

Future of Business and Finance

Umberto Lago

Global Business Model Shift

A Comprehensive Guide to RenDanHeYi
(RDHY) Implementation

Forewords by
Zhang Ruimin and Bill Fischer

 Springer

Future of Business and Finance

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A Comprehensive Guide to RenDanHeYi
(RDHY) Implementation

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Foreword: Life Feeds on Negentropy

Professor Umberto Lago is a management scholar filled with sharp insight in the present era. During our extensive discussions on business model innovation, we agreed that among all elements comprising a business model, its core essence resides in the mission and purpose of an enterprise.

The mission and purpose are the lifeblood of an enterprise. Any rushed action undertaken without a thorough comprehension of these aspects often leads to precarious situations, akin to a blindfolded individual atop a lame horse stumbling into a deep pool in the dead of night.

The purpose and mission of a company are often articulated as maximizing long-term profits or shareholder value, which, in my view, do not align with the evolving needs of contemporary enterprises. Many companies make mistakes right from the outset of their journey. These errors typically fall into two categories.

Firstly, there's the tendency to blindly follow trends. Enterprises that mindlessly mimic others often find themselves short-lived, reminiscent of the home appliance market in the early days of China's reform and opening up in: companies flocked into the market only to hastily retreat later.

The second type of mistake appears to be the antithesis of the first. Some enterprises show the ability for independent thought, devising strategies behind closed doors. However, these strategies often fail to resonate with the spirit of their times and prove unsustainable.

Among the various interpretations of a mission statement, I find myself resonating most with Peter Drucker's perspective. Drucker asserts that the mission serves as the fundamental pillar of corporate management, and that there is only one correct and effective mission statement for enterprises: to create and maintain customers. Remarkably, this principle remains relevant even in the era of the Internet of Things (IoT), but it has become impossible to achieve for traditional business models.

In the IoT era, enterprises still need to create customers. To be precise, they still need to create users. Creating users is always relevant. Despite this relevance, incumbent management structures and business philosophies struggle to do so. E-commerce platforms, for instance, excel in facilitating transactions and generating traffic but often neglect to enhance user experiences. Moreover, they disrupt the natural interaction between producers and users, hindering innovation and the cultivation of lifelong users.

In the Internet of Everything era, enterprises must continuously enhance personalized experiences through meaningful engagement with users. However, traditional models primarily focus on facilitating transactions and delivering products to customers. Consequently, enterprises must reorganize themselves to promote the creation of lifelong users, as exemplified by Haier's RenDanHeYi model—an effort aimed at creating negentropy.

The concept of negentropy—or the decrease in entropy—symbolizes the input of external energy into a disordered system, thereby transforming it into an ordered one. A key illustration of this is evident in the borderless ecosystem of EMCs (Ecosystems of Micro-Communities). By continuously engaging with users and enhancing their experiences, EMCs effectively exchange energy with its users, promoting order within the system and ensuring the enterprise's vitality.

Conversely, entropy, or the increase in disorder, manifests itself in closed systems. The absence of exchanges of matter or energy with the surroundings leads to internal entropy increase and amplified system chaos. In a traditional model, enterprises fail to maintain zero-distance with users, thereby inhibiting the exchange of energy and personalized experiences. This deficiency results in systemic disorder and shortens the enterprise's lifespan.

Based on my observations of both the evolving economic landscape and our initiatives at Haier, I firmly believe that enterprises should embrace the mission of creating negentropy. *This involves promoting the emergence and evolution of autonomous organizations, autonomous individuals, and lifelong users within an infinite cycle of negentropy creation and entropy increase.*

The inability of traditional management models or concepts to cultivate lifelong users can be explained by the law of entropy increase. Entropy increase is an inevitable phenomenon, accelerated by the rapid pace of change and development in contemporary times. Without the creation of negentropy, enterprises face stagnation or even failure. This is the reason why the average lifespan of a company is getting shorter and shorter. The times are just changing so fast—today it is internet and tomorrow it will be mobile Internet—that they leave little room for delayed reactions. Hence, enterprises must possess the capability to generate negentropy continuously to effectively address this challenge.

The comprehensive definition of negentropy creation entails *the spontaneous emergence and evolution of autonomous organizations, autonomous individuals, and lifelong users within the perpetual cycle of negentropy creation and entropy increase.* In this statement, two key principles are articulated.

Firstly, self-evolution is paramount. *Within the endless cycle of negentropy creation and entropy increase,* the shifting tides of time inevitably lead to entropy increase for enterprises. To navigate this dynamic environment effectively, enterprises must continually generate negentropy to counteract entropy increase, adapt to the evolving landscape, and transition into the AI era. According to Ashby's Law, a system must possess equal or greater complexity than the environment it inhabits to succeed amidst complexity.

Secondly, negentropic flow can be self-generated. *Autonomous organizations, autonomous individuals, or lifelong users* possess the inherent capacity to create negentropic flow autonomously.

