中国海尔集团推行独特而先进的 OEC 和市场链管理控制机制赢得市场竞争优势

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中文摘要

在过去20 年中，中国海尔集团从一个濒临破产的冰箱制造工厂转变成了一个拥有多化产品的国际企业集团，并被列入《世界最具影响力的100 个品牌》。海尔拥有包括白色家电、黑色家电、米色家电在内的96 大种类、15100 多个规格的产品群，并出口产品到全球160 多个国家和地区。同时，海尔现有工业园区10 个、海外工厂及制造基地30 个、海外设计中心8 个、营销网点58800 个。据2004 年市场统计显示，海尔小冰箱、酒柜在美国市场已占据了第一的市场份额。在2004 年11 月的英国《金融时报》和普华永道联合评选的“全球最受尊敬的企业＂中，海尔蝉联中国最受欢迎企业第一名。

本论文叙述了海尔集团发展战略创新的三个阶段：名牌战略、多元化战略和国际化战略，并指出海尔企业文化、制造技术、组织结构、管理控制机制、信息技术和薪酬体制是如何配合其战略发展的三个阶段而相应改变的。 本文还对海尔OEC和市场链流程再造的管理控制机制进行了详细的阐述。最后作者指出海尔的五个改进方向及海尔可向美国通用电气集团借鉴的五种管理方法。

Effective Management Control Systems Help China Haier Group Achieve Competitive Advantage

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ABSTRACT

During the past twenty years, China Haier Group went from a nearly bankrupt refrigerator factory to a diversified global company among the list of the world 100 most recognizable brands. This paper describes how Haier developed its three stages of business strategy and management control systems such as corporate culture, OEC management, and market chains based business process reengineering to achieve competitive advantage and success. It also identifies opportunities for improvement and lessons that Haier can learn from GE.

INTRODUCTION

In 1984, Zhang Ruimin took over a nearly bankrupt refrigerator factory, Haier Group, in Qingdao, China, and in 2004, the company’s global sales hit $12 billion with a growth rate of 68% during the previous 20 years. Today Haier Group is recognized as a worldwide brand. On January 31,

2004, the firm ranked 95th after such household names as Coca-Cola, McDonald's, and Nokia, which were the top three on the World Brand Laboratory's list of the 100 most recognizable brands. Haier was the only Chinese brand on the list. For a second consecutive year, Haier was honored as the "Most Respectful Enterprise in China" in the rankings of "Global Most Respectful Enterprises," coevaluated by the Financial Times and PricewaterhouseCoopers in November, 2004. So how did they achieve their success? As one of China's fastest-growing companies, Haier Group fits a 1999 Gallup survey profile for a successful company.

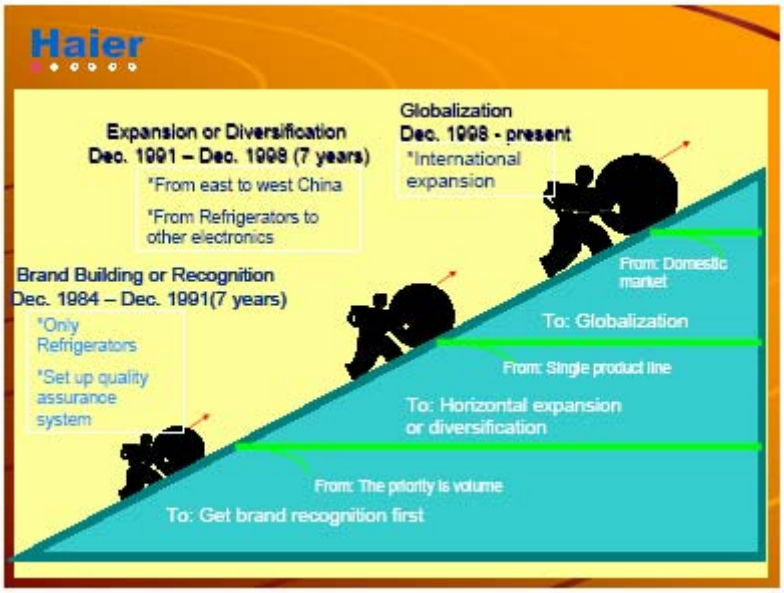
Customer service, product quality, operating efficiency, innovation, and speed to market are among the top seven factors for success (Gallup Organization, 1999, p. 1). Haier excels in all these areas.

Management control is the process by which managers influence other members of the organization to implement the organization's strategies (Anthony and Govindarajan, 1998, p. 6). This paper describes how Haier developed its three stages of business strategy, and management control systems such as corporate culture, OEC management, and market chains based business process reengineering to achieve competitive advantage and success. It also identifies opportunities for improvement and lessons that Haier can learn from GE.

