

**Management Innovations at Outstanding Information Technology
Companies and Implications for China**

by

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B.S. Biomedical Engineering
Johns Hopkins University, 2004

SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL
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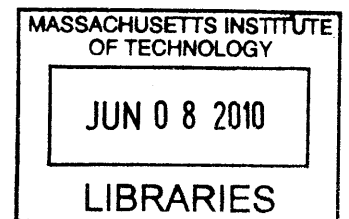
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ABSTRACT

Over the past few decades, information technology has fundamentally changed the way we work as a society. Managers often forget that management itself also needs to change along with our evolving society. It is an opportunity, particularly, overlooked by manager's in China amidst rapid industrialization and the birth of a new generation of Chinese with transformed values. In this thesis, we will analyze five companies: Google, Zappos, Netflix, Alibaba, and W.L Gore for their recent successes in management innovation. Our goal is to distill a core set of principles we can learn from to recommend to venture entrepreneurs and managers looking to operate in China.

Thesis Supervisor: Michael A. Cusumano
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Finally, I would like to express my sincere appreciation to my parents and two brothers. They have supported my studies and put up with my unorthodox ways of life. My family has and will always continue to give me the strength I possess.

Table of Contents

Table of Contents	4
Table of Figures	5
Chapter 1. Introduction	6
What is Management Innovation?	6
Management Innovation and Company Philosophy/Values	8
Why does Management Innovation matter?	9
Why technology companies?	11
Thesis Overview	12
Analysis Methodology	13
Relating to China	18
Chapter 2. Understanding the Chinese Context	20
Industrial Reform	20
State Owned Enterprises & Private Owned Enterprises	22
The New Generation Chinese.....	25
Why Management Innovation in China.....	27
Chapter 3. Management Innovation at Outstanding IT Companies	31
Google.....	31
Zappos.....	36
Netflix	44
Alibaba	50
W.L. Gore & Associates.....	60
Final Comments.....	69
Chapter 4. Distilling the Underlying Philosophies of the Studied Companies	70
Overview.....	70
Philosophy #1 - Focus on User.....	73
Philosophy #2 - Power of Teams	74
Philosophy #3 - Individuality	75
Philosophy #4 - Freedom.....	75
Philosophy #5 – Aim High	77
Final Comments.....	77
Chapter 5. Conclusions	79
Applying Management Innovation to China	80
Management Innovation Challenges in China.....	83

Table of Figures

Figure 1 - Management Innovation Cycle	10
Figure 2 - Google Income Statement	14
Figure 3 - Netflix Income Statement.....	15
Figure 4 - Alibaba Income Statement.....	15
Figure 5 - Zappos Income Statement.....	16
Figure 6 - Sectoral share of GDP in China.....	21
Figure 7 - Industrial Section Decline	23
Figure 8 - Reform Policy Goals since 1978.....	24
Figure 9 - Google Principles.....	34
Figure 10 - Zappos Values	42
Figure 11 - Netflix Values.....	45
Figure 12 - Netflix Culture Aspects	48
Figure 13 - Survey of Tsinghua MBA students	51
Figure 14 - Alibaba Core Values.....	57
Figure 15 - W.L. Gore Beliefs and Principles	66
Figure 16 - Maslow's Theory of Needs Pyramid.....	71
Figure 17 - Five Core Principles among Companies Analyzed	72

Chapter 1. Introduction

What is Management Innovation?

Theodore Zeldin, president of the Oxford Muse Foundation, recently stated in an interview with the *Financial Times* that "*the world of work must be revolutionized to put people—rather than things—at the centre of all endeavors.*"¹ The last 30 years of his studies has led him to the observation that how and why we work is becoming out of sync with the primary requisites of human work. In many ways Theodore is pointing out a management opportunity ignored by many major corporations over the last few decades -the need to put people and the communities they belong to at the forefront of all work to be performed.

To begin my definition of *management innovation*, I have decided to first refer to two quotes on *innovation* by well-respected management professors/gurus Peter Drucker and Paul Schumann. Peter defines *innovation* as "*change that created a new dimension of performance,*"² and Paul describes it as "*the way of transforming the resources of an enterprise through the creativity of people into new resources and wealth.*"³ Put into the context of management, I interpret it as re-thinking the cultivation and evolution of organizations to lead it to breakthroughs in productivity or efficiency. Modern management innovation encompasses a broad range of company processes, including but not limited to organizational processes, shareholder benefits, work-place design, company hierarchy, and many more.