The law of entropy increase predicates upon two conditions: an isolated system and the absence of external forces to perform work. The generation of negentropic flow implies the introduction of external energy. Autonomous organizations, autonomous individuals, and lifelong users possess the innate capability to spontaneously introduce external energy and generate negentropic flow themselves.

As I considered further, I realized that there must be a governing law dictating the interplay between negentropy and entropy increase: any decrease in entropy within one system comes at the expense of an increase in entropy elsewhere in the universe. This law operates independently of personal will; hence, no company can afford to remain complacent, assuming that it can operate at its own pace without the need for transformation and adaptation. Such an idea cannot work, as entropy increase is inevitable and bound to happen.

Consider the relationship between the sun and plants as an illustration. Solar energy, derived from nuclear fusion within the sun, represents entropy increase for the sun itself, as only 70% of the mass and energy conversion rate of nuclear fusion is efficient, resulting in 30% wastage. However, solar radiation serves as negentropy for plants, facilitating photosynthesis. This juxtaposition underscores the perpetual confrontation between entropy increase and entropy decrease, whereby the entropy decrease experienced by plants comes at the expense of entropy increase endured by the sun.

Similarly, the interaction between plants and humans exemplifies this principle. When humans consume plants as food, they extract negentropy to sustain their bodily functions. However, this process constitutes entropy increase for plants, as they are consumed, depleting environmental resources and generating waste.

Human endeavors to enhance crop varieties and agricultural techniques exemplify the perpetual cycle of negentropy creation to offset entropy increase. Amidst changing circumstances and evolutionary stages, some enterprises successfully adapt to the demands of the times and undergo transformative changes, while others fade into obscurity. The fundamental disparity lies in their attitudes toward entropy: whether they acknowledge the possibility of fallibility and actively engage in negentropy creation or persist in the belief of infallibility and succumb to entropy increase.

The inexorable increase of entropy underscores the paramount importance of our mission: to create negentropy. Echoing the sentiments of Erwin Schrödinger, the Austrian theoretical physicist, “life feeds on negentropy.”

Founder and Chairman Emeritus, Haier Group
Qingdao, China
April, 2024

Zhang Ruimin

Foreword

Great organizations almost inevitably have a great culture story associated with them. They engage more of their talent, involve more of their customers, speak more to values cherished by their stakeholder community, and then wow us all with their output and performance. Apple is like this; so is Google; so is Toyota; and Ritz-Carlton, among many; and, so is Haier, the subject of this book that you are presently holding. Haier is undoubtedly the least known of these great organizational culture stories, but it's increasingly being mentioned in the same breath as the other exemplars. Haier is unique in so many ways that matter, but suffice it to say, at this point in this foreword, that it is Haier's culture that makes that uniqueness work, and that is really the purpose of the book.

Strategy and culture; culture and strategy. The two are forever linked, dependent upon each other for success, yet so different as to be day and night. Both strategy and culture are the outcomes of managerial choices that are made on their behalf, and it is these choices where the magic is to be found. When we are told that "the devil is in the details," we must remember that so is "the delight." The organizations whose culture stories are consistently singled out are organizations that delight us, and that is because they make managerial choices that are typically more thoughtful with respect to customer needs, inspired by a well-articulated vision, and attention paid to ensuring that any single cultural choice mutually reinforces the other choices, so that there are no cultural disconnects that could result in under-performance. This is not easy to do, and to do it within a large, successful, complex organization of any size is not easy at all. With Haier, strategy is writ small, having been distributed to the very units closest to the customers, so that, at Haier, strategy is more the ex-post rationale of decisions already taken lower in the organization, than it is the result of deliberations typically taken far from the market. Without central strategy, what remains is pure culture; this is key to the Haier story.

Organizational culture speaks to the essence of an organization: who it is, what it believes in, how it treats its citizens, where it is likely to be in the future? In traditional organizations, strategy is more visible and tends to get the most credit, or blame, for corporate outcomes, but it is culture that is the more important of the two. Strategy points to where the organization hopes to go; culture determines if it even has a chance of getting there. While "outside-in" is arguably the most important message you can give a strategist, it is what happens inside the organization that makes such outside-in awareness work, where culture makes its mark. I once had a

group of high-potentials, at a market-leading FMCG organization, who went out and interviewed managers at Google, Apple, Red Bull, even Football Club Barcelona, all organizations that they wished their own was more like, to see what really made them tick. Their conclusion was “those people are just like us, really no different. What is different is the way in which their organizations make it easier for them to succeed”; that’s culture!