BUSINESS STRATEGY

Haier CEO Zhang Ruimin and President Yang Mianmian say the firm developed three major strategies over three stages: brand building or recognition strategy, expansion or diversification strategy, and globalization strategy (See Figure 1). Called the famousbrand strategy, the first stage lasted from 1984 to 1991. During this period, it created and built Haier-brand products and set up a quality assurance system. In April 1985, CEO Zhang gathered all employees and battered the first poor quality refrigerator with a hammer, and then the employees responsible for these goods battered 76 defective refrigerators. The hammering event woke up the quality awareness of all employees and established the concepts of "defective products are wasters" and "excellent products are produced by talented employees." The thinking shifted from volume being the priority to quality and brand recognition being the priorities.

Figure 1: Three Stages of the Strategy Development



From 1991 to 1998, the second stage featured an expansion or diversification strategy within China. Since the firm bases itself on quality instead of quantity, it decided that if someone bought a Haier Group refrigerator, then maybe they would look to buy something else from the firm. The business was developed primarily through mergers and acquisitions to cover all kinds of household electrical appliances and electronic consumer goods instead of just one product. At this time it also focused on building great distribution channels all over China and improving product development speed and quality as well technologies.

Since December 1998, the third stage has focused on globalization strategy. It exported its products to Germany first, then to other European countries, the U.S., Southeast Asian countries, Middle East countries, and India. In 2000, the firm opened a $35 million refrigerator factory in Camden, South Carolina, started selling products through Wal-Mart and many other national and regional chains. On March 4, 2002, the firm unveiled its American headquarters in the landmark neo-classical building, the former offices of the Greenwich Savings Bank, on Broadway, Manhattan, New York; it was an indication that the firm had moved into a new phase for globalization of product design, manufacturing and sales, and had a strong determination for long-term development in the United States. On August 20, 2003, the firm erected an electric billboard in the shopping district of Ginza, Tokyo, symbolizing its determination to reach the Japanese marketplace.

The firm's international promotion framework encompasses global networks for design, production, distribution and after-sales services. It established 18 design institutes, 10 industrial complexes, 22 overseas production factories and 58,800 sales agents worldwide. The company sells its products in 12 out of 15 European chain supermarkets and 10 of America's chain stores. The firm has design, production and sales facilities in the United States and some European countries; local employees primarily run them.

None of the employees at its New York headquarters are Chinese.

Two other key business strategies at Haier relate to winning over consumers: speed and differentiation. Speed means to satisfy the consumer's needs as quickly as possible; differentiation means to introduce brand-new products or products with features to meet different needs. For example, the firm's U.S. president requested that the Haier headquarters design a new refrigerator that has pullout drawers in the freezer chest for the U.S. market, and in 17 hours, a micro-freezer prototype was built; this exemplifying the firm's speed strategy. Another example of the firm's differentiation in action: one employee discovered through visiting rural customers in the western part of China that they frequently used their washing machines not only to launder clothes but to also clean vegetables. Later, the firm marketed the machines as versatile enough to wash both clothing and vegetables for China's rural areas.

The firm differs from other appliance companies in that it will build products to order and it doesn't compete on price. Its philosophy is, "Customer is the king for every Haier sales person." All employees learn that they have to give customers what they want. If a customer buys a refrigerator, washing machine or an air conditioner, an employee goes to his or her home to set it up for the customer.

Table 1 shows Haier's three stages of business strategy development and related corporate culture, manufacturing strategy, organizational structure, and management control systems, information technology, and compensation systems.

Table 1: Haier Strategy, Structure, Management Control And Compensation Systems

Three Stages	1984-1991	1992-1998	1999-present
Strategy	Brand building/recognition	Expansion and diversification	Globalization
Corporate Culture	Work diligently; pursuing excellence through innovation	Customer is king; speed to satisfy customers; culture activated newly acquired firms	Modifying domestic culture to foreign local situations; Haier is the sea to accept all talent people from around the world for an ambitious goal

Manufacturing Technology	Importing technology	Imitating and improving technology	Self-developing technology
Organization Structure	Traditional pyramidal functional structure	Matrix structure	Process-based flat web-like structure
Management Control Systems	Total quality management	OEC (Overall, Everyone, Everything, Everyday, Control, and Clear) management	Market chains-based process reengineering; Every employee is a strategic business unit (SBU)
Information Technology	Manual system	Computer-based system	Decision Support System
Compensation Systems	Piece rate wages	Wages and bonus	Market-chain profit based wages, bonus and stock options

CORPORATE CULTURE AND CORE VALUES

Haier established an enterprise culture department to actively promote and educate employees. An 80-page handbook of the Haier Enterprise Culture includes the following key features:

1. Haier Spirit: We work diligently to serve the country and to pursue excellence through innovation.
2. Haier Work Style: We pursue operating efficiency and quickly respond to the market and take immediate action to meet customer needs.
3. Employment Principle: Every employee is talent with an open bid for a vacant position.
4. Quality Focus: Excellent employees produce high quality products.
5. Sales Motto: We establish our credibility before selling products.
6. Market Competition Concept: We compete with value, not price.
7. Service Concept: The customer is always right.
8. Management Accountability -- 80/20 Principle: Management is 80% responsible for any subordinate's wrongdoing.
9. Team Spirit -- 10/10 Principle: Top 10% of performers ought to help the bottom 10% performers to improve the firm's competitive advantage.
10. Haier is the Sea -- We accept all talented people from around the world for an ambitious goal. Every Haier employee should be capable rather than mediocre and redundant for he or she are the backbone and guarantee of Haier's future development. Haier should be like the sea and make contributions to mankind "sincerely forever." In so doing, it will exist forever for the good of all, and Haier will be part of the whole society.

