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a mandarin narrative

"Understanding the China effect on global innovation will be essential for companies that wish to compete in China, take advantage of China's innovation capacity, and adopt Chinese approaches to innovation to improve their own performance. The overall effect is that more innovation will originate in China—from both Chinese and global companies—and more companies would adopt the Chinese style of innovation."*
What has helped many Chinese firms make remarkable strides—not just in the realm of innovation—is their swiftness in reformulating themselves, eschewing hierarchical structures, and adopting a customer-centric approach.

I n his 1962 book *Strategy and Structure*, Alfred Chandler argues that an organization's structure should be driven by its chosen strategy and, if it is not, inefficiency results.

Taking this one step further, we believe that the degree to which project activities are important in an organization determines overall strategy implementation success. When managers underestimate or completely ignore this fact, organizations fail to evolve (or adapt) as quickly as business drivers. As a result, a large proportion of transformation initiatives fail.

Most western companies have a functional/hierarchical structure. This was ideal for running the business efficiently in a stable world. Departments are divided along a value chain influenced by Michael Porter's value chain model. Traditional companies are generally run by a CEO, a CFO, and often a COO and a CIO, followed by the heads of business units and functional departments. Each has its own budget, resources, objectives, and priorities.

Until recently, departmental success was measured using key performance indicators tailored to each unit or function. For example, the finance department's success

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was measured by whether it was closing the books and producing the financial statements on time, and that of the HR department by whether it had managed to keep good people on board (low turnover), or had finished employee appraisals on time.

This approach creates significant internal competition, often leading to the well-known 'silo' mentality. Some heads of department build their own little kingdoms, and cooperation with other parts of the business becomes difficult, sometimes impossible. In many cases, the key performance indicators of one department are at odds with those of another.

At the same time, the largest and most critical projects—the strategic ones—are almost always transversal. A strategic project, such as digital transformation or expansion into another country, requires resources and input from several business units and departments. Facility experts find the location, lawyers handle the legal documents, HR experts recruit the people, and salespeople develop a commercial plan, and so forth. Without the contribution of all these departments, the project will not succeed.

Within the traditional functional organizational structure, quick project execution is not possible. Managing just one project in such a complex structure is a challenge, so imagine the difficulty of selecting and executing hundreds of projects of varying sizes.

the Chinese way

Interestingly, faced with a silo mentality, a lack of agility, attachment to the status quo, innovation paralysis, and all the downside of traditional organizations, Chinese companies have frequently managed to successfully reformulate their organizations. Consider three successful Chinese organizational models:

Xiaomi is a mobile internet company focused on smart hardware and electronics. It is one of the most valuable Chinese unicorns with a market capitalization of $50 billion. It has been included in *MIT Technology Review's* list of the fifty 'smartest companies', and founder Lei Jun has appeared on the cover of *Wired*, claiming "it's time to copy China".

The company started life in 2010 and has emerged rapidly. It outstripped Apple's smartphone sales in China within four years. Then, it introduced new products to the market at breakneck speed, disrupting, or at least surprising, market incumbents virtually every time. By 2018, Xiaomi successfully introduced over 40 products, ranging from smart rice cookers and air purifiers to robot vacuum cleaners and smart running shoes.

Xiaomi has gained a lot of attention for its unusual marketing strategy that relies completely on digital technology. It uses online sales channels and social media platforms rather than heavy-asset retail shops and distributors. The result is a low-cost sales channel that meets the demands of target customers. However, the truly innovative aspect of Xiaomi is how its organizational model is driven by projects. Its forty plus products in the market are not organized in strategic business units and have not become part of the organizational hierarchy.

The company has a relatively flat organizational structure—the seven co-founders are only one line of management away from the engineers and sales. The latter make up the largest part of their employee base. Moreover, the co-founders are required to be involved with projects and new product development directly. They participate in user interaction, such as on Xiaomi's own platform, and keep up to date with products. Each Xiaomi employee—including the founder—has contractual responsibility to directly deal with a certain quota of customer requests. A sophisticated digital problem distribution system allocates questions to any suitable employee. Customer proximity has not only become a performance assessment criterion for employees, but also a driver for customer-driven

projects. Each new product development is treated as a project that can be achieved by mobilizing resources inside and outside Xiaomi.

