

How Chinese Companies Are Reinventing Management

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Summary. China's companies have long been acclaimed for their manufacturing prowess and, more recently, for their pragmatic approach to innovation. Now it's time to recognize how they are reinventing the role of management through an approach the authors call "digitally... [more](#)

Chinese companies have long been acclaimed for their manufacturing prowess and, more recently, for their pragmatic approach to innovation. Now it's time to recognize how they are

also reinventing the role of management through an approach we call “digitally enhanced directed autonomy,” or DEDA.

DEDA uses digital platforms to give frontline employees direct access to shared corporate resources and capabilities, making it possible for them to organize themselves around specific business opportunities without managerial intervention. Autonomy is not complete, nor is it given to everyone. Rather, it is directed exactly where it is needed, and what employees do with their autonomy is carefully tracked. The approach contrasts with the Western model of empowerment, which gives employees broad autonomy through reduced supervision.

In this article we describe the three core features of the DEDA approach: granting employees autonomy at scale, supporting them with digital platforms, and setting clear, bounded business objectives. We describe how Chinese companies such as Handu Group, Alibaba Group, and Haier Group are using those features, and we draw lessons for Western companies.

Autonomy at Scale

Autonomous teams are a long-established management concept, although the term is usually applied to small work units, such as self-managed teams in factories. What Chinese companies have done is to scale team autonomy up to groups of as many as several dozen people, notably at the customer-facing end. The freedom of

such teams resonates in China, where autonomy confers status; as the Chinese saying goes, “It’s better to be the head of a chicken than the tail of a phoenix.”

At the e-commerce company Handu Group, the core brand HStyle uses a system of teams to create an internal entrepreneurship model, similar to the one Gary Hamel and Michele Zanini describe in “The End of Bureaucracy” (HBR, November–December 2018). Product teams are responsible for designing, producing, and selling their products. Each team has a minimum of three members: a designer in charge of product development; a web-page specialist responsible for online portal design, display, and sales; and a product management specialist in charge of sourcing, production, inventory, and logistics. If the product or line gets popular, the team size can grow to as many as a couple dozen people.

Although HStyle started with a single product and brand, its teams have created dozens of new offerings. That success has enabled HStyle’s upstream and downstream partners to transform themselves into customized producers. These external partners are independent of Handu Group and complement its factories.

HStyle sets task indicators (sales, gross profit, and inventory turnover) for each team annually. The team controls product development, new product launches, discounts, and promotions. It can continually adjust the products to improve the consumer’s experience. The company ranks team performance every day, and teams’ results are accessible to everyone in real time, putting each team under pressure to deliver. The data and thus the rankings change very quickly. The daily rankings are at the core of HStyle’s internal competition model.

If a team splits up and some members form a new team, the leader of the new team must pay a fee to the original team for its previous training of the acquired staff. Moreover, the company’s financial system automatically transfers 10% of an acquired

staffer's bonus to the original team leader every month for one year. This system encourages each team to reorganize and generate new autonomous teams.

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Since 2005, the appliance giant Haier has been creating autonomous teams around the *rendanheyi* (“people, needs, connections”) model, in which each employee creates value directly for the user. In this model, which aims to support every employee's entrepreneurial dreams, employees take P&L responsibility, create value for themselves, and cultivate lifelong Haier customers. In 2010 frontline employees were grouped into small, self-managing teams, known as *zi zhu jing ying ti* (ZZJYTs), which worked directly in the market to address customers' existing needs as well as to anticipate and fulfill their future needs.

In this operational model, each ZZJYT was responsible for its own P&L and members received a share of the profits created by the team. ZZJYTs were connected through a technology platform to the people managing resources at the back end. And people at both the front and back ends built communities of interest that worked together to make sure customer needs were met quickly and effectively, which led to profit growth. Haier built on this foundation and allowed these communities to incorporate as microenterprises with rights to make decisions, hire talent, and distribute compensation. These entrepreneurial teams could also enlist the help of suppliers, other microenterprises, and other partners from within or outside the Haier group as they saw fit.

More recently, Haier has adapted to its evolving market by developing a new organizational format: ecosystem microcommunities (EMs). An EM is a community of microenterprises that exists to address specific sets of user needs. Haier uses contracts to determine the rights and responsibilities of different microenterprises and stakeholders.