According to Haier Group's Haier University President Zou Xiwen, the core values of Haier's development are speed, innovation, and SBU (Strategic Business Unit).

An SBU is a profit unit where each employee generates his or her revenue by providing best service to the next-step downstream employee and incurs expense or cost by receiving service or resource from his or her previous step upstream employee and supporting departments. All

50,000 employees strive to reach the target set forth in its SBU Program. Its short-term goal is to become among the world's top 3 white goods manufacturers.

OEC MANAGEMENT

In order to focus on customer needs, product quality, innovation, speed, and to improve the operating efficiency, the firm started to develop and implement the OEC management in early 1990s.

According to Haier's human resource management director Wang Yingmin, "O stands for Overall; E stands for Everyone, Everything, and Everyday; C stands for Control and Clear. OEC means that every employee has to accomplish the target work everyday. OEC management control system aims at overall control of everything that every employee finishes on his or her job every day, with a 1 percent increase over what was done the previous day."

OEC management has three subsystems: (1) Target Setting, (2) Control, Checking and Clearance, and (3) Incentive Mechanism.

Target Setting

During December of each year, Haier Group Headquarters set the next year's guidelines and goals for each division by considering past performance, market demand forecast, group long-term goals, and each division's input on specific market development needs.

Each division submits a divisional action program form with respect to its annual guidelines and goals. This form is also called the divisional management account. It includes specific annual goals, specific targets, and action programs, deadlines, responsible divisions, quality criteria, evaluation method and frequency. A department management account consists of department or factory annual goals, specific targets, and action programs, deadlines, responsible departments or factories, quality criteria, evaluation method and frequency. An employee management account consists of task items, evaluation criteria (benchmark, past period performance, and this period goal), values, responsible person, daily actual results, evaluation results, actual compensation, and reviewer. This form is also called the daily activity control clearing account for each employee.

Before the 26th day of each month, each department head submits an OEC monthly control general ledger to his or her superior for approval. It includes a list of items, target value, last month value, expected evaluation result, last month's error correction number, this month's error correction numbers, responsible persons, workhours, and daily clearance control evaluation summary for each day of the month.

Each job is assigned to a specific employee, with a clear understanding of the job's supervising manager, the responsible employee, the employee's partner, and the quality-check person. For example, each piece of glass in a particular building is associated with the name of an employee who is responsible for taking care of it.

Control, Checking, and Clearance: the OEC Daily Clearing Routine OEC daily clearing routine includes the following nine-step procedure:

1. Each team supervisor gives a daily briefing to workers before starting their work.
2. Production workers conduct their activities by following the seven OEC criteria to check and control.
3. Supervisors conduct inspection onsite tours every two hours, detect and solve problems, and complete the production site OEC form with seven OEC criteria items.
4. At the end of the day, all workers conduct a self-check of their own work with the OEC criteria, fill out their 3E (Everyone, Everything and Everyday) cards with seven OEC criteria items, and submit them to their supervisors. For the production workers, it consists of seven items: production quantity, quality, material consumption, technology level, equipment maintenance & condition, production safety & workplace condition, and labor discipline. For other workers, it consists of activity items and specific targets. All employees fill in a form themselves daily, and calculate his or her wage using the following formula: wage = rate x quantity + award – penalty.
5. Each supervisor examines the 3E cards submitted, corrects errors, gives a comprehensive evaluation and submits the evaluation results to the work area manager. Evaluation results are graded into A, B, C. If A, add ¥5 to that employee's daily compensation; if C, minus ¥5.
6. Each work area manager checks the sample 3E cards, and fills his or her own 3E card and submits it to the factory director.
7. Each factory director reviews the 3E cards, and records the results in the factory OEC account. He or she then files a daily progress report to the Deputy Division General Manager regarding problems found, solutions tendered, and problems unsolved and suggested solutions to unsolved problems.
8. The Deputy Division General Manager reviews daily progress reports, suggested solutions, and provides feedback before reporting to the Division General Manager.
9. If necessary, all production and supporting department heads get together to discuss and analyze problems found through the OEC process, and work together to suggest correction, improvement and prevention needed.

Incentive Mechanism

Haier's incentive policies are "openness" and "fairness." It adopts a point system for production workers. If an employee earns more points, he or she makes a higher wage and bonus. By using the 3E card, both the management and each employee knows his or her daily wage and why.

