

Strategic Management 2nd term
and Sample Final Examination
Question

Weighting : 50% of total course mark, Exam duration: 3 hours

Haier was originally founded in 1984, and incorporated as a group company in Dec. 1991. The company had a defining moment at the beginning of operations, when the chief executive officer picked up a sledgehammer and began to smash newly assembled refrigerators. The reason? To show that poor quality products would no longer be tolerated. Haier's early focus on quality contributed to the firm's rapid growth.

During 1984 to 1991 Haier achieved consumer recognition as the premier refrigerator manufacturer in China, establishing the foundation for future growth.

Subsequently Haier expanded into other businesses, creating products in dozens of categories.

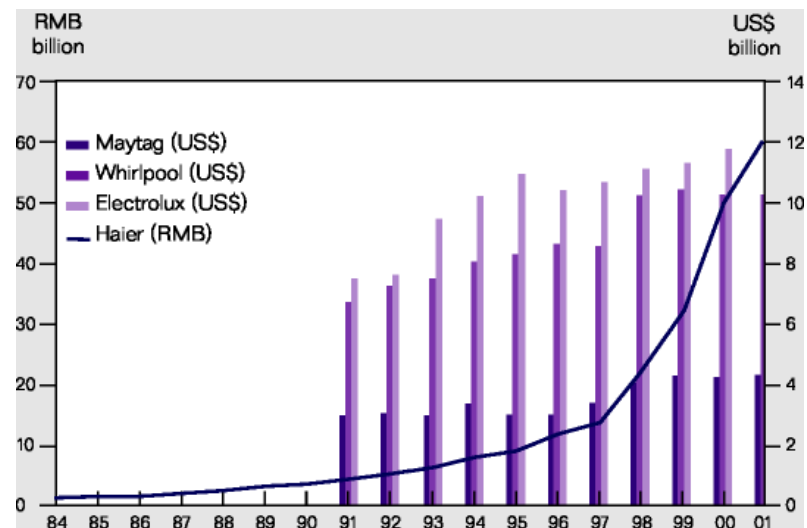
The company also focused on introducing product innovations that were important to consumers, and taking new measures to counter growing domestic competition. Haier experienced tremendous growth during these years, with sales increasing more than 15-fold from RMB 1.05 billion (\$0.127 billion) to RMB 16.8 billion (\$2.03 billion). Haier emerged as the market leader in appliances in China. With its diversified product line and economies of scale in manufacturing, Haier began implementing its globalization or "internationalization strategy" in 1998 to establish new channels for sustainable, long-term growth. Much of the growth during this phase has come from international sales. In 2001, China was formally accepted into the World Trade Organization (WTO), effectively removing many trade barriers with other member nations. In that year, China's export of appliances grew 60%. By the late 1990s, Haier had achieved name-brand recognition in China.

Sales have increased an average of 73.8% per year from 1984 to 2002, and the firm's goods are now sold in 50,000 retail outlets worldwide.

The company had diversified its product line, and its domestic market share in refrigerators, washing

machines, freezers, and air conditioners had increased to about 30%. At the same time, Haier started to look beyond China for more growth opportunities, and embarked on a strategy to globalize operations. The company established international design centers, developed products that would be attractive in various markets around the world, and established offshore production and distribution through direct investments and partnerships. In 1998, Haier set out to achieve globalization by providing personalized products to meet each customer's needs. To support this approach, the company established appropriate partnering strategies on a case-by-case basis, and took important steps in supply chain management.

focused on centralized order handling. It also established a better way to manage the flow of physical goods and capital that are connected to customer demand. With process reengineering, Haier could achieve higher rates of factory throughput and better customer service with minimal cost and capital investment. Using this optimized approach, Haier also shifted manufacturing operations from make-to-stock (MTS) to make-to-order (MTO), and put in place just-in-time (JIT) inventory management principles. Through these actions, which are consistent with the concepts of lean manufacturing and distribution, the company was able to minimize material inventories in its production network and become more responsive to market demands.



"In the appliance industry, product life cycles are becoming shorter," says Haishan Liang, VP of the Haier Group. "Competition among enterprises is not only based on price and quality, but more importantly, on the speed and efficiency of the supply chain."

Less than 20 years after its founding as a state-run manufacturer of refrigerators, Haier was in the position to grow internationally because of its successful domestic growth strategy (see Figure). However, Haier faced significant challenges in executing that strategy globally, including substantial domestic and offshore competition, shortening product life cycles, and government regulation.