Alibaba Group is the world's largest and most valuable retailer with operations in over 200 countries. With over 50,000 employees and a market cap of $520 billion (as of early 2018), it is one of the top ten most valuable and biggest companies in the world. The success of Alibaba can be largely attributed to its new organizational form, a business ecosystem, which has fostered the rapid growth and transformation of its businesses since the company began life in 1999. A business ecosystem refers to 'a new organizational form where the businesses are interdependent through a variety of equity relationships combining product and service offerings into a customer centric offering'. (Greeven and Wei, 2018)

Alibaba's business ecosystems consist of hundreds of companies, ventures, and projects across at least 20 different sectors. But the majority of these are independently run operations, neither part of strategic business units, nor subject to reporting structures. In fact, many of the players in Alibaba's business ecosystem are still fairly small in size.

Alibaba is widely characterized as dynamic systems of companies, ventures, and projects enabled by digital technology. Instead of directing the development of new products and implementation of project top down, it functions as the gravity provider and network orchestrator (cf. Bonchek and Coudary, 2013). For instance, Alibaba's core is comprised of four ecommerce platforms (Alibaba.com, 1688.com, Taobao.com, Tmall.com) that are home to 700 million users. Moreover, the interdependence between the companies, ventures, and projects is not only financial and equity based although it is a prerequisite to be part of the business ecosystem. The interdependence is found in growth strategies, investment approaches, and complementarities between offerings, business synergies, and resource sharing. Entrepreneurial projects in this ecosystem are allowed to fail without severe consequences for the sustainability of the whole ecosystem, or the careers of top management.

Employees in Alibaba's ecosystem are selected and managed on alignment of values rather than rules. The key values of Alibaba include customer first, team work, embracing change, integrity, passion, and dedication. The consequence of such a value-driven approach is encouragement of taking risks, a strong organizational culture, and competition. Employees are assessed on a quarterly basis and rated in terms of performance and value, both equally important. There is no HR guidebook but only a set of strong principles that guide the employees to operate in a highly dynamic environment. They can initiate any project they like without regard of their current company or department. In fact, the ecosystem of Alibaba provides a safe market place of resources in which project initiators can execute without the limits of corporate hierarchical boundaries and complex vertical reporting structures.

Haier Group is today the world's leading brand of major household appliances. It was launched in 1984, and has been the number one white goods supplier since 2009 with 10% global market share and over 78,000 employees (in 2016). The World Brand Lab's listing of the World's 500 Most Influential Brands ranked Haier on top of the global white appliances list. Haier touched a revenue of over 200 billion RMB in 2016 and acquired GE's appliance division for $5.4 billion USD, a feat unimaginable considering its humble beginnings three decades ago.

Since 1998, Haier has been experimenting with new organizational forms to reduce hierarchy and control and increase autonomy with self-organizing work units and internal labor markets. But it was not until 2010 that it put a unique project organization platform in place throughout the company.

The **key values** of **Alibaba** include customer first, **team** work, **embracing** change, **integrity, passion**, and **dedication.**

Haier's first step to create a platform organization was to fundamentally reorganize the company's structure. First, the company eliminated strategic business units and managerial hierarchies with the purpose of creating zero distance to the users of its products. The company reorganized around projects with specific focus, such as on new product development, marketing, and production. These three work units, or small project organizations, are the core of Haier and closest to the user. A second set, or level, of project organizations is organized around corporate support functions like HR, accounting, and legal. The highest-level work unit is the executive team. Interestingly, the third-level work unit is the smallest and positioned at the top of the inverted pyramid. Their role is redefined as a support function for the customer-facing, self-organizing project organizations.