The firm also uses quality-check coupons to provide an additional incentive mechanism. Each employee has a quality-check coupon booklet with red and yellow coupons for rewards and penalties. The booklet lists all quality problems the firm has detected, and provides guidelines for checking each defect. If an employee failed to self-check a quality problem, which was later found by his or her team member during a crosscheck or by the superior during a managerial check, he or she would lose a red coupon and receive a yellow coupon, which will be counted against that day's wage and bonus.

Workers are evaluated individually, not in groups. Each employee receives a daily grade for the

actual performance and progress toward achieving his or her target. Daily evaluation results are shown to workers the next day on the bulletin boards in the factory. The employees who are acknowledged as the best workers for three consecutive days have the honor of telling their experiences to fellow workers. The employees who become the best workers most frequently in one month are considered the best workers of the month. They are given a better chance to attend job training and social benefits. And employees who become the worst workers most frequently in one month are demoted to probation workers. Each month, both the best and the worst employee have their names publicized on the firm's bulletin board.

The firm has an open competitive bidding system for job placement. When there is a job opening within the group, employees with the qualified skill level through internal training seminars or on-the-job training can bid for that job. Management makes the final decision and selects the best candidate based on the submitted bids.

MARKET CHAINS BASED BUSINESS PROCESS REENGINEERING

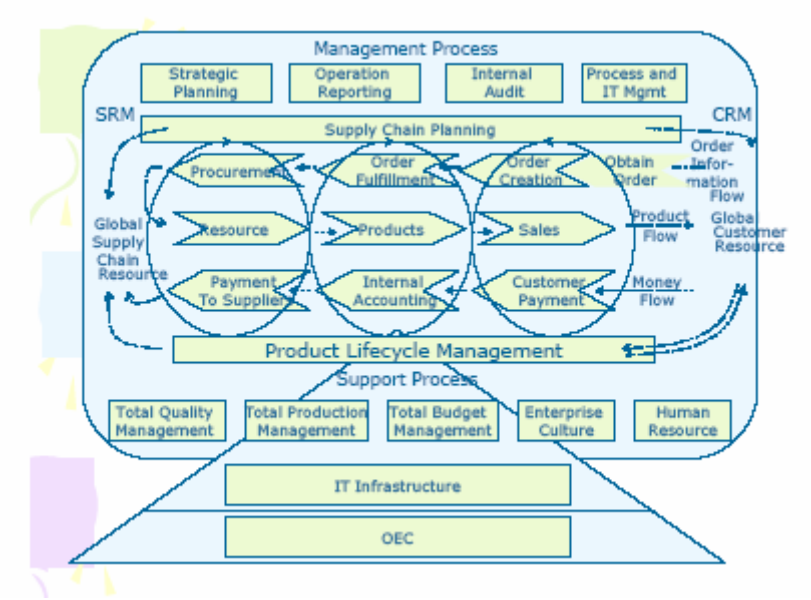
What and Why of the Market Chains Based Business Process Reengineering In late 1998, Haier began to implement the market chains based business process reengineering system. According to CEO Zhang Ruimin, a market chain is a series of business process activities to produce products or render services to satisfy customer needs. Every Haier employee's next downstream activity or process is a market, and every employee faces a market with a direct linkage to a customer. This allows the firm to convert external market competition into a kind of internal competition. Therefore, with employee compensation tied to market performance, every employee provides the best activity performance to meet his or her customer needs. In a nutshell, a market chain links every employee's work with the market (this can be an external market or an internal market).

Every Haier employee has a picture of the entire organization and how all its parts are related. For example, the direct customer of the production department is Haier's distribution department. If you ask an employee where an order comes from, he or she can tell you who the customer is. Each employee attends training conducted by the Haier University to understand the company's entire market chain system from product development to production and distribution.

The following diagram (Figure 2) shows the synchronous flow model of Haier's market chains. The top row shows the management process of strategic planning, operation reporting, internal audit and process and IT management. The second row shows the supply chain planning that links with both the supplier relationship management (SRM) to obtain the best global supply chain resource and the customer relationship management (CRM) to provide excellent service to global customers. There are three major flows: order information flow, product flow, and money flow. In the center of the diagram, there are three circles. The left circle shows the primary activities of the Logistics Division. The middle circle shows the primary activities of the various Product Divisions. The right circle shows the primary activities of the Marketing and Sales Division. The company pays attention to the product life cycle management. All service

departments support the above-mentioned three circles with total quality management (TQM), total production management (TPM), total budget management (TBM), Haier enterprise culture (EC), and human resource management (HRM). The fundamental bases of the market chains based business process reengineering system are IT infrastructure and Haier's OEC management control system.