Exceptional organizations have a look and feel to them that sets them apart. Their products and their services are often much more ambitious, meticulously crafted, and their brands sparkle; and, not surprisingly, so do their margins. Most of these outcomes are regarded as strategic in nature; but, more than strategy, it is an organization’s culture that makes it special [or not]. The late Peter Drucker, long the business gurus’ guru (and one of the main characters of this book) argued that “culture eats strategy for breakfast.” This sums it up very nicely. If you don’t have the beliefs; the values; and the organizational, technical and social infrastructures that your strategy requires, your organization is doomed to no more than average performance.

Mr. Zhang Ruimin was the first managing director of Haier, and before that of the Qingdao Refrigerator Factory, and it is he who has been the true architect of the Haier culture. Formerly, a Qingdao municipal government official, who was charged with overseeing and revitalizing a run-down refrigerator business; he ultimately left government and took control of the organization, and its future. It was Zhang who bridled at the thought of being just another commodity refrigerator producer, in a market that was about to explode with brands and customer excitement. Today, Mr. Zhang, newly retired, speaks about the “maximization of human value,” as the ultimate contribution of Haier’s organizational culture; “to liberate humanity and to launch a Renaissance or Enlightenment movement in management.” This is not simply business as usual; this is about making a historic change in how China, and maybe the world, works.

At the heart of Haier’s distinctiveness is the consistency of a multi-decade philosophical approach, called RenDanHeYi, which consists of three essential elements: providing a great customer experience; enabling entrepreneurship to energize Haier’s ability to create a great customer experience; and an equitable sharing of the value-created between the user, the creator(s), and the provider (Haier). Done right, the outcome of this formula will be the maximization of human value, according to Zhang Ruimin. Central of all of this is the drive to get so close to the ultimate user, that there is zero-distance between Haier and the customer. While such sentiments are not necessarily unique to Haier, it is the way in which these pieces fit together, so that they actually work the way that they are presented, that is the story of this book.

What is undoubtedly unique about Haier are three things that make it an extraordinarily useful example for anyone interested in improving organizational culture:

1. Haier has been practicing, experimenting with, and improving Rendanheyi, in one form or another, for more than four decades. This consistency in effort may well be unique among market-leading complex organizations;

2. Haier is a big, practical, organization. This is not some Silicon Valley fantasy story, with kids in flip-flops running around. This is real; real people making real things; everyone in an executive education learning experience can relate to this. What is also distinctive about the Haier story is that its transformation journey has consistently been broad in scope and inclusive; involving everyone and everything. There have not been pilot projects nor walled-off prototypes, as test-sites, which inevitably run the risk of seeding distrust and dividing colleagues. Haier has always gone “all-in, full steam ahead,” taking everyone, together, at the same time, into the future. Its scope of transformation has included as many of its 70,000 employees as was possible;
3. Haier has been daring in the transformation choices it has made. Organizational transformation of any scale is not for the faint-hearted, but what Zhang Ruimin, Haier’s transformation architect, realized is that if you build an organizational culture out of managerial choices, where there is a need for mutual reinforcement, wherever possible, then you need to do everything at once, because success or failure depends upon all of the moving pieces, moving reliably, and at the same time. Haier has never gone about its continuing transformation journey casually. What you will see in this book is always experimental, but experimental in a way that is designed to show its best results, right from the start. That is daring!

This book, written by a long-time Haier observer, brings us up to the present, which is a rare vantage point from which to view such a moving target. Some years ago, I had the pleasure of co-authoring, with Umberto Lago, a previous book on Haier, entitled “Reinventing Giants.” That book was Umberto’s idea, after visiting Haier more than a decade ago, and being impressed by all that was going on there, culture-wise, to move the organization into the future. At that point in time, Haier had then been a successful domestic player in the Chinese market, with little international brand recognition; yet had already been experimenting for nearly three decades in building the cultural and organizational foundation that you are about to learn of. Umberto has been following this story for a considerable amount of time and is one of the most well-informed observers of Haier as you could hope to find. In addition, his education as an economist gives him a more precise perspective into how Haier works, as a commercial organization.

The presence of Peter Drucker throughout the book not only reminds us of what the inspiration was for much of how RenDanHeYi works, but it also helps us interpret, at a more fundamental level, what and why Haier is doing things that no other organization shares. Zero-distance, which really is the engine that drives RenDanHeYi, is essential to bring the voice of the customer into Haier’s business choices, as they are being made; but it was Drucker, after all, who pointed out that “it is the customer who determines what a business is.” Entrepreneurship replaces thoughtless order-following and moves the Haier personnel from employees into entrepreneurs, or, more aptly, CEOs of their own organizations. That reliance, also shared with Drucker, on entrepreneurship as the driving motive force for innovation within the organization, was key to Zhang Ruimin’s thinking. Mr. Zhang has, in

fact, spoken about Peter Drucker in reverential terms: “He is the master of masters for me.” Perhaps it is apocryphal, but I have been told that Mr. Zhang once delivered a paper entitled “Forever Drucker” to the Qingdao Drucker Society. Today, in fact, it is widely acknowledged that Haier’s revolutionary approach to work has earned it an employer brand for those prospective candidates who are looking to be stretched by their employment, so that they can accomplish more than other organizations would allow. Haier Europe calls this the “Haier Attitude” and uses it to recruit new employees.

