

# Enterprise and Entrepreneurial Management: A Case Study of Haier Group

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## Abstract

**With the emergence of Chinese economy, the significant performance of its companies and firms has been witnessed by a number of researchers and scholars. Yet few analyses have been conducted on the deep reasons behind their good jobs. Based on some of the entrepreneurial theories and the previous literary, this paper aims to have an investigation on the success of the internationalization of Haier Group, one of the Chinese leading businesses in the latest two decades. It attempts to explore the striking stages involved in Haier's multinational strategies, i.e. idea generation, business planning, commercialization; as well as its external environment leading to the brand establishment worldwide and the specific entrepreneurship that needed.**

## Keywords

**Enterprise, Entrepreneurial Management, Entrepreneurship, Haier, Innovation.**

## 1. Introduction

With the development of economic globalization and the coming of Internet era, a large number of enterprises begin to focus on the international market, to achieve international production and operation, which requires enterprises to take into account various factors. Therefore, under such a premise, only a few enterprises can successfully conduct their business transformation and blend into the international circle. Based on continuous efforts in operational improvement and business innovation, Haier Group has successfully established its own brand in the highly competitive international market. The big success of Haier is inseparable from its top management, especially Zhang Ruimin, a creator of Haier Group and a final maker of most of Haier's entrepreneurial decisions. This paper intends to identify some of the key factors involved in "Haier's Miracles", namely the entrepreneurial management and entrepreneurship in Haier Group.

## 2. Literature Review

An enterprise generally refers to a profit organization engaged in the economic production, distribution, service and other activities in conditions of large-scale social production. Basically, it means a business or a company in normal economic situation. A French economist, Jean Baptiste (1803), first defines entrepreneur as "a person who transfers economic resources from areas with low productivity and low output to areas with high productivity and high output." Jean Baptiste (1803) believes that entrepreneurs are adventurers, risk-takers and the fourth factor of production, who integrates the other three factors, i.e. land, labor and capital, all together to carry out business activities [1]. According to Schumpeter (1912), entrepreneurs are constantly working in internal economic structure mutation, the "revolution", or "creative destruction" of the old mode of production to combine all economic factors into production.

The entrepreneurs, as professionals, only refer to those with entrepreneurship, some special skills of organizational building and management, comprehensive abilities in business and enterprise [2]. Specifically, Cartner (1985) views entrepreneurship as a concept of change, management, risk, innovation, technology and development [3]. Entrepreneurs are those who seek to achieve effective allocation of economic resources by means of innovation, motivation, leadership, invention and risk-taking. The entrepreneur theory holds that markets are not created by God, nature or economic forces, but by entrepreneurs. Behind a successful enterprise there must be a great entrepreneur and a very cohesive entrepreneurial spirit.

Entrepreneurial management, which views business management from the perspective of entrepreneurship, shows the concerns on strategic management. Stevenson and Jarillo (1990) put forward the intersection of entrepreneurship and strategic management in 1990. They first adopt the idea of “entrepreneurial management” to demonstrate the combination of entrepreneurship and strategic management. Taking entrepreneurship as the core of management, they aim to provide a research framework of general management and strategic management from the perspective of entrepreneurship [4].

With the development of entrepreneurial management research, some valuable conceptual frameworks and models have been proposed. W. B. Cartner (1985) argues the entrepreneurial management from individuals, organizations, enterprise creation process and business environment. Based on his previous work, William B. Cartner (1997) puts forward a conceptual framework of entrepreneurial management consisting of talents, opportunities, environments, risks and rewards [5]. Timmons (1999) proposes a theoretical model of entrepreneurial management of opportunity, entrepreneurial team and resources [6]. Christian (2000) highlights the interaction model between entrepreneurs and new undertakings and emphasizes that the management of entrepreneurial process, which changes flexibly with the network of external environment, are the core of entrepreneurial management.