Figure 2: Market Chains Based Business Process Reengineering System



Why did Haier choose to implement the market chains based business process reengineering system? In China, every employee would rather be the head of a chicken (i.e., an executive in a small company) than the tail of an ox (i.e., a small manager in a large company). Facing the challenges brought by E-commerce and China's accession to the WTO, Haier began a management restructuring program in late 1998 backed by the efficient market-chains system and order process performance, focusing on improved information dissemination for contract performance, logistics, capital investment, aftersales services and inventory and operation cost reduction. Haier's production and management system restructuring has enabled the company to diversify internal and external resources. Haier worldwide logistics, distribution and manufacturing facilities ensure customer satisfaction through their efficient operation.

Organization Structure And Process Changes

As the first part of the first phase market chains based business process reengineering system, Haier Group executives spent the first six months educating managers and workers regarding the need for change, emphasizing taking down walls between departments and divisions and being prepared for structural change. Under the old system, the Haier Group headquarters was the planning center; the product line divisions were investment centers or profit centers; the sales departments were revenue centers; the factories and service departments were cost centers; and the work teams were the quality centers. Only sales departments had to face the

market directly.

The second part of the first phase was the initial organization change. In March 1999, Haier started its first organizational change – to transform the group's pyramid structure into a matrix structure focused on project operations. The horizontal axis consists of functional departments while the vertical axis consists of projects. The new structure maintained all the divisions and their R&D, procurement and sales departments, but the divisions should interact with other divisions on certain projects.

From mid-August to October 1999, Haier implemented the final part of the first phase business process reengineering system by a revolutionary organization change, i.e., to create three major interactive processes with divisions under each process:

1. Development or Core Process

Sales, procurement, and accounting, and export departments were removed from all product line divisions to form four independent divisions: Commerce Flow Development Division, Material Flow Development Division, Overseas Development Division, and Capital Flow Development Division. These new division heads report directly to the Group President.

2. Functional or Supporting Process

Other service departments from each division were also removed from each division to form the group-wide R&D, Human Resource, and Customer Relations Divisions (Haier calls them 3Rs), and Total Production Management, Total Quality Management, and Total Budget Management centers (Haier calls them 3Ts). The 3Rs are development-supporting processes, and the 3Ts are basic support processes. These new division heads report directly to the Group President.

3. Product Process

The factories were rearranged to form seven product divisions: Refrigeration, Air Conditioner, Washing Machine, IT Product, Kitchen, Bath and Electric, Technology Equipment, and Direct Affiliates such as Communications, Housing, and Biological Engineering. These division heads also report directly to the Group President. For example, in the second refrigerator division, there were six layers from the plant general manager to the line workers before the organizational change. After the change, there were only two layers left: plant general manager and workers. Before the change, customer orders flowed through many divisions or departments: marketing department, specific product group division, planning department, production plant, and production work stations. After the change, the customer orders go directly to the production work stations.

From November 1999 to March 2001, Haier implemented the first part of the second phase of the business process reengineering system with the goal to consolidate external resources to obtain valuable customer orders. It consists of logistics reorganization, supply chain management, and three just-in-time (JIT) systems.

1. Logistics Reorganization

• Unified Purchase

There is a 5% decrease in material cost annually.

• Unified Warehousing and Storage

Haier has built two fully automatic logistics centers, which not only decrease a warehouse area by 200,000 square meters, but also cut down 90% of idle materials and 63% of capital in stock.

• Unified Delivery

At present, Haier has 16,000 vehicles countrywide available for delivery, cutting down on transporting cost.

2. Supply Chain Management and Three JIT Systems

a. Supply Chain Management

• Interior

Integrated supply chain management allows an ordering cycle of more than 7 days to be reduced to less than one hour. Besides, indicator board-watching management enables the materials to be delivered to working points in 4 hours.

• Exterior

It extends to every supplier, allowing the responding time of 36 days for an order to be reduced to 10 days or less.

• Results: (1) reduced suppliers from 2,366 firms to selected 700 firms, (2) suppliers participated in design; (3) international renowned suppliers are 82%.

b. Three Just-in-Time (JIT) Systems

Haier Logistics achieves synchronous flow at the speed of three JITs: JIT procurement, JIT internal delivery, and JIT external logistics.

• JIT Procurement

It transforms from a supplier to a partner, from business to mutual benefit, and from transaction relation to strategic partner relation. With the reconstruction of the internal and external resources, the structure of suppliers has been entirely optimized. The establishment of two international industrial parks, execution of parallel projects, and introduction of international suppliers for investment in setting up factories and for participation in product design and development, all of these speed up the tempo of product development and enhance product quality greatly, ensuring that Haier has technological superiority to its opponents, as well speeding up the tempo of response to orders and making JIT procurement come true.