Not to be overlooked, in this “feast for the mind,” are two parts of the book’s construction that are both unique and valuable. One of the book’s gifts to the diligent reader is that, with each chapter, there are several examples which are offered, of how other organizations, some independent of Haier, and some foreign subsidiaries, have interpreted the RenDanHeYi philosophy into their own situations. For anyone interested in applying the tenants of RenDanHeYi to their own organization, these case illustrations are invaluable. Second is a “User’s Manual,” so common with home appliances, that takes the reader through how to install RenDanHeYi in any organization. Written in a very innovative manner, this section sums up much of what has appeared previously in various chapters and presents it in a single, integrated, and coherent manner, including a “trouble-shooting” section which addresses the inevitable challenge of actually putting such an ambitious philosophy to work.

I envy you, the reader, about to embark on this up-date, detailed introduction to the latest incarnation of Haier’s four-decade transformation journey. Umberto Lago has managed to present Haier’s actions, and outcomes, in a highly readable, yet instructive, fashion. Science fiction author William Gibson has famously observed that “the future is already here; it just not evenly distributed, yet.” I think that he is right, and I believe that what you are about to read is a glimpse of the future of work, alive and well at Haier, but just not evenly distributed, yet.

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February, 2024

Bill Fischer

Preface

When I embarked on my investigation into the Haier business model over a decade ago, I could not have foreseen the remarkable surge in its popularity and the profound interest it would evoke in subsequent years. The proliferation of books authored by prominent scholars and management experts, the integration of Haier case studies into the curriculum of top-tier business schools worldwide, and the publication of articles in respected management journals all serve as evidence to the widespread fascination with the Haier business model, also known as RenDanHeYi (RDHY).

This increased attention can be attributed, in part, to Haier's emergence as the uncontested leader within the white goods industry during the same timeframe. Through the adoption of RDHY, Haier not only solidified its position but also revitalized the companies it acquired across the globe, enabling unprecedented levels of growth and prosperity.

While some may perceive the implementation of this business model as complex and daunting, particularly for organizations entrenched in traditional hierarchical and bureaucratic frameworks, it is essential to recognize that the foundation of RDHY rests upon managerial principles promoted by Peter Drucker nearly seven decades ago in the United States. The principles underlying RDHY had been disregarded for decades until the appointment of a new CEO at a nearly insolvent municipality-owned refrigerator company in Qingdao, China. Under the leadership of this visionary CEO, these principles were not merely considered but seriously applied. The remarkable success achieved through their implementation boosted the once-struggling company to the forefront of its industry, transforming it into a global benchmark for excellence.

Of particular relevance is the literal application of these principles. While it is common to draw inspiration from managerial concepts, the direct translation of such ideas into action is a rarity. This courageous and audacious approach to implementation sets a compelling precedent, highlighting the transformative power of bold decision-making.

Upon observing how managers typically draw inspiration from external business models, I have recognized a common trend: the focus tends to be on the superficial aspects—the organizational structures and operational mechanisms—while often overlooking the critical alignment of purpose, values, and beliefs. However, it is this

alignment that serves as the foundation upon which the external features can truly flourish.

This book presents five distinct implementations of RDHY, each undertaken by firms different by size, industry, geographical and cultural context. While their backgrounds and contexts may vary, I am confident that their experiences, and even their missteps, hold valuable insights for those contemplating the adoption of this transformative business model. In this book, I explore each of these firms, examining how they have aligned their purpose, values, and beliefs with the principles of RDHY. I explore how they have embraced the philosophy of liberating and incentivizing their employees, recognizing them as invaluable assets in driving organizational success. Additionally, I analyze how these companies have translated the RDHY organizational structures and operational mechanisms into their own unique realities, tailoring them to suit their specific needs and circumstances.

One of the key takeaways from this exploration is the recognition that every journey of implementing a new business model is inherently unique, just as each firm seeking to adopt it is unique.

However, like the diaries of the first explorers in unknown lands proved invaluable to subsequent explorers, the experiences of pioneers who have successfully implemented, or are currently in the process of implementing, RDHY can serve as a guiding light for all those considering such a transformative journey.

The original intention behind this book was to serve as a comprehensive manual for the implementation of RDHY. However, upon exploring deeper into this matter, I came to the conclusion that crafting a proper manual may prove impossible. Nevertheless, through a revival of Drucker's timeless principles, which form the foundation of RDHY, and by describing the stories of the companies actively engaged in its implementation, we can distill overarching principles and guidelines that can provide valuable insights for those contemplating the RDHY journey.

