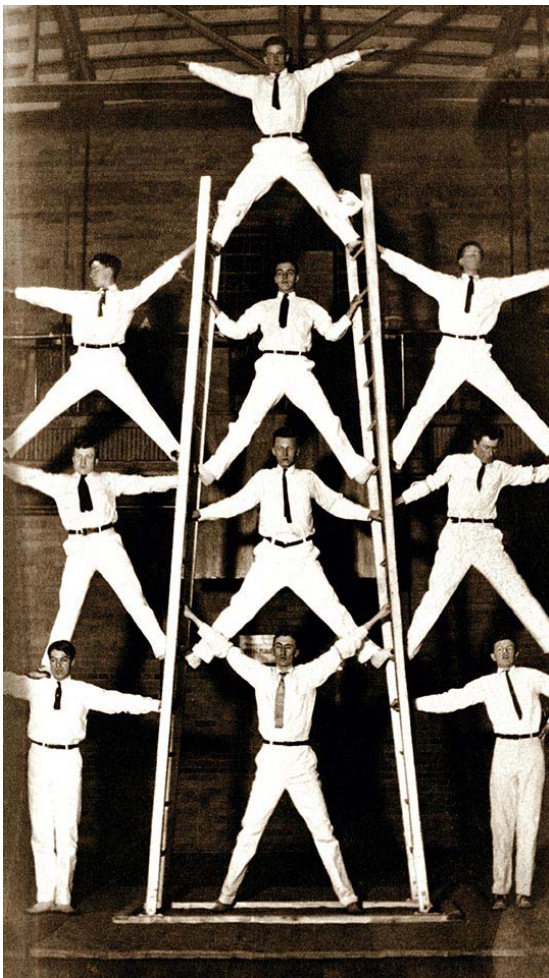


Huawei's Culture Is the Key to Its Success

by David De Cremer and Tian Tao

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Today, Huawei is the only Chinese company - out of the 91 mainland Chinese companies listed on the Fortune Global 500 list - earning more revenue abroad than in China. Huawei's revenue from overseas markets exceeded that from the Chinese market for the first time in 2005. In 2012, Huawei surpassed Ericsson - at that time the world leader in telecommunications and networks - in terms of sales revenue and net profit, and this trend continued in the fiscal year of 2014 when Huawei reached an all-time high sales revenue of \$46.5 billion and net profits of \$4.49 billion (both in U.S. dollars).

What makes it so successful? As the saying goes, "Success has many fathers." But as with many great companies, we find part of the solution to this puzzle by looking at the specific values that define the culture of Huawei. Having

interviewed people working for Huawei, reading articles, letters and keynotes by the founder Ren Zhengfei, and finally interviewing Ren Zhengfei allowed us to understand the foundation of Huawei's value-driven culture.

Customer-First Attitude

Strong leaders provide a sense of purpose to their people, and Ren Zhengfei is no exception. His first and foremost concern is the customer. Many companies adopt a customer-focused attitude, but how many of them truly live it? Huawei distinguishes itself from the competition in this regard. In our conversation, Ren Zhengfei mentioned repeatedly how in the early years of Huawei everyone in the company had to turn their eyes to the customers and their backs to the bosses. For example, several years ago an institutional investor delegation led by Stephen Roach, chief economist for Morgan Stanley, visited the Huawei's headquarters in Shenzhen. Such visits were usually made by venture investors hoping to get a buy-in to Huawei. Ren Zhengfei asked Fei Min, his executive vice president of R&D, to entertain the delegation. Later, Roach said, in disappointment, "He was rejecting a team with \$3 trillion." The explanation by Ren Zhengfei was quite telling: he told us that he would meet any customer in person, no matter how small they were, but that Roach was not a customer.

Another example of this customer-first attitude comes from another early episode in their history that's since become something of a company legend. In desert and rural areas in China, rats often gnawed the telecom wires, severing customers' connections. The multinational telecom companies providing service at that time did not consider this to be *their* problem, but rather that of the customer. Huawei, in contrast, viewed the rat problem as one the company had the responsibility to solve. In doing so, they acquired extensive experience in developing sturdier equipment and materials - such as chew-proof wires - which helped them later on to gain several big business accounts in the Middle East, where similar problems stymied the multinational firms.