• JIT Internal Delivery

The establishment of two international logistics centers changes the warehouses for storage into relay-type delivery centers. It revolutionizes the traditional warehouses. It enables a capacity of delivering materials to any working points in 4 hours. Furthermore, starting from the basic containers and conveying tools for logistics, having them unified, standardized, containerized, universalized and mechanized, Haier Logistics carries out an entire in-depth reform of the delivery management system for the working points in workshops, as well as the OEC management system. The management mode of a pull-type indicator board enables the soft

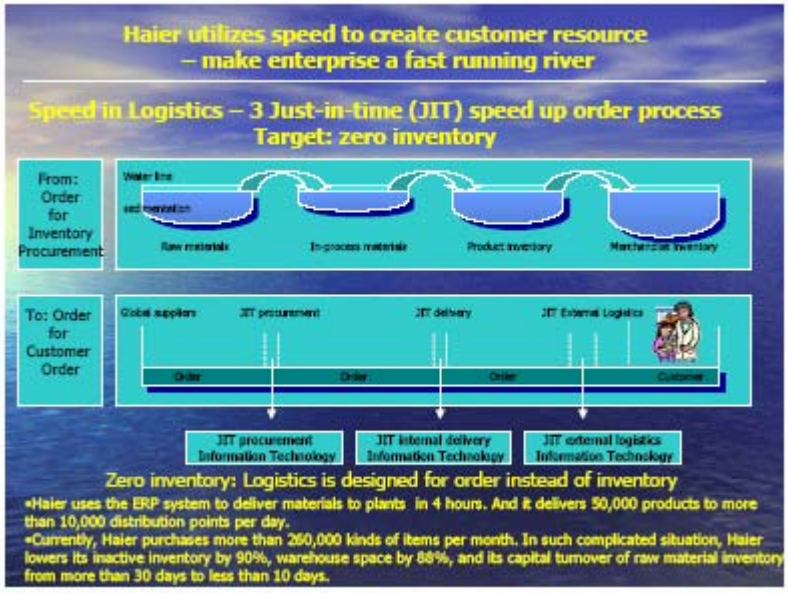
production by which every line is capable of producing products with hundreds of specifications for over 10 countries. This also makes JIT relaytype logistics management come true.

• JIT External Logistics

Keeping cooperative relations with some powerful units by means of Haier Group's delivery resources, such as the national Post Office, China Transport Group and Huangtianbai Company, etc., Haier Logistics devotes great effort to the devolvement of the third party logistics and sets up a network connecting to global supply chains and global customer resources. By means of the information platform, the GPS technology and the bar code technology, allocation of materials to the main cities in 8 hours, to some regions in 24 hours and any place countrywide in 4 days can be achieved. This guarantees to quickly meet customers' requirements in a new economic epoch. It also realizes zero-distance service.

The goal of Haier Logistics is to Eliminate Space with Time. After the implementation of the market chains based process reengineering system, Haier logistics has achieved synchronous flow at a speed of three JITs (Just-in-Time) with the goal of achieving zero inventories (See Figure 3) by changing from "push production to produce inventory" to "pull production to produce no inventory." Haier improved on-time delivery from 95% to 99%, and reduced the transportation defective rate from 3% to 0.5%. It also reduced prices and improved quality of both raw materials and parts. It saved the entire group more than 100 million RMB in 1998, more than 500 million RMB in 1999, and almost 1 billion RMB in 2001.

Figure 3: Zero Inventories by Three Just-in-Time (JIT) Implementation



SST System: Claim Compensation, Claim Payment, And Stop

For the second part of the second phase of the business process reengineering system in 2001, Haier created a unique transaction job recording system between two activities in the market

chain, called SST: Claim Compensation, Claim Payment, and Stop!

• S (Suo Chou): Claim to the downstream activity party for compensation. If an upstream activity employee can perform his or her activity or job well, he or she should claim compensation from the employee (i.e., his or her internal customer) downstream in the market chain. For example, the logistics department follows a product division's monthly and weekly production plans to deliver materials to various production work stations, and makes a daily or weekly claim to this product division for the service provided according to the contract price.

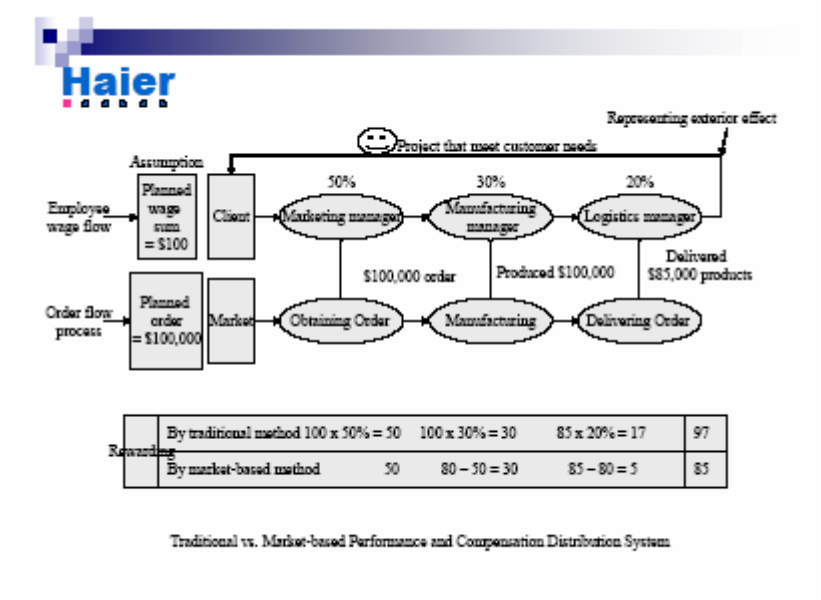
• S (Suo Pei): Claim to the upstream activity for payment. If an upstream activity employee does not perform his or her activity or job well, his or her next downstream activity employee (i.e., his or her internal customer) should claim payment from him or her. For example, if the logistics department delayed the delivery of materials, then that product division can make a claim for its loss.