While the details of RDHY implementation may vary greatly from one organization to another, there are fundamental principles and best practices that can be gathered from the experiences of these pioneering firms. By synthesizing these insights and lessons learned, this book aims to offer practical guidance and inspiration for organizations considering the adoption of RDHY, as well as for those simply intrigued by its potential. At the end of the book, I also propose a tentative roadmap for organizations aspiring to embrace RDHY, offering actionable guidance and inspiration drawn from the experiences of those pioneers.

Bologna, Italy
February 2024

Umberto Lago

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Contents

1	Introduction	1
1.1	Methodology	5
1.2	Structure of the Book	7
1.2.1	Part I: The Five Steps of RenDanHeYi Implementation	7
1.2.2	Part II: The RDHY User Manual	10
1.2.3	Part III: Case Studies of Firms Adopting RDHY	11
	References	11

Part I The Five Steps of RenDanHeYi Implementation

2	Step 1: What Is RenDanHeYi?	15
2.1	Introduction	15
2.2	An Enterprise of the Times	16
2.3	The Role of the Customer (“the User”)	18
2.4	The Role of the Employee (“the Entrepreneur”)	20
2.5	The Sharing of Value Between Users, Employees, and the Company	22
2.6	The Model Evolution: From ZZJYT to Micro-Enterprises (MEs)	23
2.6.1	Inverted Pyramid and ZZJYTs	23
2.6.2	Micro-Enterprises	24
2.6.3	The Role of Platforms	26
2.6.4	Employment in Micro-Enterprises	27
2.6.5	Substituting Authoritative Fiat with Market Incentives	28
2.7	The Latest Evolution: Ecosystems of Micro-Communities(EMCs)	29
2.7.1	Background	29
2.7.2	EMCs: Experience and Solution	30
2.7.3	EMCs and MEs	30
2.7.4	Attributes of the EMC Contract	31
2.7.5	EMC Leader	32
2.7.6	EMC’s Powers	32
2.7.7	EMCs in Smart Home Division	33

- 2.7.8 Ownership 34
- 2.7.9 Future Developments 34
- 2.8 What Have We Learnt? 35
- 2.9 Key Takeaways. 35
- 2.10 Case Study 1: Internet of Food 36
 - 2.10.1 Introduction 36
 - 2.10.2 Background 36
 - 2.10.3 IoF Today 37
 - 2.10.4 Points of Strength of IoF 37
 - 2.10.5 Revenue Streams 38
 - 2.10.6 Consumer Channels 38
 - 2.10.7 Partners 39
 - 2.10.8 Governance 39
 - 2.10.9 Employees 40
 - 2.10.10 Future Outlook 41
- 2.11 Case Study 2: COSMOPlat 41
 - 2.11.1 Background and Evolution 41
 - 2.11.2 Fields of Activity 42
 - 2.11.3 Vision 42
 - 2.11.4 Organization 43
 - 2.11.5 Ownership Structure 44
 - 2.11.6 Partners 44
- References. 45

3 Step 2: The Role of Purpose in Organizations and in Business

- Models 47**
- 3.1 Introduction 47
- 3.2 Peter Drucker and the Managerial Literature on Purpose 51
- 3.3 RenDanHeYi’s Purpose 53
- 3.4 Purpose in Companies Adopting RDHY 57
 - 3.4.1 Haier Europe 60
 - 3.4.2 GE Appliances 64
 - 3.4.3 Gummy Industries 66
 - 3.4.4 MAQE 70
 - 3.4.5 Fajar Benua Group 75
- 3.5 What Have We Learnt? 77
- 3.6 Key Takeaways. 79
- References. 80

4 Step 3: Values and Beliefs (Corporate Culture) as the Foundation of Organizations 81

- 4.1 Introduction 81
- 4.2 Corporate Culture at Haier 82
- 4.3 Cultural Integration Techniques at Haier 83
- 4.4 Aligning Corporate Culture and Business Model 92

4.5	Cultural Change and Organizational Inertia	93
4.6	Culture in Companies Adopting RDHY	94
4.6.1	Haier Europe	98
4.6.2	GE Appliances	100
4.6.3	Gummy Industries	102
4.6.4	MAQE	103
4.7	What Have We Learnt?	105
4.8	Key Takeaways.	107
	References.	108
5	Step 4: Empowering and Incentivizing People.	109
5.1	Scientific Management.	109
5.2	Theory X	110
5.3	Market, Hierarchy and... Haier	110
5.4	The Whole Man	112
5.5	Theory Y	115
5.6	People Serving the Purpose of People	116
5.7	Motivation and Incentives	118
5.8	Employees' Responsibility	121
5.9	Incentives and Control	123
5.10	Incentives and Control at Haier	124
5.11	How Does It Work, in Practice?	125
5.12	People in Companies Adopting RDHY	129
5.12.1	Haier Europe	130
5.12.2	GE Appliances	132
5.12.3	Gummy Industries	133
5.12.4	MAQE	134
5.12.5	Fajar Benua Group.	135
5.13	What Have We Learnt?	137
5.14	Key Takeaways.	139
	References.	140
6	Step 5: Crafting Human-Centric Organizational Structures	141
6.1	Introduction	141
6.2	RDHY Organizational Principles Through Peter Drucker's Vision.	143
6.3	MES/EMCs and Drucker's Federal Decentralization.	147
6.4	Organization in Companies Adopting RDHY	150
6.4.1	Haier Europe	151
6.4.2	GE Appliances	154
6.4.3	Gummy Industries	156
6.4.4	MAQE	160
6.4.5	Fajar Benua Group.	161
6.5	What Have We Learnt?	164
6.6	Key Takeaways.	169
	References.	170