For example, in 2019 the refrigerator sales microenterprise in Zhengzhou formed an EM with the refrigerator manufacturing microenterprise in Hefei. The two microenterprises agreed on a goal: provide high-quality products delivered on time—the “zero-defect and zero-delay” product. An incentive mechanism was established: If they achieved this goal and saw a profit increase of 20%, the joint unit would be rewarded with a value share of 140,000 RMB; and with a 30% increase, it would be rewarded 230,000 RMB. The two microenterprises achieved the 30% goal.

These autonomy-enhancing practices have helped Haier discover and capitalize on new opportunities. The company has now incubated two biotech companies, one in refrigeration chains and the other in radiotherapy equipment manufacturing, allowing it to expand from its traditional base in white goods manufacturing into medical services.

What Western Companies Can Learn

Western companies can successfully incorporate Chinese-style autonomous teams into their organizations, as Haier’s transformation of General Electric’s appliance business following its acquisition in 2016 demonstrates. Kevin Nolan, the CEO of GE Appliances appointed by Haier, says: “You just have to dare to... give up control.” But that’s exactly what stymies Western managers.

Western companies needn’t adopt all aspects of the Chinese model to see positive results. For example, Haier’s leadership did not force *rendanheyi* on GE Appliances. Instead, it began

educating the acquisition about the new model and supported a local adaptation in Louisville, Kentucky, believing that local people know best what works locally.

China's companies embrace "single-threaded leadership," which severely limits managerial distraction by giving a leader a clearly defined task, budget, and timeline.

GE Appliances adopted a new structure, a decentralized leadership model more focused on coaching than on commanding, a new compensation model, and most important, a more entrepreneurial culture. To attract entrepreneurial people, GE Appliances changed its hiring criteria and process. Indeed, the promotion to CEO of Nolan, the appliance unit's chief technology officer under GE ownership, was the first application of the new HR approach. According to Nolan, GE usually named a finance-oriented MBA as CEO, but Haier wanted a technologist in charge to focus on products rather than profits. Haier's CEO, Zhang Ruimin, said to Nolan, "Tell me your plans, and we will get you the money."

To encourage more entrepreneurial behavior, the company decentralized decision-making, allowing the employees closest to the problem to solve it. And in a manifestation of DEDA, GE Appliances increased investments in digital technologies to support these major organizational changes and enable the new way of working.

But there's a key exception to Haier's DEDA approach. To date, GE Appliances has not adopted the internal market system. That competitive system does not fit with the unit's collaborative culture, which is based on a core group of people who have been

working together for decades and have survived the struggles of the change from a profit mission under the old ownership to an entrepreneurial mission under Chinese ownership.

Digital Platforms in the Middle

Chinese companies use a three-system organizational structure to increase both responsiveness and efficiency. The front end, or system, encompasses all customer and partnership interfaces and interactions. The back end consists of long-term assets such as critical databases, warehouses, and production plants. And the middle system sits between the two, linking the front end to back-end resources and supplying, as needed, the capabilities for using those resources.

Traditionally in the West, middle managers and corporate functions assume that connective role. Chinese companies replace the bureaucracy with a digital platform that allows front-end employees to directly access the resources and capabilities they need. In essence, that platform centralizes shared services, data, and capabilities to enable decentralized decision-making.

At Handu, for example, a digital platform connects autonomous teams to both internal and external factories, using cloud-based supply-chain-management software. This allows Handu to do small-batch production at high speed and scale up easily when a product line proves successful. The platform also allows external partners to produce goods on an as-needed basis for HStyle but frees them up to serve other customers.

SF Express, which started as a traditional packaging and delivery company, also relies on a digital platform to connect its front and back ends. When a cross-functional or cross-level task or project need is identified, the person in charge of it, regardless of division or level, can pool people to work together on it through the platform. Those people access the software and data they need through the same platform, which keeps track of the activities and progress until the task is finished. Although SF Express is not

a technology company in a traditional sense, it employs more than 3,000 software engineers to update and improve its platform.



Xinmei Liu

Digital platforms also allow senior management to track what frontline employees do and which resources and capabilities they access. The cosmetics company Lin Qingxuan leverages the tools on its platform to make highly granular performance assessments of its shopping advisers. Consumer transactions generated by the advisers, whether in-store or online (with the adviser assisting through a chat function or by phone), are automatically factored into the assessments, which drive compensation decisions.