• T (Tiao Zha): Stop. If there is neither a claim for compensation nor a claim for payment, the computer system will stop the process. The responsible party should pay the claims. The final decision on whether or not to pay for any job is up to the downstream activity customer because in Haier – the customer is always right!

For example, due to either production delay or material delivery delay, the responsible party should pay the claims.

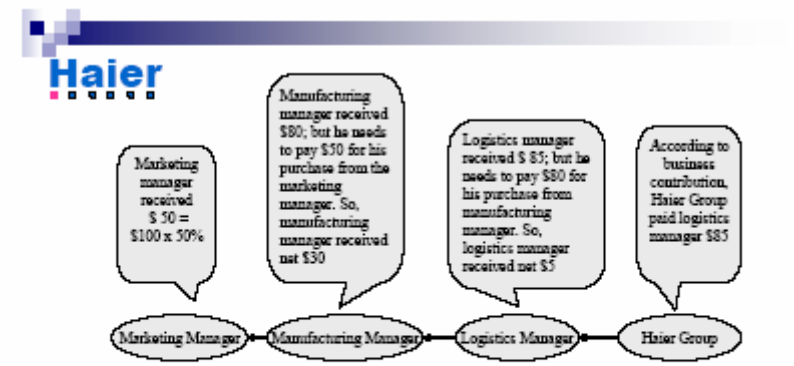
The following example compares the traditional versus market-based performance and compensation distribution systems. Assume that one $100,000 customer order requires cooperation of three departments: marketing, manufacturing, and logistics departments with the effort of 50%, 30%, and 20%, respectively. Also, assume that both marketing and manufacturing departments obtained and produced the target $100,000 order while the logistics department only delivered $85,000. Both the traditional and market-based performance and compensation are shown in Figure 4. Under the traditional system, the logistics manager is expected to received $17 compensation (= $85,000 x 100/100,000 x 20%). But under the market-based system, the logistics manager can only receive $5 compensation as explained in Figure 5.

Figure 4: Traditional vs. Market-based Performance and Compensation Distribution System



Traditional vs. Market-based Performance and Compensation Distribution System

Figure 5 Market Chains Based Compensation Distribution Flowchart



Market Chains Based Compensation Distribution Flowchart

Every Employee Is A Strategic Business Unit (SBU)

Starting in 2002, the third phase of the business process reengineering system, Haier has focused on making every employee a strategic business unit (SBU). SBU means that each employee is an independent profit center with the responsibility to make profit. Each employee generates his or her revenue by providing the best service to the next step downstream employee and incurs expenses or costs by receiving services or resources from his or her previous step upstream employee and supporting departments.

The SBU's goal is for each employee to become the principal part of innovation, demonstrating his or her own value while creating value for customers. Because of the SBU program, the thought process of employees goes from "I am only in charge of design, so don't think about manufacturing or sales" to "How does the market accept my design?"

At Haier, each employee has a "resource passbook." This passbook has two columns: one for income, one for expenses. For example, Mr. Chen, an employee responsible for designing products is rewarded not on how attractive these products are but on how they sell in the market. If Product X has a break-even point of 20,000 units and sales are more than that level, then Chen will earn a bonus from the profits earned.

In Chen's resource passbook, the income column contains the basic salary plus bonus amount that he has earned from selling Product X to the market. The expense column is a fixed percentage of the total amount of resource provided by the company for him to develop this product. If he sold only 15,000 units, his income will be his basic salary, and the other 5,000 units will be transferred with a formula to calculate the loss amount and be recorded as an expense in his resource passbook. Chen is not required to pay this money to the firm immediately. It can be cumulated to the year-end. If, in the future before the year-end, Chen designs another product that sells well above the break-even point, then the bonus from that product profit will be used to compensate for the losses on Product X.

One advantage of the SBU concept is to get everybody involved and everyone to become innovative. For example, Mr. Liu, a painting worker from the Plastics Subdivision Planting plant, updated a "resource passbook" in his workplace everyday. On December 29th, 2002, he used 11.96 kg of paint for TV box painting, while the budgeted volume was 11.87 kg. If the paint was converted to money, he lost 6.75 RMB. According to the preset 10% ratio, he owed 0.675 RMB to his company. However, on January 5th, 2003, he improved the efficiency by using 13.91 kg for painting while the budgeted volume was 18.78 kg; and he earned 45.55 RMB up to that day. Mr. Wang, a leader in Liu's team, has a "resource passbook" too. The only difference is that he does not use paint as a criteria. Instead, he uses a utilization ratio. On December 29th, 2002, Wang's team still owed 5.2 RMB to his company. Wang tried to train and motivate his workers, and on January 5th, 2003, they earned 119 RMB!