Part II RDHY User Manual

7	The RDHY User Manual	173
7.1	Introduction	173
7.2	User Manual.	174

Part III Case Studies of Firms Adopting RenDanHeYi

8	Haier Europe: The Challenge of Implementing RDHY in a Multinational Environment	189
8.1	Introduction	189
8.2	Purpose and Culture.	190
8.3	Organization.	193
8.4	The Rationale for MEs.	195
8.5	Challenges and Open Issues.	196
8.6	People.	196
8.7	Incentives and Cultural Differences.	198
8.8	What Have We Learnt?	200
9	GE Appliances: The Turnaround of a US Icon.	203
9.1	Introduction	203
9.2	Purpose and Culture.	204
9.3	Organization.	208
9.4	People.	209
9.5	What Have We Learnt?	210
10	Gummy Industries: RenDanHeYi in Italian Sauce	213
10.1	Introduction	213
10.2	The Purpose of the Firm	215
10.3	Values and Beliefs	217
10.4	People.	218
10.5	Organization.	219
10.6	What Have We Learnt?	223
11	MAQE: Lessons for RDHY Adopters	225
11.1	Introduction	225
11.2	Purpose.	225
11.3	Values and Beliefs	227
11.4	People.	230
11.5	Structure: The First Steps.	230
11.6	The Process of Forming a New ME.	231
11.7	Organization.	232
11.8	The Relationships Between MAQE and the MEs and Among MEs	232
11.9	What Have We Learnt?	233

12 Fajar Benua Group: Implementing RDHY in Indonesia	237
12.1 Introduction	237
12.2 Purpose and Culture.	238
12.3 Organization.	239
12.4 People.	242
12.5 What Have We Learnt?	244
13 Some Final Thoughts	247
Bibliography	251
Index.	253

About the Author



Umberto Lago holds multiple roles within academia and the corporate world. He serves as a university professor, consultant, and has held positions such as President of the board, board member, and CEO in various private and public companies. He has earned his Ph.D. in strategic management from the Imperial College of London, and he currently works as associate professor of management at the University of Bologna, Italy. Previously, he has been a member of the faculty at Bocconi University and Bocconi Business School (SDA) in Milan and a consultant for Monitor Group.

Throughout his career, Umberto has not only delved into academic research, but has also actively participated in managerial roles, dedicating a significant portion of his professional journey to practical management rather than solely focusing on scholarly activities.

In the football industry, he has been working with UEFA in the introduction of the Financial Fair Play, serving as acting chairman, deputy chairman, and member of the UEFA Club Financial Control Body, he presently serves as member of the Supervisory Body of the FIFA Clearing House.

Since 2010, Umberto has been fascinated by the business model of Haier. His interest has led him to Qingdao on numerous occasions, engaging in extensive discussions with managers, including several meetings with Zhang Ruimin himself. In 2013, he co-authored his first book on the Haier business model titled “Reinventing Giants” with Bill Fischer and Fang Liu, published by Jossey-Bass. Additionally, he has authored a case study for IMD Business School and contributed several articles on the topic. Since then, he has maintained contact with the Haier Model Institute and continued his research on the subject.



“If you want to hire great people and have them stay working for you, you have to let them make a lot of decisions and you have to be run by ideas not hierarchy. The best ideas have to win, otherwise good people don’t stay”.

Steve Jobs

(Interview with Steve Jobs and Bill Gates at D5 Conference, May 30, 2007)

This book has the aim of providing a guide for implementing the RenDanHeYi (RDHY) business model beyond the borders of China. RDHY is a complex business model originally developed by Haier in China. This model has attracted significant attention from managers and management scholars globally, both due to its impressive outcomes and its unusual features. These features challenge traditional perspectives on enterprises, yet they match remarkably well with many management principles that have too often remained only theoretical.

Haier, which was the first to put these principles into practice, achieved tremendous success not only within China but also on the international stage. This accomplishment has positioned the company as the industry leader for over a decade. Haier is currently the global leader in home appliances with a market share of 17%, holding a significant 7% advantage over the second-ranking competitor. The adoption of RDHY by Haier subsidiaries in the USA and Europe has propelled them to become the fastest-growing companies in the industry.

