Huawei to the future

David De Cremer and Jess Zhang examine the organisational and leadership lessons from the rise of Chinese technology giant Huawei.
Innovation is increasingly important to Chinese businesses – and will become ever more so as growth slows and a more service-oriented economy emerges. China is already one of the most prominent providers of R&D. Recent research by Roland Berger shows that China’s share of R&D expenditure worldwide rose to about 14 per cent in the period between 2007 and 2012. Among China’s innovation stars is Huawei.

Huawei Technologies, founded in 1987 by Ren Zhengfei, is organised around three core business segments: a carrier network business group, an enterprise business group, and a consumer business group. With its main office in Shenzhen, Huawei is a private company in which the founder owns about 1.4 per cent of the shares with the remainder owned by some 70,000 of the company’s 150,000 employees.

Huawei’s innovativeness is demonstrated by its industrious acquisition of patents. By the end of 2010, Huawei had filed 49,040 patent applications (31,869 patent applications in China, 8,892 international patent applications under the Patent Cooperation Treaty, and 8,279 overseas patent applications). Of the 17,765 authorised patents granted, 3,060 were overseas patents.

As a result, the world has started to look at Huawei, with an increased interest but also with some suspicion. For example, the US has pushed Huawei to the periphery of its telecom market, due to fears of espionage and suspicion that the company’s products are subsidised by cheap loans from Chinese banks. Other regions, including the UK, have been more accepting. Suspicion and wonder at Huawei’s rise is tempered in a growing number of places by a certain admiration or, at least, by the desire to know more about Huawei’s approach to innovation and what makes the company so unique. What is its secret? Why has Huawei emerged as the prime example of an innovative Chinese company? Does it have a unique business model only workable in the Chinese setting, or is it also applicable globally?

Innovation results

It would be straightforward to observe that Huawei is innovative in nature and, therefore, successful. Rather, innovation is a result of Huawei’s values, vision and procedures. In the case of Huawei, innovation is an outcome rather than an antecedent.

It is not innovation that drives Huawei’s success, but the process that creates innovation which drives success. This process is grounded in value-driven leadership: leadership that defines the company’s vision and direction.

Huawei’s Chairman and founder, Ren Zhengfei, is a unique personality who, for the last 25 years, has gained a reputation for leading his company like an army. Ren Zhengfei served in the People’s Liberation Army and the outside world has mainly focused on the consequences of his directive leadership style. (One famous and widely shared story is that employees are obliged to take a siesta by sleeping under their desk.) This overlooks the role of values in his leadership. There are, we believe, five key aspects of Ren Zhengfei’s leadership style.

Communication

Zhengfei has emphasised that openness, competition and collaboration complement each other. He strives for a company culture where people’s minds are the main asset and resource. As such, the ideas of his people complement the company’s values to produce innovation. Leadership achieves results through a desire to continuously improve and grow rather than from a desire to simply beat the competition by being first.

Relationships matter

Zhengfei says: “I do not know anything about technology, but I can bring people together to work for the collective.” This statement signals a strong belief that there is infinite strength in organisation and collective efforts. Great things, in his view, can only be realised if everyone is aware that as individuals they are not that significant. It is all about working together. He claims that when he founded Huawei, he no longer acted as a technical expert, but became an organiser.

Humble leadership

Zhengfei emphasises his strength in putting people together and his belief in the value of talking from the core to do ‘good’ for the organisation. His philosophy seems to be best served by displaying humble leadership.

Value-driven leadership

Zhengfei argues that the core value in business should be customers first. According to him, Huawei should always listen to customers’ needs and expectations and this input should fuel the whole enterprise. It implies that product development is not simply based on a reactive strategy towards what the competitors are doing but, rather, on a belief that transformations happen with close collaboration between the developer and the buyer. This means not simply producing to produce, but rather production based on the recognition of true needs. In this way innovation happens because a shared interest on values is created.

For example, in the desert and rural areas in China, rats caused huge problems for telecom connections. This was usually considered to be
the customer’s problem. After all, companies only provided the technology to the customer. Huawei, however, viewed the rat problem as one the company needed to solve. As a result, it acquired experience in developing more robust equipment and materials, which later helped the company win several big accounts in the Middle East.

**Having a vision - being proactive**

In the late 1990s, Huawei was doubling its revenue from year to year. Most of its top managers concluded that they no longer needed much help from foreign experts. Not Zhengfei. Even in such prosperous times, he did not hesitate to ask IBM to help in developing and implementing better management systems. This example not only illustrates the openness of the founder but also signals the proactive nature of his leadership.

**When a follower becomes a leader**

All of this has contributed to the fact that Huawei is better prepared than most Chinese companies to start thinking as a global rather than a local player, and to act as an independent entity in a largely government-driven economy. Its independence was demonstrated in 2013 when the founder refused to have a meeting with the new Chinese president Xi Jinping. Huawei seems to be creating a mix between Western and Chinese approaches to management and leadership.

In 2012, Huawei achieved sales revenue of CNY220.2bn (US$35.35bn) and surpassed Ericsson with CNY15.38bn (US$2.47bn) in net profits. It has shifted from being a follower to becoming a leader. Now, the challenge for Huawei is to act as a true leader of the industry. And the path to true leadership is never easy nor smooth.

The company faces several challenges in an ever more complex and global industry. The primary challenge lies in maintaining the company’s global leading position while at the same time trying to incorporate an international focus further into the management of the company. At the moment, about two-thirds of the company’s revenue is generated internationally. Furthermore, overseas offices of Huawei are increasingly localised. For example, the company’s R&D centres in the US (Santa Clara, Austin, Texas), Canada, Japan, Sweden, Munich, UK and Russia primarily help in recruiting local talent.

Huawei is also faced with many Chinese expats coming back home. These expats, however, do not think in terms of the old and traditional Chinese management models. As a consequence, Huawei has to work on several management issues inside the company while at the same time creating a more open company culture (ie. increased international market share will lead to demands for greater transparency). These changes will be necessary to stay on top of the industry without compromising the existence and effectiveness of its innovation strategies based on a strong values-driven culture.

As Zhengfei prepares to pass on the leadership baton, it is imperative that leadership becomes more shared without compromising the values that brought success and innovation. Huawei is already known for employing a rotating system of CEOs, which fits with its belief that talent from within the company can move through the ranks. The view is that the company will benefit in the long term when people are generalists rather than specialists.

It is unlikely that future leaders will embody the company’s values as Zhengfei has done. Huawei needs to work on making sure that its future leaders fully understand the values that promote the company’s success and innovation. At the same time, they must also be given the latitude and time to make the values their own. Values can only drive innovation and create a supporting culture if the values are endorsed by leadership that is perceived as authentic and sincere.

The challenges faced by Huawei and its responses suggest that it is moving in the direction of becoming a learning organisation with shared leadership and management through values. A learning organisation is characterised by the presence of a learning climate that is participative in nature. In this climate, senior managers and junior employees work and experiment together to try out new ideas and failure is allowed in the pursuit of growth and progress. Across different levels within the company, everyone is allowed to participate in the value-creation process. And exactly, because of this reason, it is important that the values that make the company are widely recognised and supported. Huawei is paving the way for a change, so that the change is embraced, allowing innovation to follow. This idea is reflected in a proverb used by the company: “The only thing unchanged is change.”

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