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## Haier in 2014: An entrepreneurial juggernaut facing a world of platforms and ecosystems

Until the 2010s, China had been known for inexpensive products and efficient, low-cost production and for copycat or OEM products rather than for leading-edge innovation. Yet, in a few short years, Chinese firms turned to quality and innovation, drastically increasing their market share. A shining example of Chinese success, by 2008 Haier had become the biggest retailer of large household appliances in the world. Yet as consumer electronics changed and competition intensified, Zhang Ruimin, the CEO who had led the company from near-bankruptcy in 1984 to the top spot from 2008 to 2014, wanted Haier to go further. How could he push it to become a truly innovative global company; one that competed on the basis of new-product innovation. What would it take for Haier to leap into first place?

### Background to Haier

Haier started life in the 1920s as the Qingdao Refrigerator Company, a small manufacturer in Qingdao, a port city in China's northern coastal Shandong province. It was taken over by the government in 1949, later becoming a township and village enterprise (TVE). TVEs were collectively owned by workers, sharing any profits and owning all the assets. Local governments could, however, influence the choice of management and allocation of key resources.

It was the local government who wanted Zhang Ruimin (a member of the government) to run what in 1984 had become a failing company. Zhang was 35 when he took over. The company was on the verge of bankruptcy and he was the fourth manager in a year. He took a bold approach and, soon after taking over, asked the workers to destroy 76 faulty refrigerators with sledgehammers to demonstrate to them that quality should never be compromised.<sup>1</sup>

Zhang was inspired by Peter Drucker's book *The Effective Executive* to treat what went on in the factory as routine and instil discipline into processes and workers.<sup>2</sup> The workers were largely uneducated, so Zhang introduced 13 simple rules of conduct to improve discipline. These included not arriving late or leaving early, no drinking during work hours, smoking was not allowed on the factory floor and would be fined, and no looting of plant materials.<sup>3</sup> Simple rules would encourage discipline and improve competitiveness in a crowded field of more than 300 refrigerator manufacturers.<sup>4</sup>

From his second year of leadership, Zhang hand-picked workers and sent them to Germany for training. On their return they would become technicians rather than just workers. He told them that if they could not learn, they would not become technicians. Despite the training, Zhang considered the quality of workers to be low.

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