Through measures such as decentralization, disintermediation, and the elimination of internal communication barriers, Haier has decreased staff numbers by 45% but has created more than 1.6 million job opportunities.

lean, agile, and design thinking within a project-driven structure

Large organizations with strong top-down leadership and fast execution, Chinese companies are at the same time highly innovative and adaptive to changing markets through swift project execution. The cases of Xiaomi, Alibaba, and Haier illustrate how these Chinese companies organize and expand their businesses by combining

Alibaba's value-driven rather than control-driven **management** and **Xiaomi's** iterated **development** and quick upgrading of **products** are based on the **logic** of **experimentation** and quick learning **cycles**.

lean, agile, and design thinking approaches with project-driven structures.

agile: With the arrival of the internet and subsequent digital technology revolution, the pioneers have been quick to adapt, to the surprise of many international enterprises. Not only the digital natives BAT and Xiaomi, but also traditional manufacturers such as Sany and Haier have embraced digital technologies and created competitive advantages in the new era. The embrace of digital technologies deeply embedded in their organizational structure has allowed these companies to adapt to changing market conditions by iterating product development.

lean: Operating in the complex and dynamic Chinese market, these companies have designed their organization as a 'system of work', rather than as a system of control. The approach focuses on making decisions by experimenting and learning (MVP), and empowering people who are closest to the customer. Key features of lean manufacturing such as zero waste, continuous quality, and process optimization are found in these novel ways of organizing. Alibaba's value-driven rather than control-driven management and Xiaomi's iterated development and quick upgrading of products are based on the logic of experimentation and quick learning cycles.

design thinking: The ultimate goal of reaching zero distance to the customer is shared by these Chinese success stories. Besides increasing responsiveness, this also allows the organization to deal with ambiguity and experiment to explore solutions that customers want to buy. In fact, Chinese companies are 'by necessity' design thinkers: with a highly dynamic market, new customers emerging continuously as well as the limited loyalty and maturity of the average customer, Chinese companies have to be as close to the customer as possible. Much of the new product development projects, such as Haier's Crystal washing machines and most of Xiaomi's consumer electronics products, are exclusively customer driven, rather than product or technology driven.

project-driven structures: The three organizational models of the Chinese companies Xiaomi, Alibaba and Haier represent entrepreneurial business ecosystems

built around customers with project-driven structures. They have common attributes. First, no strategic business units as the dominant organizational structure and means of management governance; second, entrepreneurial motivation and dedication; relatively simple organizational structures. In particular, Xiaomi has a project-driven structure based on deep customer interaction and product development iteration. Moreover, Xiaomi leverages project resources outside the boundary of the company. Alibaba, on the other hand, is organized as a business ecosystem where internal entrepreneurship is encouraged. Moreover, risk-taking and new project execution is not limited by the burdens of bureaucracy, but gains from resources within the organizational framework of the business ecosystem. Lastly, Haier has overhauled the traditional bureaucracy and reorganized into thousands of project-driven micro organizations. The center of Haier is the customer; front-end project organizations are leading the business and executives have a supporting role in the projects.

organization 2.0

Western corporations have been organized in the same way for the past hundred years. Their hierarchical structures have become one of the major hindrances for innovation, growth, and successful project execution. For many, changing the model has become a necessity for survival.

In the meantime, Chinese companies have experimented and lead the way to modern ways of organizations. The examples described provide three models that could liberate Western companies from their obsolescence. Adjusting the structure, shifting power, and breaking the traditional management models is the only way forward. Yet, to achieve it, it requires sacrificing the old individual-driven mindsets for the common good of the organization. It also requires courageous and determined leaders.

Are you one of them?

about the research

Our article draws on insights from a decade-long research program in Zhejiang University (2007-2017) that included interviews with hundreds of local Chinese entrepreneurs,

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investors, as well as executives in large Chinese firms, focusing on the status and development of dynamic capability by local Chinese firms. Specifically, research on the digital ecosystems of Alibaba, Baidu, Tencent, Xiaomi, and LeEco and a proprietary database on their expansion activities is summarized in *Business ecosystems in China: Alibaba and competing Baidu, Tencent, Xiaomi, LeEco.* Research on pioneering Chinese companies and hidden champions is summarized in the forthcoming book *China's Emerging Innovators: Lessons From Alibaba to Zongmu*. Also, the article draws findings about Western organizations and their structures from the research performed for the book *The Focused Organization*. Lastly, our extensive presentation and discussion of the practical implications of the research with hundreds of senior executives of Fortune 500 companies allowed us to reflect on and refine our research findings and create face validity of our findings and insights. ∎

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