success. Direct interaction of customers and employees help Haier Group to increase “customer satisfaction rate by 60% and its quality level by 40%” (Lin, 1999).

It is possible to see the emphasis on customer satisfaction in different aspects of the Haier Group’s vision as they state they are driven by customer satisfaction which motivates them to come up with solutions to the different needs of their customers range (Haier Corporate Brochure, year unknown).

#### **4) Engaged Leadership and Employee Engagement**

As knowledge becomes the most important asset that companies have for sustainable growth in a challenging environment (Chinying Lang, 2001), top management teams of organizations are now aware of the importance of “rewarding and valuing” employee’s in possession of knowledge (Paton, 2013; 21). Current business environment and competitiveness made it necessary for organizations to attract high-performing employees as well as maintaining their key personnel. For that matter, organizations must create work environments that provide a sense of challenge and meaningfulness for employees (Whittington and Galpin, 2010; 15).

Especially when organizations need to do more with fewer resources than usual, knowledge based business environment requires more than “outdated change management methodologies that rely on problem-solving techniques” (Tombaugh, 2005; 16). It, now, requires managers to have leadership skills which would promote “cooperation, collaboration, and communication” (Graetz, 2000; 550).

On the other hand, as Buckingham and Coffman (1999 cited in Whittington and Galpin, 2010; 16) suggested, achieving employee engagement is directly linked to “productivity, profitability, employee retention, safety and customer satisfaction.” Creating an engaged workforce is the key element for organizational performance.

#### **4.1. Leadership and Employee Engagement Implementations in Haier Group**

Haier Group’s success lies behind a successful leadership story. A leader with a strong future vision and a management team with the capability to keep up with the changes in the business environment enable Haier Group to stand out both domestically and internationally in the age of globalization (Duysters, et al., 2009).

##### **4.1.1. Transformational Leadership**

Transformational leadership has been the focus of recent studies as transformational leaders are responding quickly enough to the external environment and implement the changes in organizations (Beugre, et al., 2006). As Pawar and Eastman (1997, cited in



Beugre, et al., 2006) argued that transformational leaders “create dynamic organizational vision that often necessitates a metamorphosis in cultural values to reflect greater innovation.”

It is stated in Haier Group’s Annual Report (2010) that the directors are responsible for setting long term business objectives and providing leadership in order to maximise their effectiveness and performance. In the case of Haier Group, company CEO Zhang Ruimin who has been a transformational leader for the group (Duysters, et al., 2009), managed to turn Haier Group into an international success story from a “loss-making enterprise” (Author unknown, 2003) in only 17 years.

Haier Group CEO Zhang Ruimin’s vision for the future could be captured from one incident (Duysters, 2009). In the early 1990’s, Haier was a single product driven company that was not even able to compete in the domestic market. During the time when many local and small businesses were emerging with big companies, Whirlpool offered to buy Haier, it was then that Zhang Ruimin rejected the offer and now Haier is a major competitor of Whirlpool.

It is possible to see Haier Group’s leadership success by ranks (Lin, 2009; 47);

*On July 30, 2008, The Wall Street Journal Asia published “Top 200 Asian Corporations” and Haier ranked first on “Overall Leadership of Mainland China Corporations” for the fifth consecutive years.*

*For six consecutive years, Haier President Yang Mianmian has earned a spot on Fortune’s “Top 50 International Most Powerful Woman in Business.” On the September 20, 2009 list, she was ranked no. 17.*

## **4.2. Managing Employee Engagement**

### **4.2.2. OEC Management**

As Haier’s Human Resources Management Director Wang Yingmin explains the acronyms that stand for OEC, “O stands for Overall; E stands for Everyone, Everything, and Everyday; C stands for Control and Clean” (Lin, 2005). OEC means every employee has to achieve the objectives that are set for a day with 1% increase than the previous day. The reason Haier implemented OEC is to control every employee and reward good performance while penalizing undesired outcomes in order to encourage employees to do better. Strict OEC management shows itself on different implementations for achieving full performance from employees, such examples follow:

- *Employees who fail to follow the technical requirements in production should be fined 20 CNY*
- *Employees who violate equipment operation procedures should be fined 50 CNY*
- *Employees who produce defective products should be fined an amount of up to 10% of the material price.*

Such penalties helped regulate the typical Chinese behaviours (for instance, not paying enough attention to details or ignoring rules [Lin, 2005]) and encourage an effective and an innovative workforce. As a result of that strict OEC management yield motivated employees as well as satisfied customers.

## **5) Conclusions**

In order to survive and prosper in global knowledge economy, companies are in need of high-performing employees while maintaining their key personnel. For that matter, knowledge workers need to be valued and rewarded.

Haier Group's emphasis on employees as an individual asset enables them to become a key factor for innovation and profit creation. This implementation allows employees to be an active part of both individual and organizational success while creating them a competitive and fulfilling work environment. By doing so, Haier Group is aiming to promote this internal competition to be an advantage in the external business environment.

In case of Haier Group, the organization was restructured to flat structure in order to maximise the knowledge creation while knowledge workers are guided to organizational objectives with required leadership skills. The new organizational structure enables information flow horizontally from external to internal and internal to internal which allows knowledge creation and innovation to answer consumer needs.





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