Since then, there have been other projects where Huawei experienced severe climate challenges, such as building the highest wireless communication base station in the world (6,500 meters high on Mount Everest) and building the first GSM network within the Arctic circle. These, too, have helped acquire useful knowledge. For example, when Huawei expanded their 3G market in Europe, they noticed that European carriers expected base stations to be more compact, easier to install, greener, and more energy efficient, while offering wider coverage. Based on these customer needs, Huawei became the first company to launch the concept of distributed base stations that enables radio access for large to small private networks. This innovation made it cheaper for carriers to deploy base stations, and was popular with European carriers.

Employee Dedication

Huawei emphasizes that the only way to obtain opportunities is through hard work. For example, in the early years of the company, every new employee was given a blanket and a mattress. Many of them would work late into the night, then sleep in their offices, perhaps taking a catnap during lunch again the next day. As one Huawei employee said: “The pads were to us a representation of hard work in the old days and this idea has now been translated into the spirit of being dedicated to do the best in anything we do”.

Knowing that a dedicated and committed work force makes companies more competitive is not a too difficult concept to understand. The way to promote dedication and make it accepted by its employees - as it is the case in Huawei - is, however, a more difficult nut to crack. Huawei does it in part with the type of incentive performance system the company employs. Huawei is not a public company, and is in fact owned by the employees. Ren Zhengfei's shares account for nearly 1.4% of the company's total, and 82,471 employees hold the rest (as stated in Huawei's 2014 Annual report). This employee shareholding system is referred to within Huawei as the “silver handcuff.” It is a system that is different from the more common stock option arrangement, which is often termed the “golden handcuff.” The idea underlying this scheme is that Ren Zhengfei wants to

share both responsibilities and benefits with his colleagues. As he puts it, he wants everyone to act like the boss. Important to note, however, is that only those who perform well enough qualify to participate.

There's a shared belief within the company that an IPO would result in only a few people getting very rich, and the majority losing their motivation. Ren Zhengfei has emphasized that avoiding an IPO and hewing to the current employee-ownership structure is what helps the company maintain a strong collective fighting spirit.

Long-Term Thinking

The employee-ownership arrangement not only helps Huawei attract and retain dedicated employees, but also allows the company to plan for the long term. Ren Zhengfei has also credited it with allowing them to stay close to their goals and long-term vision. For example, Huawei plans the development of the company by decade, whereas most of their competitors such as Ericsson and Motorola plan it by financial quarter or year. Being privately held has allowed Huawei to work on its 10-year plans, while its competitors struggle to follow near-term fluctuations of the capital market.

For example, Huawei has introduced the use of a rotating CEO system in which three deputy chairmen take turns acting as CEO for six months each. At the same time Ren Zhengfei maintains his oversight role, acting as a mentor and coach for the acting CEO. This innovative management structure is inspired by a book on new leadership called *Flight of the Buffalo* (authors James Belasco and Ralph Stayer). While it will make the company less vulnerable if one chief fails or derails, it's hard to imagine a publicly held company getting away with such an unusual plan.

Gradual Decision-Making

Ren Zhengfei is known for avoiding quick decisions and forcing himself to take time to reflect. His company reflects these traits. Again, he ties this in part back to their ownership structure: it keeps the decision-making power under company control - no outside investor will gain relative control over Huawei. As we've seen, they have much more freedom and less pressure from the market to consider their next steps to take. Their system of rotating CEOs helps support a gradual, more democratic decision-making process. It also helps Ren Zhengfei make a gradual decision about his ultimate successor.

Huawei also emphasizes what they call "the power of thinking." The company philosophy is that the most valuable thing is the power to think. For example, efforts are made to ensure that intellectual exchange happens as a matter of routine. Executives are urged to read books outside their area of expertise and books have to be present in each office. Furthermore, ideas are communicated frequently to every employee by both senior executives and Ren Zhengfei. Importantly, however, and demonstrating the international character of a once-Chinese company, feedback is always invited across the company to improve those ideas that will ultimately feed the future vision of the company.

As many people know, Ren Zhengfei is a man with an army background - he served in the People's Liberation Army - an experience he credits for his drive to fight and survive, qualities that are reflected in one of his favorite slogans in the early days of Huawei: We shall drink to our heart's content to celebrate our success (*ren sheng de yi xu jin huan*), but if we should fail let's fight to our utmost until we all die (*ju gong jin cui, si er hou yi*). So far, Huawei has had many successes to celebrate.



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