¹ John Thornhill. "France's favourite Englishman." *Financial Times*. February 9-10, 2008, Life and Arts, p. 3.

² Peter F. Drucker, "The Discipline of Innovation." *Best of HBR*. 1985

³ Paul Schumann, "Building an Innovative Enterprise." *Glocal Vantage Inc Presentation*.

Understandably, technology is often associated with 'innovation' due to its constant evolving nature. From teletypewriters to mobile smart phones, technology has mustered radical changes to the world and how we live over the past century. One problem with this change in technology, however, is managers often put too much emphasis on technology innovation and forget that management also needs to change along with the rapidly changing world. It is important to signify this difference, dealing with people is arguably more important than any innovation in technology. After all, it is people who devise new technologies and utilize them. Towards the end of this chapter, I will revisit this topic and further examine the relationship between management innovation and information technology companies.

Before we move to the next section regarding the relationship between management innovation and company philosophy, it is important to note this thesis can only address management innovation in reference to the time it is published. The speed in which our world is changing today makes it too difficult, if not impossible, to predict how management innovation will look and feel in the upcoming generations of human work. E-mail and SMS have significantly changed how we communicate over the past two decades, what we call management innovation today may be void or a different ball-game altogether in the future. We can only presume management innovation will continue to revolve around people and their lives. And chances are the future of management to make our current models history like those in the past seem to us today.

Management Innovation and Company Philosophy/Values

So how does a company determine whether an engineer with a new idea is granted approval to pursue it? Should it be any different if it were a manager with a new process or culture idea? The answer to both are usually derived from a company's mission statement and processes. It is a company's underlying values and philosophy that determines what is allowed, what is not, and to what extent. Culture and philosophy is the root of all operations and interfaces at every company; it shapes employee behavior, company procedures, and the environments where it produces at. Culture distinguishes how companies choose to bridge the gap between its values and human driven processes. In the book 'Built to Last: Successful Habits of Visionary Companies,' James C. Collins claims that companies are often guided by their "*vision statements*" to determine the way they do business.⁴

*"A culture is the values and practices shared by the members of the group. Company Culture, therefore, is the shared values and practices of the company's employees."*⁵

As we will later see, one characteristic of sustainable innovation at any institution requires more than just heroic efforts from a few key employees. It requires an organization designed to encourage efficient experimentation - learning from failures and cultivating promising successes. Companies with adaptive cultures aligned to their business goals routinely outperform their

⁴ James C. Collins. "Built to Last: Successful Habits of Visionary Companies." Chapter 12. January 15, 1997.

⁵ F. John Reh. "Company Culture: What It Is And How To Change It." *About.com Guide*.

competitors. Some studies have demonstrated the difference at 200% or more.⁶ Company's achieve such results by first having a deep understanding of their people and then determining a fitting culture they can execute on.

In many senses, company philosophy is interrelated with management innovation -both of which are tied directly to its people and their outcomes. Management innovation can be seen as the path to finding the ultimate truth to a company's philosophy. It creates intangibles often determining the difference between winning and losing companies. Later in our analysis on chapter three, we will find that the management practices of the companies under examination derive their innovations from their initial philosophies.

Why does Management Innovation matter?

The typical manager today is stuck in a paradigm of out-dated management philosophies and processes. In "The Future of Management", Gary Hamel refutes the notion that we are at the 'end of management'⁷. As our society continues to produce new technologies and reinvent the ways we live, new complementary management practices need to be devised. Companies today who are starting to employ social medians such as Facebook and Twitter to promote and maintain their brand are great examples of how times are changing –technology being a major catalyst. It requires a whole new set of skills and processes, and ultimately different ways of thinking about how people work

⁶ Crawford International. "Adaptive Corporate Culture: Key to Financial Performance." *HR.com*. November 28 2006.

⁷ Gary Hamel. "The Future of Management." *Boston: Harvard Business School Press*, 2007.

and live. Companies who refrain from these evolutionary changes in society will soon find themselves in very difficult situations, possibly facing extinction.

Even more importantly, it is the leading innovators of management who often reap the benefits of taking the time to devise new circumstances for their institution. We frequently find that these companies receive great press for their management innovations, resulting in strengthened bonds between them and their employees. Furthermore, the increased productivity of employees in turn increases shareholder value and provides companies additional resources to continue to innovate. Such resulting forces foster a halo of goodwill among all parties and opens up opportunities for the companies to recruit additional talent.