Alibaba has perhaps gone the furthest in perfecting its middle: Its organizational structure centers on *zhongtai*, a digital middle office, headed by the group CTO. The digital platform is maintained and developed by cross-functional teams, not traditional IT specialist teams, which helps ensure that it is responsive to the needs of more than 2 million merchants in hundreds of businesses and dozens of sectors. It is linked to

Alibaba's complementors: third-party payment (Alipay), cloud service (AlibabaCloud), logistics (Cainiao), and communication (DingTalk), among others.

As a result, Alibaba's business ecosystem has become a data-driven, well-oiled machine of transactions and information exchange—a "smart business," as Zeng Ming, the former chief strategy officer of Alibaba Group, describes it. It is important to note that Alibaba's middle office is not a static machine. The objective is to give the businesses flexibility, and so it continually evolves as circumstances change. In the past couple of years, Alibaba Group has moved toward a "thinner" middle office in order to maximize front-end flexibility.

What Western Companies Can Learn

Chinese companies recognize the importance of bundling not only data and IT systems but also capabilities. To the casual observer, this looks like an argument for organizational centralization, which goes down badly with executives in multidivisional organizations. But they need to recognize that the centralization of shared business functions does not have to translate into increased power at the top.

Part of the hesitation in Western companies comes from managers having precisely defined roles and responsibilities, a result of decades spent tailoring operations to use resources efficiently. By contrast, Chinese management systems tended to standardize tasks far less because low labor costs gave them more scope to be flexible with their processes. The legacy of that mindset has survived, though the cost differential has diminished.

Chinese companies also aren't saddled with archaic legacy IT infrastructures. Many Western companies have to go through a sophisticated process of digital transformation before they can introduce the kind of platforms we've been describing. Moreover,

they may struggle with a winner's curse: At multinationals that have been successful for decades, we often hear hesitation in the boardroom when it comes to making changes in core processes and management reporting structures and in leveraging digital tools. Chinese organizations have the benefit of fewer ingrained practices and routines.

All that said, many Western companies do have shared service platforms with similarities to the platforms we've been describing. The German chemical company BASF, for instance, has its famous *verbund* system of giant production complexes with interconnected processes. Many banks have extensive back-end shared services. Technology companies such as Apple share application programming interfaces (APIs) across functions and business units.

A Focus on Clearly Defined Projects

One major advantage Chinese companies have over Western ones is execution. In part, that's driven by China's larger and more compliant workforce and the cultural emphasis on being a good follower.

But Chinese management also has a feature that encourages faster execution and decision-making: "single-threaded leadership," a concept first applied at Amazon but very much embraced by Chinese companies. The idea is to severely limit managerial distraction by giving a leader a clearly defined task, budget, and timeline—typically to find a solution to a specific problem.

The story of the auto and electronics company BYD (Build Your Dreams) illustrates the concept. In late January 2020, when the pandemic was raging in China, the founder of BYD, Wang Chuanfu, charged his key leaders and division heads with finding a solution to the mask shortage.

Initially, the goal was to provide masks for BYD's 250,000 employees. Wang set up a task force with leaders from different divisions and gave them the single task of solving the mask challenge by leveraging available resources and capabilities (such as dust-free rooms used for manufacturing BYD smartphones). The leaders mobilized 3,000 engineers and designers to make it happen—and because they deployed existing resources made idle by the pandemic, Wang did not have to invest to fund the project. Just two weeks later, newly built production lines at one of BYD's industrial parks in Shenzhen started manufacturing masks. By the end of 2020 mask production had lifted BYD's profits by more than 160% over 2019, netting the company \$640 million. By 2021 BYD was making 50 million masks a day.

Don't be misled by memories of slow-moving state-owned enterprises. Today's Chinese companies are lean and mean.

Haier, too, factors focus into its structure. As described above and in a previous article in HBR (“How to Turn a Supply Chain Platform into an Innovation Engine,” by Kasra Ferdows, Hau L. Lee, and Xiande Zhao, July–August 2022), the company is organized not as a top-down pyramid but as a platform of 4,500 self-managing businesses that use shared resources, including back-end resources and the capabilities of other microenterprises, to adjust to market shifts. In fact, Haier is really run by 4,500 intrapreneurs who have a laser-sharp focus on their specific projects. They have neither cumbersome vertical reporting duties nor the burden of aligning across departments. The only focus is on a 12-person (on average) business with a clear objective.