### **3. Case Study: Haier Group**

#### **3.1. Background Information**

Though it only takes few years for Haier to grow from a China-based falling factory on the edge of bankruptcy to a world-renowned manufacturer of household electrical appliances. Haier was still faced with intense competition in both native market and overseas due to its large gap with the global rivals. So, it was the time for Haier and its managers to consider the risks of a second venture: internationalization -a transnational strategy and placement. After a period of experiments, Haier ran through some difficulties and even failures and stepped into the right way of globalization under the influence of China’s joining the WTO. Haier began to focus on the implementation of its internationalization strategy, and tried to adopt localized production as its foothold in foreign markets. Early in 1999, Haier opened its American office in the US, with a R&D center in Los Angeles, a marketing center in New York, and a manufactory in the South Carolina. This is the very beginning of Haier’s overseas localization, which is famous for “trinity”.

#### **3.2. Multinational Venture**

The successful launch of Haier’s internationalization strategy, especially its new venture in foreign markets, involves a whole process of entrepreneurial management which can be analyzed from three stages: idea generation, business planning and commercialization.

##### **3.2.1. Idea Generation**

First, in the late 1990s, when Haier has occupied its dominant position in domestic market, Haier believes that it is the best time to innovate for future expansion and to develop an international business venture with the support of its high national market share.

Second, with the development of economic globalization, multinational corporations have made a significant performance in the international market and it is thought to be the right choice for Haier to adopt a multinational strategy. In fact, as a well performed domestic business, Haier Group has a great sense of responsibility to establish a world ranked brand.

Apparently, Haier has been always trying to seek the opportunity to enter the global market and to grab the market share abroad. Meanwhile, the significance of globalization has been well recognized in the business world. It seems that the multi-nationalization is an important stage of Haier's entry to the international market. So, Haier took its chance and went on its way to fulfill its long-term vision for internationalization under the name of so-called "internationalized Haier".

### **3.2.2. Business Planning: Globalization**

To carry out its multinational strategy, Haier has made a detailed expansion plan from the global point of view. For the strategic planning, which aims to give a general arrangement of its resources worldwide, Haier highlights the importance of European countries, such as Germany and France, and the United States due to their major positions in home appliance markets. To enhance its product competitiveness and strengthen its corporate operations, Haier has conducted a flexible strategy of TQM (Total Quality Management) in general and MBO (Management by Objective) in specific.

In order to obtain good brand recognition, Haier decided to better improve its service and product quality as the core competitiveness of the new enterprise. Taking its production and marketing for example, Haier has employed a so-called "three one-thirds" principle, which means that one third of its sales and production located in its home country, one third of its sales and production coming from overseas markets, and the last one third of its sales and production aiming at the local market.

Actually, Haier's "three one-thirds" principle can be viewed as a trilogy strategy in high-tech development, i.e., the introduction of scientific technology, the assimilation of high technology, and the creation of new technology; which is the right choice for the full implementation of the quality control at a level of international standards and is helpful for Haier's research and development to keep pace with that of the international.

### **3.2.3. Commercialization: Localization**

For sake of its brand globalization strategy to create a global brand to occupy the world market to a larger proportion, Haier has taken full advantages of its own dominant position in domestic market and those resources of researching, manufacturing and marketing from worldwide, to achieve its own localization named "Trinity", that is the localization of research and development, the localization of manufacturing, and the localization of marketing.

The first is the localization of research and development. Haier has set up many research and development centers abroad to attract a large number of local talents, including those who are now serving in local Haier enterprises at all levels. This helps Haier not only reduce its cost in research, but integrate its product development and marketing more closely, which, correspondingly enables Haier with further adaptability. Haier starts to recruit and employ local talents and diversify its staff and members right from its beginning in new markets. This, on the one hand, strengthens its research and development, and speeds up its response to overseas markets. On the other hand, it strengthens Haier's connection with local authority and community, therefore, to improve its recognition in local markets.

Next is the localization of manufacturing. Haier attaches great importance to localization of product and manufacturing and stresses the integration efficiency of technological innovation, service and reputation, so as to rapidly expand the consumer groups and to develop the new market. With the development of e-commerce, enterprises have been able to effectively use the network and other modern marketing methods to communicate with customers. In the process

of international operation, Haier pays more attention to selecting localized professional manufacturers, highlights the use of scientific innovation and patents, integrates supporting manufacturers and parts suppliers, and meets customers' dynamic demands while expanding its international market.

The third is the localization of marketing. Haier's overseas marketing network includes general customers, dealers and partners. In order to do a better job in marketing, Haier forms a strategic partnership with its distributors in the name of "mutual creating, mutual sharing". In addition, Haier adopts local advertising and channel marketing in combination with local culture and customs, and participates in various social public activities to expand its marketing among the public and promote and maintain its brand image, so as to form a localized brand.