By reengineering its business processes, Haier achieved a market advantage by adopting an approach

However, running lean processes required a new supply chain strategy – one that would allow the company to benefit from production efficiencies and economies of scale, with full visibility of supply and demand information worldwide, using a highly responsive supply chain planning process.

Strategy

Haier's strategic course can be viewed in three separate phases. The first – its "famous brand strategy" – lasted from 1984 to 1991. During this time, Haier achieved consumer recognition as the premier refrigerator manufacturer in China, establishing the foundation for future growth. Led by Zhan Ruimin, the firm's chief executive officer, Haier sought to appeal to the market by creating virtually defect-free products. While Haier recognized

the importance of affordable pricing, the company placed high quality above price considerations.

During the next phase, from 1992 through 1998, Haier expanded into other businesses, creating products in dozens of categories. The company marked this second phase as its “diversification strategy,” entering into new market segments that included washing machines and air conditioners. Haier’s objective in this phase was to increase the use of existing assets to grow revenues, avoiding increases to marginal costs while sustaining quality. The company also focused on introducing product innovations that were important to consumers, and taking new measures to counter growing domestic competition. Haier experienced tremendous growth during these years, with sales increasing more than 15-fold from RMB 1.05 billion (\$0.127 billion) to RMB 16.8 billion (\$2.03 billion). Haier emerged as the market leader in appliances in China. With its diversified product line and economies of scale in manufacturing, Haier began implementing its globalization or “internationalization strategy” in 1998 to establish new channels for sustainable, long-term growth. Much of the growth during this phase has come from international sales. In 2001, China was formally accepted into the WTO, effectively removing many trade barriers with other member nations. In that year, China’s export of appliances grew 60%. With this success came new challenges mirroring those that Haier had faced in its early development phases:

Differentiation

Haier was not an established brand in many western nations, and the company found that it was competing on price in offshore markets. During the mid-1990s, Haier had achieved leadership in China by creating high quality products with innovative features, and was starting to address differentiation in a global setting by establishing design centers in the United States and other countries. Nonetheless, the company needed to determine how to fully replicate its success in China by becoming closer to international markets, better

managing new product introductions, preventing a proliferation of stock keeping units, and ensuring profitability of new products. The approach to differentiation that Haier had adopted in China – with products such as compact refrigerators with functional desktops for students, products with stylish features such as smoked glass and contoured corners, refrigerators that limit bacteria growth, and more energy efficient appliances – required adaptation for competing internationally.

Personalization-Short Product Life Cycles

The Chinese consumer, besides demanding high-quality, long lasting products with unique features, also expects a fair amount of personalization. The buyer in China wants to select from a number of features, colors, and styles, paying only for the attributes desired. The company long ago realized that meeting these demands leads to higher rates of customer satisfaction and brand loyalty. However, as a result of more rapid advances in technology and ever-changing consumer tastes, Haier became attentive to the fact that the product life cycle for appliances was increasingly shorter, averaging only 18 months. This shortened product life cycle added competitive pressure and required new approaches to planning, production, and inventory management.

Distribution

In China, Haier sells through resellers, maintaining close contact with end users through a network of thousands of service agents. These agents provide Haier with valuable data regarding current consumer demand and how future products can be improved. Shelf space is at a premium, so Haier also works closely with resellers, stocking the right selection of products to keep inventory costs low for both the reseller and Haier.

In 1998, Haier decided to use distribution partners in all but the largest of its international markets. As a result, Haier eliminated the cost of building and maintaining facilities, choosing to work with partners who are highly aware of the firm’s individual markets and

local government regulations. This partnership structure aided Haier in sales, marketing, distribution, and production planning processes. Nonetheless, this international reseller channel still required the firm’s full attention to ensure that the partner receives timely delivery of the right products.

Manufacturing

Haier exports products from China, and thus must focus its attention on the efficient operation of its production facilities, making certain that raw material, work-in-process, and finished goods inventories are kept at a minimum. Haier must also closely manage procurement processes to ensure that the cost of goods sold are kept to a minimum and that the right products are manufactured on time with high quality. Haier faces the same manufacturing challenges in the United States. However, in large markets such as the United States, Haier owns and manages full-scale operations, encompassing design, manufacturing, and distribution. Since the U.S. market is very large, Haier can profitably run a wholly owned subsidiary without having to share its profits, and without the risks associated with partnership.

Competition

During the mid-1990s, foreign competitors such as Whirlpool and GE acquired existing Chinese manufacturers in an attempt to gain traction in the world’s most populous market. Foreign companies attempted to export products that were successful in their home markets, but which were viewed by Chinese consumers as limited when compared to the feature-rich products available from Haier. Also, these offshore firms were not prepared to meet the servicing needs of the Chinese market, and had difficulty providing after-sales service to such a high number of customers.