The essence of the SBU management is not to control employees' behavior but to create new space for employees' innovation. For example, before the SBU management implementation, the painting department manager had only one standard to assess a painter, Mr. Hu's work, which is "painted items do not look cyan". However, the reason why painted items look cyan is because the paint layer is too thin. So, in order to meet the requirement, Hu used to paint a thick layer. The result was that he met the requirement, but the consumption of paint was too much.

After implementing the SBU "resource passbook," Hu needed to manage his consumption of paint too. After Hu invented a new painting tool, he solved the problem to reduce the paint consumption. Moreover, the time needed to clean painting tools was reduced from once per 3 cycles to once per 60 cycles. Another SBU success story is Zhang Yongxun, a person who has managed the steel plate purchase business on his own since 2002, and has helped grow sales of steel plate from 0.9 billion RMB in 2002 to 1.8 billion RMB in 2004.

OPPORTUNITIES FOR IMPROVEMENT

Haier needs to work on the following areas to make a continuous improvement:

• Re-examining and designing a proper speed and degree of diversification.

• Recruiting talent, dedicated, and experienced senior level managers, especially finance, accounting, and marketing managers, with global experience from famous multinational companies.

• Incorporating more non-financial measures into SBU resource passbooks.

• Adding a quantum of measurements based on group activity and strategic value.

• Tailoring its management system to every region and taking into account each region's accepted practices and cultural differences.

WHAT HAIER CAN LEARN FROM GENERAL ELECTIC (GE)

Chinese people call Haier as "China's General Electric (GE)." Following is a list of similarities between Haier and GE:

• Strong leader with clear vision and the ability to transform vision into reality.

• Good globalization strategy.

• Focus on customer satisfaction, speed and innovations.

• Employee is the most important asset.

• Sophisticated and inspiring management systems.

Haier Can Learn from GE:

• GE key leadership ingredients – 3 screens: Integrity, Intelligence, and Maturity;

4Es: Energy (take actions), Energizer (motivate others), Edge (competitive spirit), and Execution (deliver results); and 1P: Passion for work and people.

• GE session C meetings – the annual review of managers from February to May to identify, nurture, reward and promote the right people with leadership assessment criteria: vision, customer/quality focus, integrity, accountability/commitment, communication/influence, shared ownership/ boundaryless, team builder/ empowerment, knowledge/ expertise/ intellect/ initiative/speed, and global mind-set.

• GE six sigma approach of the quality management – five measures: customer satisfaction, cost of poor quality, supplier quality, internal defect performance, and design for manufacturability.

• GE boundaryless sharing of ideas, and work-out/town meetings to empower employees.

• GE No. 1 or No. 2 pursue in businesses and product sectors, but not narrowing the market.

CONCLUSION

Haier has implemented its management control systems such as enterprise culture, business strategy, OEC management, and market chains based business process reengineering with the following major characteristics:

1. Focus on and understand customer value, product quality, operating efficiency, innovation, and speed to market.

2. Commit top management and leadership to create a "new way of management" and a

performance culture.

3. Involve management and employees in creating the OEC management and market chains based management control systems. Allow them to become familiar with these two systems. They could then be more willing to implement these systems because they feel included and share in ownership of the systems.

4. Educate management and employees. Use seminars and weekly company newsletters to educate management and employees about firm strategy, customer value, OEC management, market chains based business process reengineering, and every employee being a strategic business unit (SBU) to enable them to understand these concepts and appreciate the benefits.

5. Create desired incentives. Reassures employees that they will be properly evaluated in accordance with their performance.

The above management control system implementation leads to the following outcomes: satisfied customers, efficient and effective processes, motivated and prepared employees, sustainable revenue and profit growth.

Haier is the first Chinese collective enterprise that has a scale of RMB100 billion (USD 12,082 Million) with its own established brand. The sales revenue created by an average employee in Haier in 2004 is equal to the total annual Haier sales revenue amount in 1984.

In December 2004, for a third consecutive year, Haier topped the Most Valuable Chinese Brand List in China, with a brand value of RMB 61.6 billion. It is also rated as the top-leading brand in China's home appliances.

For a second consecutive year, Haier was honored as the "Most Respectful Enterprise in China" in the rankings of "Global Most Respectful Enterprises," coevaluated by the Financial Times and PricewaterhouseCoopers (November 2004).

In this current competitive market economy, many companies have much to learn from Haier's corporate culture, business strategy, OEC management, and market chains based business process reengineering. Haier needs to continually improve its management control systems. It can also learn some effective management control systems from GE.

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