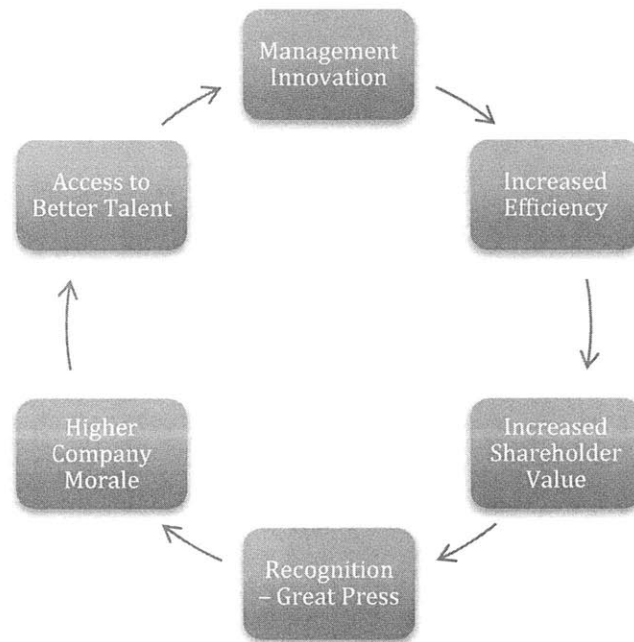


Figure 1 - Management Innovation Cycle

Many outstanding management innovation companies have used a similar cycle (as shown above) to find continued success. Management innovation is significant because it is also sustainable. Today's management innovation keeps employees fresh, motivated, and focused. An invested workforce of employees are often found to be the difference between a thriving profitable company and one that is stale and suffering from decreased profits.⁸

Furthermore, owing to the fact management innovation is closely related to company culture and philosophy, it becomes one of their distinct core advantages. Company culture is an incredibly difficult competency to copy or change at medium to large companies. This competitive advantage often keeps innovators at the forefront of their industry; they focus on competing against themselves at an early stage rather than on how their competitors are performing.

Why technology companies?

It is not a coincidence that IT companies tend to correlate most highly with management innovation. After all, IT companies of the 21st century are known for their game changing technology disruptions. Particularly, small startup IT companies have less to lose and are more willing to take risks than the typical traditional investment-requiring company. The Bay Area of California, also known as the Silicon Valley, is known for its culture of experimentation - trying new ideas rapidly and cultivating those that stick. It is without doubt this

⁸ Jim Collins. "How The Mighty Fall: And Why Some Companies Never Give In". May 19, 2009

experiment-heavy culture has seeped into the management practices of surrounding IT industries in the area.

The surge in software programming positions over the past three decades also explain why management innovation tend to be affiliated with IT companies. For computer engineers and architects, their true efficiency is measured in how quickly efficient patterns and algorithms can be deduced and implemented; the speed at which these structures can be devised and executed on can drastically alter the development cycle of a company. It is this line of work which requires employees to be under certain environments and circumstances for them to produce at their maximum efficiency. Some of these circumstances, which will later be discussed in this thesis, include social needs being filled, flexibility, and constant stimulation.

"The best programmers are not marginally better than merely good ones. They are an order-of-magnitude better, measured by whatever standard: conceptual creativity, speed, ingenuity of design, or problem-solving ability."
- Randall E. Stross⁹

Thesis Overview

The goal of this thesis is to explain the need for management innovation in China, distill current innovations at a variety of information technology firms, and make recommendations for similar companies operating in China.

⁹ Robert K. Weatherall. "A Booming Market for New Graduates." Engineers 3:2 p.11. April, 1997.

Chapter two of this thesis will review the Chinese business landscape since the industrial reform and illustrate the need for management advancements at a macro level across the different enterprises in China.

Chapter three will be an analysis of a variety of information technology companies. We will certainly discover countless practical mechanisms in the process, many of which are plug and play at a variety of current businesses, but our focus is to pinpoint the underlying company philosophies.

In chapter four, we will attempt to identify and understand the underlying essences to allow us to apply the same philosophy regardless of situation and context. Company philosophy and values, which are often spirited and distilled, tend to be the basis of where all processes are often derived from. This is particularly useful when we attempt to translate our learnings into the China context in the fifth and final chapter. My initial hypothesis is companies with breakthrough philosophies are simply serving the needs of the changing societal needs of humans.

Analysis Methodology

For the company analyses on chapter three, I have decided to pick five different information technology companies to contrast differences in their mechanisms, and more importantly, philosophy. This is partly based on accessibility of data, but also on the belief specific products or niches with similar business models and partners will not be a bias in the analysis. Among the five companies are a search engine, a business to consumer ecommerce

store, a digital media services company, a business to business commerce platform, and a materials technology company. These companies are Google, Zappos, Netflix, Alibaba, and W.L Gore.