## 4. External Environment

According to Collis (1995), the development of new venture is closed related to the enterprise external environment, which can be divided into macro environment and micro environment [7].

### 4.1. PESTEL Model

For macro environment, which means the common factors that affect all the competitors, it generally refers to the government authority and some other regulators. According to the PESTEL model, political environment is the initial factor that has influence upon the behavior of business organizations. So, the success of Haier's foreign ventures must be closed related to its government authorities.

With the emergence of new economy, China has proposed and then vigorously promoted the "One Belt and One Road" policy. Haier Group quickly identified this precious moment for its further development. It speeded up its internal construction and promoted its global strategies, and put them into specific ideas and actions like internationalization, localization, the "trinity" of research and development, and also the 3 steps in production and marketing. Having synchronization with the political and economic environment, Haier has launched all the above strategies to innovate with the context and gradually form a sustainable international ecosystem featuring win-win cooperation.

In early 2000s, having realized the importance of brands, the Chinese Government have conducted a series of promotion plans to improve its national products and services for the sake of Chinese continuous economic growth. Haier Group is one of the corporations benefit from the constructive efforts. In 2002, for example, Haier was labeled as "Chinese Famous Brand" and in 2005 it was named one of China's Top Brands and Valuable Trademarks, which has strengthened its dominant position in China's home appliance market and given it big support to win a national popularity when in case it met any difficulties in foreign countries.

### 4.2. Five-Force Model

For micro environment or competitive environment, which means the micro factors that closed related to the development of specific ventures, it generally refers to new entrants, suppliers, customers and substitutes. According to Michael Eugene Porter (1980), there are at least five forces or factors that have influence upon Haier's investment and venture: the threat of new competitors, the intensity of competitive rivalry, the bargaining power of customers, the bargaining power of suppliers and the threat of substitute products or services [8].

Obviously, from its domestic market, Haier has already obtained financial and technical advantages needed for its overseas expansions. For those new competitors Haier has established some barriers to entry in the home appliance market. Haier has got some relative strength in labors, funds, technology and management. For those big rivals in the European and American markets, Haier has the advantages of newcomers such as the cheaper costs, the

mature skills and the domestic support. For the intensity of competitive rivalry, Haier has got a competitive advantage through innovation. The right adoption of localization is the secretary of Haier's success of multinational venture. And it is no doubt that there is little bargaining power for Haier's suppliers due to its backup force in China, which can be the necessary option of Haier at any time.



Figure 1: Porter's five-force model

## 5. Entrepreneurship

Entrepreneurship is a special and important invisible factor of production. Innovation is the foundation and premise of entrepreneurship and entrepreneurship is the embodiment and extension of innovation. The connotation of entrepreneurship is innovation, that is, through innovative means; entrepreneurs can use resources more effectively and create new values for the market. Joseph Schumpeter (1912) regards entrepreneurship as a force of "creative destruction", and the biggest hidden danger of enterprises is the lack of innovative spirit. Haier values entrepreneurship most and encourages every employee to have the spirit of entrepreneurship, from being managed to be independent.

### 5.1. Innovation and Management

Zhang Ruimin, the Chief Executive Officer of Haier Group, is just one of the innovative entrepreneurs. He calls for an "innovation-driven" management in Haier Group to meet the needs of global consumers with solutions to achieve win-win situation between the business and its customers. From the OEC (Overall Every Control and Clear) mode to the "market chain" mode, from the "win-win" business model to today's excellent operation mode, Zhang Ruimin keeps on innovating in his entrepreneurial management and he is highly appreciated by his fellow peers in international management. Zhang Ruimin, together with his entrepreneurial management in Haier group, has been always a case study for some business schools. Haier's "market chain" management mode, for example, is also included in the EU case base.

Obviously, Zhang Ruimin is an outstanding entrepreneur who is very good at the the Chinese and Western styles of business practices and even creates his own unique patterns, which has been well preferred and widely recognized. Under his insistence, Haier has enriched the connotation of competition which does not simply mean price or cost, but also quality and innovation. On the basis of having the independent intellectual property rights, Haier has hosted or participated in hundreds of technical tests, has amended some national standards. Such innovations like the Safe Care technology and the hybrid washing machine have already been incorporated into IEC international standard proposal, which proves that Haier's innovation has achieved a world-class level.