Despite Haier’s success countering international competition, foreign-based companies such as Samsung and Electrolux remain well positioned. Other domestic competitors concentrate on price, offering fewer features and virtually no customization. This strategy has gained some traction in the lower-

income segments, but Haier has long recognized that brand loyalty is virtually nonexistent in the lower-price markets.

As Haier continued to grow globally, the company encountered the same international competitors it had faced on the domestic front. The firm's expansion into foreign markets resulted in direct competition with every major appliance manufacturer, including market leaders such as Electrolux and Whirlpool. Smaller, albeit successful brands such as Samsung and Maytag are also major competitors, as are niche brands. Haier's strategic approach has been both flexible and astute, since any of these companies can also be a partner, depending on the specific market and Haier's strategy in the region. "We face strong competition around the world," says Liang. "Sometimes, our approach is to collaborate with companies we traditionally regard as competitors, by exchanging resources and information – and by working jointly to satisfy market needs."

Implementation

With its global strategy moving forward, Haier faced differentiation, personalization, cost-containment, competitive, and growth challenges across its several strategic sectors, which include freezers, air conditioners, refrigerators, and washing machines. To understand how the company succeeded, this case study has focused on business performance measurements for Haier Refrigerators and the Haier Washer Group. Haier Refrigerators is the core division of Haier Group. This division has over 6,000 employees in 22 subsidiaries. Haier Refrigerators has 12 product sales network consists of about 500 distributors and 36,000 dealers in 100 countries. The Haier Washer Group produces washers in 18 different categories with more than 5,000 specifications. As with Haier Refrigerators, the Haier Washer Group, Haier leads domestic share with nearly 26% of the market. The Haier Washer Group conducts business in 100 countries and operates joint ventures e.g. in Iran, Pakistan, and Nigeria.

As Haier began executing its international strategy in 1998, the company realized that inefficiencies in managing its growing number of products, handling logistics and inventory, and managing production would hinder its ability to grow globally. Processes lacked discipline and uniformity, and were developing in response to independent needs in various plants, distribution centers, and other operating units.

In 1999, Haier decided to reengineer its business processes, putting in place flexible practices which would allow the company to meet high factory throughput and customer service demands with minimal inventory, capital investment, and labor. To implement this approach, Haier undertook a comprehensive review of its operations, using Pareto analysis techniques to uncover the vital few elements of supply and demand that influence inventory levels, plant utilization, labor cost, and cycle times. Through this analysis, Haier determined the essential raw materials, energy supplies, and processes that create value for customers, and eliminated inputs and procedures that were not adding substantial value.

Also in 1999, Haier began a series of major overhauls to its businesses, integrating the planning, management, and logistics of its entire operations encompassing 23 business units. Haier shifted from production push-based, MTS manufacturing to demand pull-based, MTO processes. This shift ensured that production was meeting customer demand, and simulated a customized approach to order fulfillment. The company established production processes to ensure that demand would be met according to lean JIT principles, and that incoming materials would easily flow to meet production requirements according to these same principles.

As part of the re-engineering effort, Haier redesigned shop-floor layouts in manufacturing facilities and warehouses for better material flow to meet demand, and to reduce the accumulation of raw materials, work-in-process, and finished goods. In fact, the company transformed warehouses into distribution centers to reinforce the concept that material

and goods were to be constantly moving through the system. Finally, the company established criteria to evaluate when to discontinue products and how to handle the transition to new products to meet anticipated customer requirements. The company carefully considered its new product introduction and product phase-out processes to be consistent with the concepts of lean systems – ensuring that all steps were value adding, that cycle times were as short as possible, and that inventory and labor use were minimized.

Company Culture-Management

Haier Management is different than Japanese or American management and almost all employees at Haier Shunde are contract workers including the managers. Here are some other details.

First, workers are evaluated individually. There is no evaluation of group performance of workers. Teamwork of workers is not evaluated. As a matter of fact, neither small groups nor teams of workers exist in the company. Second, their wages (including rewards and penalties) are determined by the evaluation which is exclusively focused on results (output) of jobs of workers. The results are basically composed of two parts, that is, the quantity of rightly done jobs and the defects in the jobs. Inputs and processes of jobs such as effort, attitudes, motivation, and team work spirits are only marginally considered in the evaluation. The evaluation of these inputs and processes of their jobs do not directly influence their wages. Age, education and length of service (seniority) of workers do not have any relationship with their wages.