It is important to note that all five companies in the analysis have had apparent outstanding performances in the past where both the press and academics have attributed their success partly due to management innovation. With the exceptions of Google and W.L. Gore, where a multitude of books and articles have been written and published regarding their success, the primary source of data for the rest of the companies come from business articles, company presentations, and interviews with current employees.

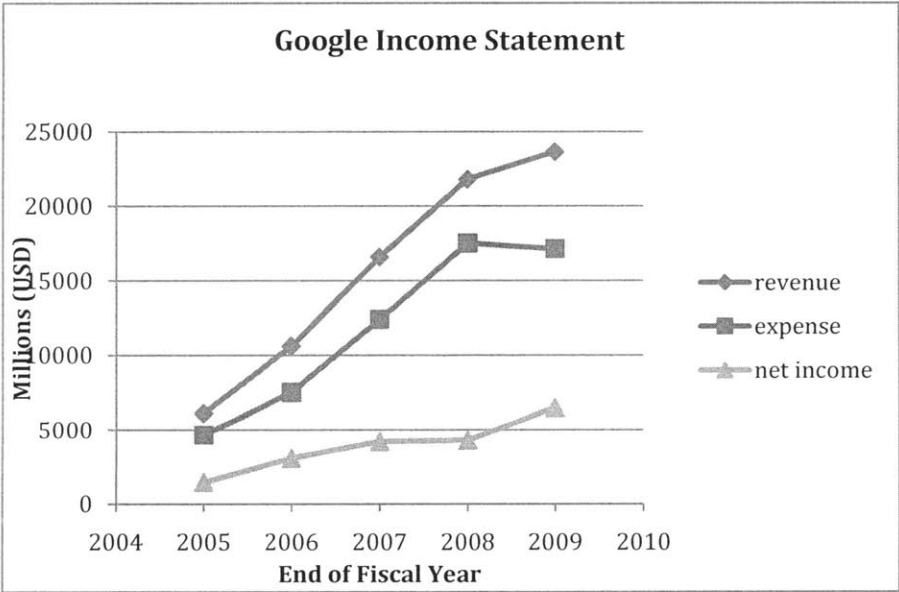


Figure 2 – Google Income Statement¹⁰

¹⁰ Google (GOOG) Income Statement. *YCharts*. 2009-2010

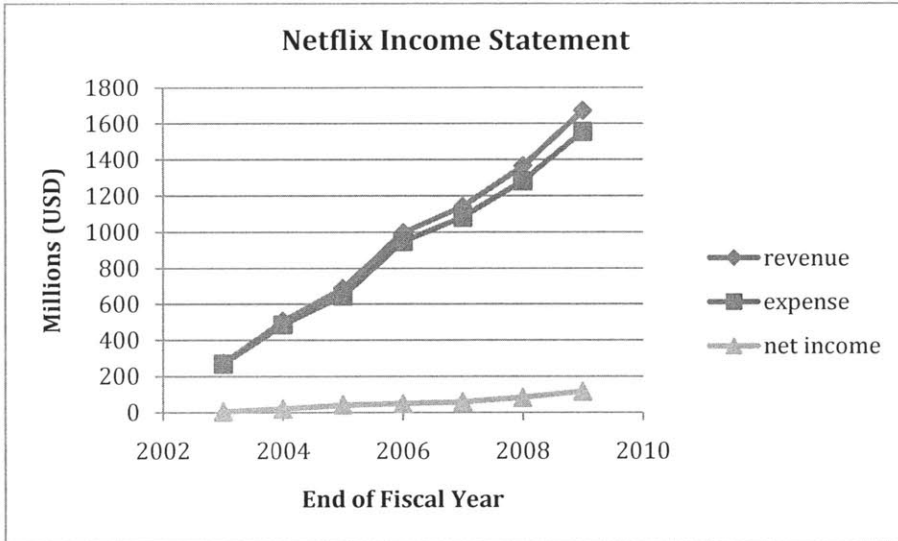


Figure 3 – Netflix Income Statement¹¹

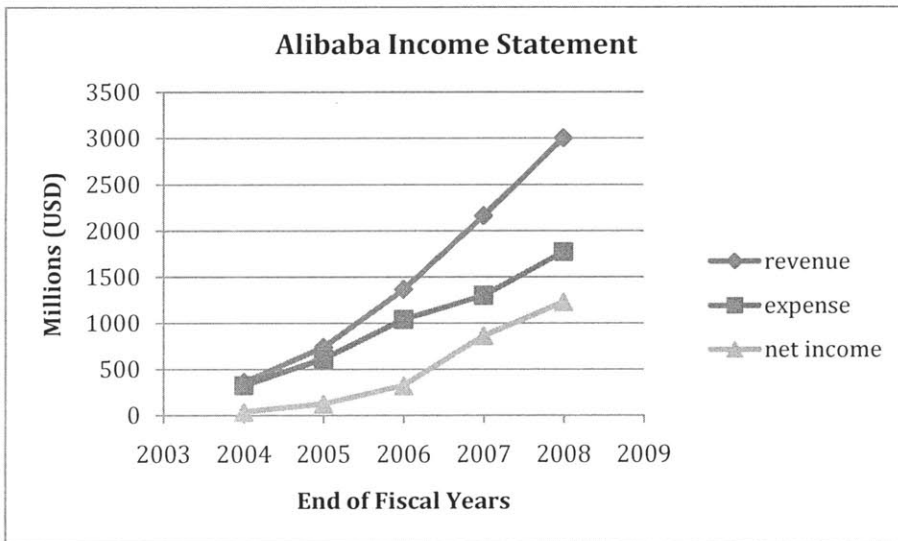


Figure 4 – Alibaba Income Statement¹²

¹¹ Netflix (NFLX) Income Statement. *YCharts*. 2009-2010

¹² GVKEY 286670. Compustat Global. *The Wharton School of the University of Pennsylvania*. 1994-2009

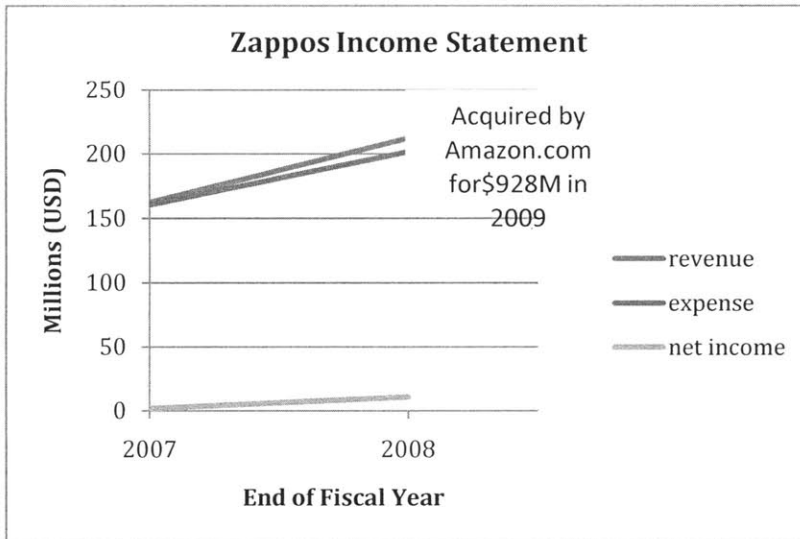


Figure 5 – Zappos Income Statement¹³

Annual income statements of W.L Gore could not be attained.

The analysis of each of the five companies will focus on three main components:

1. A brief introduction of each company. This includes their core business, who are their customers, and the primary demographic of their employees.
2. Analysis of the company’s philosophy, culture, and values as observed from corporate statements and human resources.
3. Notable management innovation mechanisms and practices applied by the company which demonstrate their beliefs.

The idea behind the brief introduction is to make sure we understand the context at which the company is running under. We want to be careful to note these contexts before we compare philosophies and mechanisms. This is to

¹³ Amazon’s S-4 filing with the SEC. 2009.

ensure biases due to business model differences will be identified early on and noted.

The idea behind the an analysis of the company's philosophy and principles is to obtain actual data of the values these companies are preaching to their employees and to the public. It is the core of the research, and will consist of determining and analyzing mission statements, quotes from founders and human resources, as well as interviews with current employees.

The last component of the analysis is to examine company execution and practices. We want to obtain facts as to how the companies are innovating and how their those innovations are a derivative of their philosophy. Our hypothesis is that all mechanisms will be a derivative of the company mission.