## 5.2. Change and Development

According to Gartner (1985), it is a necessary quality for an entrepreneur to make the right decision for the sake of change and development. Zhang Ruimin has the ability to do so. He feels it is urgent to make Americans feel that Haier is a localized US brand instead of taking it as an imported Chinese brand (Kerin and Peterson, 2007) [9]. Actually, Haier Group has once created a joint venture with Liebherr Group, the German appliance company in 1980s, and their initial products are branded “Qindao-Liebherr”, for Zhang Ruimin believes that a German name in the brand will help to boost its image in Germany. By 1992 the name changed to “Haier”, which is a variation of the word “Liebherr”, both in spelling and pronunciation.

Zhang Ruimin is capable of making changes according to different situations. He believes that to operate multinational ventures, it cannot rely solely on export development, but also on foreign direct investment, particularly in developed countries, to build its own design, production and the network of marketing, thus to avoid the impact of international market volatility and risks. As a policy maker, Zhang has successfully shifted his entrepreneurial strategy into the multinational venture and the fact has proved that his decision is definitely correct. In 1998, during the Southeast Asian financial crisis, China’s exports have been seriously affected. But Haier Group’s export earnings increased by 36% compared with that in 1997. Meanwhile, while other domestic enterprises had to seek new overseas outlets to cover their losses, Haier’s overseas investment had developed in depth.

The most significant change brought by the new era for enterprises is the emergence of e-commerce. Relying on the development of network technology, e-commerce has changed people’s traditional consumption pattern and gradually become the main stream way of people’s shopping. Under the traditional entity operation mode, the industrial layout of enterprises is mainly based on the entity space and limited by the traditional plane space thinking. Now, with the appearance of virtual operation and sales mode, the industrial layout of enterprises is no longer based on physical space, but transformed to virtual space, and the integration and development of physical space and virtual space brings fundamental change for enterprises.

## 6. Analysis and Conclusion

Via the investigation of Haier’s international ventures and operations together with Zhang Ruimin’s vital decision making, it is easy to make such judgments and comments:

First, Haier Group, as a leading company in China home appliance market, needs a great innovation for further development. So, in late 1990s, it is a must for Haier Group to consider the possibility of cross-border operations due to the rapid development of home appliance industry and the increasingly intense competition in the domestic market. At that time, in a variety of home appliance fields, the price war has come into being. Though Haier Group holds significant advantages since its well known brand recognition, it still brings some effects and challenges to its sales and revenues.

As an entrepreneur, it is necessary to make a right decision at the right time and to take the right action with right pace. So, Zhang Ruimin should have an immediate response to the change of external environment. It is required for Haier to act as an appliance manufacturer not only in the domestic market but also abroad. Just as Schumpeter (1912) identified, innovation is a “creative destruction”. The internationalization of Haier Group can be taken as a creative change in management and decision making since Zhang Ruimin invents an approach of globalization of his own. Generally, enterprises start their internationalization from the investment in less competitive countries or developing countries. Zhang Ruimin does not follow them but steps on a new way. He promotes his ventures in fiercely competitive nations like Germany and the United States, which is the best way to improve the ventures’ competitiveness.

Second, localization is the right choice for Haier to run a well recognised business because Haier should pioneer a new path for its brand appreciation among westerners. Since the image of Chinese products has not been fully valued in the outside world. According to Gartner (1985), it is the entrepreneurs' responsibility to make proper innovations on the basis of changing environment and to take any possible risk that can be generated. Marketing may be a big problem for new ventures to survive, just like many theoretical researchers have identified. Normally, new ventures tend to adopt a low pricing strategy, which is usually proved to be inefficient. But Zhang Ruimin takes a high pricing strategy instead. His "better quality, higher prices" strategy performs a good advertisement for Haier's stable quality.

From all the above, it can be concluded that entrepreneurial management, which involves the entrepreneurial process management and the business external environment, is a must for entrepreneurs to run new ventures and some creative innovations according to different surroundings is definitely needed for enterprises to make a success.

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