In 2018, Haier set up a microenterprise tasked with developing food products and services that could be complementary to its kitchen appliances, thereby creating demand for them. The team

began by trying to get fresh food replenishment into the smart refrigerator, but challenging cold-chain logistics derailed that approach. Next it revisited the needs of a typical family and found that many families love to eat complicated Chinese dishes such as roast duck, which only professional cooks can prepare well. So the microenterprise approached cooks, restaurants, and food-processing manufacturers to task them with finding a way to make roast duck a prepared-food option—something that customers could put in their preprogrammed oven straight from the fridge to get a high-quality meal. The product became an instant hit during the Chinese New Year holiday period. The microenterprise team is now expanding to create offerings in dozens of other complex food categories. According to Haier, new businesses created by microenterprises account for more than \$500 million in revenue, producing a 100% year-on-year growth.

What Western Companies Can Learn

Before Western executives can adopt this approach, they'll need to be freed from the excess responsibilities their jobs carry, especially legal ones. Because of litigiousness in the West, a formal but temporary change of title and job description might be required. Evaluation systems will have to become more flexible to account for temporary, highly focused assignments. And companies will have to ensure that executives assigned to single-threaded roles do not lose out on power and position upon their return to their regular jobs.

Western MNCs have long faced a similar challenge with expatriate assignments, which are a form of focused leadership that separates an executive from his or her home country and head office. Expatriate assignments are often seen by executives as a form of exile, cutting them off from better opportunities at home. To combat those negative side effects, some MNCs assign a "repatriation manager" to expats, who counsels them and helps

them find roles when they return home. Western companies need to develop analogous processes for leaders assigned to focused tasks.

Research also shows that Western companies, especially those in the United States, have performance management systems that encourage managers to take a narrow and short-term view, which weakens collaboration. Western companies need to create their own version of the Chinese culture that resolves tensions between individual and group interests through “individualistic collectivism.” In China, there is a greater willingness to subsume self-interest for group interest.

Some Western companies do use a mix of individual and team incentives or bonuses, with the team ranging from a small unit to the entire company. Research suggests that team incentives have more of an effect than individual ones do. For example, a recent study published in the *Journal of Financial Economics* found little evidence of a benefit from individualized incentives but found that bonus plans encourage mutual monitoring and facilitate coordination across top-management teams. Unfortunately, team incentives at all levels seem underused, at least in the United States. In a 2014 survey of 350 publicly traded U.S. companies, 99% of the firms reported using some form of short-term incentive program, but only 28% said they used team incentives. Furthermore, 66% were not even considering a team incentive program.



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They should. The experience of Continental Airlines before its 2012 merger with United Airlines illustrates why. In deep financial trouble, Continental launched an incentive program: Employees would receive a \$60 bonus each month if the company was ranked among the top five U.S. carriers in on-time performance. This very small bonus helped turn around the airline's financial performance because employees didn't want to disappoint their peers. Western companies need to be more adept in their use of financial incentives to emulate Chinese companies' approach.

The German pharmaceutical company Bayer shows how a Western company can adopt a Chinese-style incentive system that features social as well as monetary rewards, albeit in China. Bayer China has implemented a work-life digital platform for staff management and incentives that makes extensive use of nonfinancial incentives such as "thumbs up" and "thank-you card" messages that employees can send to other staff members. This recognition system has a strong social component and a gamified interaction mechanism, and it links with the salary system. Employees have embraced it: Nearly 4,000 log in to the platform every day to send thank-you cards and such, and each log-in lasts about nine minutes. On average, each employee issues four thank-you cards, visits 89 pages, and performs 43 activities each month. To date more than 17,000 thank-you cards have been sent, and more than 3 million card-related points have been issued by managers.

This kind of social incentive has transformed internal communications by flattening layers and speeding up feedback. Employees and managers can adjust both their work goals and their performance rapidly; they needn't wait for a yearly performance review. The approach frees up managers' time. It allows them to put more emphasis on conversations with employees rather than just performance results. We see few reasons why this social style of performance management would not work in the West, especially for staffers who have grown up in the age of social media.

Many Western companies have spent millions of dollars trying to turn themselves into agile organizations. By contrast, thanks to DEDA, many Chinese companies have management approaches that make them inherently agile. In fact, when consultants introduce lean and agile approaches to Chinese executives, the typical response is “We have always done that.” Moreover, most Chinese companies lack the hardwired legacy processes that the agile movement is now trying to overcome. Don’t be misled by memories of slow-moving state-owned enterprises. Many of today’s Chinese companies, especially non-state-owned ones, are lean and mean and going for global markets.

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