Third, there is no portion of guaranteed or fixed wages in the total wages. The wages are composed of two parts. The first part is the piece rate wage (S1 wage) which is determined on the quantity of jobs rightly done. The second part is rewards and penalties (S2 and T wages) which are determined based on the defects in jobs.

Forth, evaluation is done instantaneously. Evaluation is done when each job is done. Daily evaluation results are shown to workers next day on the bulletin boards in the factory. In the company the phrase, "instantaneous rewards and penalties" is used.

Fifth, evaluation is open. Not only the results of evaluations but also the rules of evaluation are open to workers. Workers know calculation formula of their wages. As a matter of fact, workers fill the evaluation sheet (3E cards) after the work time and hand it over to managers. They themselves calculate their wages every day. When they find different figures in their wages on the bulletin boards, they claim to managers. Sixth, there is no room for discretionary evaluation by the management. Workers' evaluation and wages are arithmetically determined by evaluation rules. Foremen, middle managers, and managers in the personnel department have practically no power to influence the evaluation of workers. Lastly, let us add one more characteristic, job assignment. The company has an open competitive bidding system for job assignment. When workers think some particular job is unreasonably attractive (e.g. its piece rate is too high or it is too easy), they can bid for that job. Competitive bidding by workers will reduce the extent of attractiveness of that job to the par level of other jobs. When some jobs become vacant, competitive bidding is applied. Assignment to the vacant jobs is not determined by the management

Importance of to *save or lose face* and human relationships are pointed as characteristics of Chinese cultural tradition. Haier's management seems to challenge these two characteristics.

The results of the evaluation of workers and engineers are shown with individual names. It appears that workers and engineers of poor results *lose their faces*. This practice seems to contradict with the Chinese cultural tradition.

Their superiors and managers in the personnel department can not

influence evaluation. There is no room for discretionary evaluation by them. Thus, we may say that the new management contradicts with the cultural tradition of China which emphasizes human relationship.

No family member of Mr. Zhang Ruimin (founder and the CEO of the Haier) is employed in the Haier Group. At Shunde Washing Machine Company no family member of Mr. Zhao Zhenzhong, who is the general manager of this company, is working. These facts are supporting evidences of anti nepotism of Haier's management. On the other hand, we may argue in the opposite way. The new Chinese management is based on the Chinese cultural tradition. States, provinces, cities, villages, families and individuals had a long history of severe competition. Competition is an important cultural tradition in China. Competition is an essential factor in Haier's management.

Another important characteristic of Chinese tradition is the development of commerce. Merchants played important roles in Chinese society for a long time. Before the industrial revolution in eighteenth and nineteenth centuries, China was probably one of the centers of the world trade. This gave the Chinese people economy oriented thinking (money oriented thinking), materialistic thinking (not abstract thinking or metaphysics), the tradition of competitiveness and individual aspiration.

The management practiced at Haier may be described by such words and phrases e.g. money, rewards, penalties, individuals, competition, openness, quantitative approach, instantaneous evaluation, competitive bidding, arithmetical evaluation rules, anti nepotism. These key words and phrases are compatible with the cultural tradition of the long history of competition and development of commerce in China. When we pay attention to these characteristics of cultural tradition of China, we easily see that the new management has the background of Chinese cultural tradition.

You are asked to answer all 4 of the following questions. Each question has the same weight (12.5% each) towards the final examination mark (50%).

Q1. Describe the major strategic changes (or periods) at Haier, what do you think motivated them, which one appears to have produced the best effects and why?

Q2. What do you think the major traits of Haier are and, if you were a competitor, how would challenge Haier on these traits

Q3. Making reference to the strategy development process what are the major learnings for Haier's main (cited) competitors and what other strategic options do you think Haier could have considered.

Q4. As a consumer briefly describe your vision for Haier for the next 20 years.

Additional Sample Questions:

Q5. What tools do you suggest to assess strategy alignment at Haier, which ones do you think they may have used and why?

Q6. Starting from 1991 discuss the various leadership styles that you believe may have been adopted.

Q7. What schools of leadership have been used since 1991 at Haier and what leadership traits do believe will be necessary for the future.

Q8. In class we have often said that strategy should be checked and possibly realigned every 12 to 18 months. Discuss why at Haier this appears to have happened only every 4-8 years.

Q9. Making reference to the spectrum of competition and capabilities develop and discuss a suggested 3-5 year strategy for Haier to surpass and beat the cited competitors.

Q10. The appliance business is a mature business yet Haier have managed to increase revenues at an incredible for over 20 years. Discuss how they have achieved this, if you think this is possible