RDHY transcends the realm of theoretical frameworks; it is a pragmatic, outcome-oriented model. This is proven by the significant increase in sales, market share, and profits experienced by organizations that have embraced it. These measurable results serve as more than just success stories; they underline the practical viability of the RDHY model.

If you are exploring this book, it is likely that you have heard about the RDHY model, perhaps you already hold an interest in it. Anyhow, I believe that every enterprise, regardless of its current standing or structure, should seriously consider studying and perhaps adopting, partly or entirely, this business model. Indeed, the rapidly evolving business landscape leaves little space for traditional, hierarchical organizations. The success of RDHY unequivocally demonstrates that empowering your personnel and promoting customer engagement are essential ingredients for achieving success in these turbulent times.

So, how can organizations implement the RDHY model? What should they do? The central argument of this book revolves around the notion that implementing a business model goes beyond the mere act of duplicating successful strategies from top-performing entities or attempting to mirror the organizational improvements and operational frameworks that have demonstrated to work elsewhere. The heart of this book is rooted in the idea that understanding and effectively employing a business model necessitates embracing the underlying values, beliefs, and ultimate purpose that form its foundation.

In essence, the book contends that genuine success in adopting a business model stems not merely from superficial imitation, but from a deep alignment with the fundamental principles and core values that drive the model's design. This perspective emphasizes the need for a full understanding that goes beyond superficial techniques, urging managers to explore the intrinsic motivations and guiding philosophies that support the chosen business model.

When the chosen business model is RDHY, undoubtedly the task is more complex. RDHY was developed in China and its import in another country faces challenges related to culture, regulations and norms, habits and practices. Moreover, every firm is unique, varying in industries, countries, size, and culture, among other factors. Hence, there cannot be a single standardized approach to implementing a business model like RDHY.

Many management books highlight the most remarkable innovations in business models, such as RDHY's Ecosystem of Micro-communities (EMC), EMC Contract, and Micro-Enterprises (MEs), which generate significant interest among firms and managers. The appeal often lies in what sets these innovations apart from the rest and how much they deviate from conventional wisdom.

However, the tendency to blindly imitate successful firms can lead to significant mistakes. Simply introducing changes to organizational structures or operational systems in an attempt to replicate the practices of high-performing companies often results in failure. Drawing an analogy, the successful transplant of ideas can be compared to biological transplants, which flourish when the genetic heritage of the donor and recipient is closely aligned. Similarly, in the realm of business, the fundamental DNA of a company lies within its values and beliefs. Just as a transplanted organ takes root when there is compatibility between the donor's genetic material and the recipient's, the adoption of an organizational innovation or novel operating system succeeds when there is congruence with the underlying values that created it. Attempting to replicate such innovations in an environment lacking shared values

is like transplanting an organ into a body with a different genetic heritage; the risk of rejection of this organ is very high.

The values that serve as the heart for these innovations are not only integral to their creation but are also instrumental in their continued success. Hence, an organization seeking to integrate novel practices should encourage an alignment between its core values and the values inherent in the innovation.

This notion highlights the necessity of a deeper understanding that goes beyond the process of change. A profound alignment between values and practices is the foundation that allows for the correct assimilation of innovative models into the existing framework of an organization. In essence, it is the harmony between these value systems, which drives the transformation from a mere imitation of success to an authentic and sustainable realization of it.

Hence, when exploring a business model, it is crucial to resist the temptation to remain on the surface, captured only by the innovative organizational structures or the unique methodologies employed to deliver value. Instead, our search should lead us to excavate deeper, aiming to reveal the foundation of values that has paved the way for these very innovations. For it is within these values that the true essence of success lies.

In situations where the values of a business seeking to emulate a given model diverge significantly from the values that powered the model's origin, the prospect of successful transplantation becomes dubious.

Aiming for an alternative lens through which to assess business models, I propose a multidimensional analysis that spans the spectrum from the superficially observable to the hidden and foundational elements.¹ In essence, the full understanding of a business model requires the disclosure of its hidden dimensions—those unseen yet essential layers of values, philosophies, and principles that support its very existence. By understanding these dimensions, organizations can apply not only the superficial structures of a model but to truly infuse its spirit into their own operations, promoting authentic meaning and lasting success.

Below, I present several potential layers of analysis for a business model. While this compilation may not be exhaustive, nor the sole possible one, it serves as a valuable foundation for embarking on a more profound exploration of business models.

¹This analysis is inspired by the one proposed by Edgar Schein in *Organizational Culture and Leadership*, Jossey-Bass, San Francisco, 1985 whereby he divides organizational culture into three elements:

1. Artifacts: The most external and visible level of corporate culture: It includes organizational structures and processes.
2. Shared Values: Less visible than artifacts, it includes beliefs, social norms, and shared values within the organization.
3. Basic Assumptions: The deepest level, includes perceptions, thoughts, and feelings that are often unconscious.

1. **Superficial Layer:** At the surface level, we observe the most evident innovations and the competitive and financial outcomes of the business model. These visible results are often attributed to these innovations, which is partially accurate but not a complete explanation. For instance, in the case of RDHY, the success of Ecosystems of Micro-Communities (EMCs), or of Micro-Enterprises, may seem to be a significant factor in Haier's overall results. However, to truly understand their impact, we need to explore deeper.
2. **Mechanisms Layer:** Just beneath the superficial layer, we find the mechanisms that make these innovations and outcomes possible. For RDHY, this would involve understanding the processes behind the EMC contract, the formation of EMCs and of MEs, such as the bidding process for new EMCs and the talent pool selection. These mechanisms provide insights into how the prominent innovations within the business model function. Yet, even at this level, we still lack a comprehensive understanding of the entire picture.
3. **Corporate Culture Layer:** Deeper still, we encounter the corporate culture, which is fundamental to the transformation of the corporation. The values, beliefs, and norms that permeate the organization influence decision-making, employee behavior, and overall company dynamics. It is due to these values, beliefs, and corporate culture that the innovations and the mechanisms enabling them were conceived.
4. **Core Purpose Layer:** At the core of the analysis lies the firm's purpose. The purpose serves as the guiding principle that shapes the entire business model and its objectives. It goes beyond mere financial goals as it has to do with the greater impact that the company aims to achieve in the world. Understanding and aligning with the core purpose is crucial, as it supports all other aspects of the business model.

By comprehensively examining and aligning these four levels of analysis—from the visible innovations and outcomes, through the mechanisms that enable them, the corporate culture that drives them, and finally, the core purpose that defines them—a more holistic understanding of the business model's success and potential challenges can be achieved.

Examining the case of RDHY, it becomes imperative to explore whether the values intrinsic to this business model are transferable to a distinct context. This implies questioning whether the norms and regulations that underline the successful application of RDHY in China differ from those prevailing in the nation where a company hopes to implement the model. The forthcoming conclusion, which I anticipate, is obvious: the perfect replication of the model across diverse contexts is an impossible objective. Each context possesses its unique complexities, thereby necessitating an adaptation of the model to accommodate these distinctive traits. Consequently, the result reveals a spectrum of distinct versions of the business model, reflecting the different firms attempting its integration.

Furthermore, another predictable conclusion is that achieving an accurate imitation of the business model in its entirety is not of paramount importance. A company might choose to adopt only those features of the model that align most

smoothly with its cultural framework, while discarding components that find lesser alignment. This strategic selection process is rooted in the recognition that the essence of success lies not in a perfect adherence, but rather in a tailored integration that aligns optimally with the organization's ethos and objectives.

1.1 Methodology

The genesis of this book primarily stems from a series of extensive interviews conducted with Haier's management in China, alongside discussions with managers from various other companies that have successfully implemented RDHY. As for Haier's interviews, I had the chance to visit, once again, Haier headquarters in Qingdao, about ten years after my initial book on the subject,² having the opportunity to personally discuss with managers and CEOs of EMCs, Platforms, and Micro-Enterprises. During this journey, I observed the improvements made by RDHY and engaged in conversations with Chairman Zhang Ruimin regarding the pillars and the future trajectory of the model.

As for the companies that have implemented RDHY, I connected with numerous international enterprises beyond China that chose to adopt RDHY. This task required engaging in interviews with relevant management figures, with the aim of gaining insights into the model's implementation within their respective companies. While my interactions covered a broader spectrum, the final selection for inclusion in this book features five recent case studies of companies that successfully embraced RDHY: Haier Europe, GE Appliances, Gummy Industries, MAQE, and Fajar Benua Group. For those interested in exploring deeper into their implementation journeys, a comprehensive account of their histories is provided in the final chapter of this book. Quotations from in-person interviews with key management of the companies, as well as other company documentation, have been added to text throughout the book, when relevant.

The reserves of inspiration driving this work draw not only from my direct interactions but also from the rich assortment of literature and insights offered by various authors. Annika Steiber's work (2022), chronicling GE Appliances' integration of RDHY following Haier's acquisition in 2016, was inspiring for dissecting the cases presented in this book. Other influential authors that have contributed to my understanding include, among others, Danah Zohar (2022), Joost Minnaar and Pim de Morree (2019, 2022), and Gary Hamel and Michele Zanini's (2020).

It is worth noting that my engagement extended to numerous other sources, both in the form of books, articles and case studies, that have substantially enriched my perspective. Although space limitations prevent me from detailing each source here, an exhaustive list is available in the reference section.

The most important sources of inspiration of this book, however, have been the work of Peter Drucker as well as the various articles and speeches of Zhang Ruimin. In particular, I decided to adopt Peter Drucker's "The practice of

²*Reinventing Giants*, with B. Fischer and F. Liu (2013).