One additional note regarding the companies selected in this analysis is four of five of them are listed in the market and have substantial market capitalization. Ideally, we would like to include smaller sized companies such as IT startups as well, but huge difficulty lies in being able to determine demonstrated success due to management innovation. My belief is even though some early stage companies may be practicing management innovation, the company's initial success is less a factor of management and based more on the few early business decisions made by the founder(s). In those cases, the assumption is the company is simply too young or too small to capture the momentum gained via management innovation. Other factors contributing to the absence of startup IT companies include their core philosophies not yet being properly defined. For the purpose of our research, we will assume the companies

in this analysis bear results from their earlier experiments during their growth phase.

Relating to China

In this thesis, I have decided not to re-introduce China and the opportunities that lie in the East. Many of these opportunities are well documented in books such as *China Road: A Journey into the Future of a Rising Power*¹⁴, *The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us*¹⁵, and *China's Rise: Challenges and Opportunities*¹⁶.

In respect to the topic of this thesis, I want to focus primarily on the country's relevancy to management innovation. And be able to apply the distilled concepts we will learn from chapter four on to this rapidly growing country. In the next chapter I will summarize China's business environment and make my case for why management innovation, in particular, is the future of management in the country:

1. What is the Chinese business context?
2. Why does Management Innovation matter in China?
3. Which Innovations can we bring with us and how differently shall we apply them?

¹⁴ Rob Gifford. "China Road: A Journey into the Future of a Rising Power." Jun 3, 2008.

¹⁵ Robyn Meredith. "The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us." Jun 17, 2008.

¹⁶ C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy, and Derek J. Mitchell. "China's Rise: Challenges and Opportunities." Oct 1, 2009.

In the fifth and final chapter of this thesis, I will conclude with recommendations for Chinese firms embracing management innovations. This will largely be based on the concepts and practical examples we will learn from the company analyses and distilled concepts throughout chapter three and four.

Chapter 2. Understanding the Chinese Context

Industrial Reform

After the People's Republic of China was established in 1949, and particularly since the 1980s, China aggressively transformed itself from a traditional agricultural society to a modern industrial society via rapid industrial restructuring. In the 1980s, about 68.7% of the Chinese labor force were employed in agriculture. By 1990, the fraction of the labor force employed in agriculture shifted to about 53.5%, and by 2000 still further to 46.9%.¹⁷

The surge in industrial goods produced in the country ranged from capital goods to consumption goods such as jet planes, computers, automobiles, textiles, washing machines, and many more. The product quality and production technology historically lagged behind those made in countries like Japan, Western Europe, and the United States, but many foreign companies and exporters took advantage of the country's totalitarianism rule. There were no labor unions to worry about and the incentives offered by the government included tax breaks, low import duties, low-cost land, and low construction costs for new factories.

China's industrial metamorphosis nudged many migrants, whose previous occupation in agriculture, to migrate to the city. Many migrants moved to cities nearby industrial zones in hope of securing a job at the factory and earning a better income for themselves and their families back at home. Figure 6

¹⁷ "World Development Indicators." *The World Bank*.

below shows how the industrial sector contributed 75.9% of the country's GDP in 1991, a dramatic increase from 51.7% in 1980.

Sectoral Shares of GDP in China				
	1970	1980	1991	2000
Agriculture	42.2	25.6	11.8	11.9
Industry	44.6	51.7	75.9	64.0
Service	13.2	22.7	12.3	24.1
Total	100	100	100	100

Figure 6 - Sectoral share of GDP in China¹⁸

By 2000, however, we observe signs of maturation where nearly 12% of the industrial workforce moved to the service sector. As the country continued to produce and export goods to countries abroad like the United States and Germany, China accumulated significant wealth. With this new wealth the demand for local consumer products and services dramatically rose over the last ten years. The opportunities for improved servicing in education, banking, health care, travel, and other industries are now widespread throughout China. We now often hear newly minted MBAs from prestigious institutions in the United States relocate to China for their careers. This was largely unheard of five-ten years ago. The surge in demand from the local market has created a real need for experienced middle managers in the country.

¹⁸ Asian Development Outlook, *Asian Development Bank*, Manila, 1998, p.239 213, 293

State Owned Enterprises & Private Owned Enterprises

State Owned Enterprises (SOEs) are sole funded corporations and enterprises with the state as the biggest shareholder. The biggest problem with SOEs aren't that they are big and slow, but they require ongoing subsidies to survive. Because of these subsidies, there is very little incentive for management to change and attempt to adopt best available management practices or most appropriate technological solutions. Many experts reason the difficulty with shutting down SOEs are because they still provide essential goods and services, and employ a large proportion of Chinese employees with no safety net if they get laid off. In 1998, the SOE consumed 70% of the labor and capital employed in the Chinese industry, while only generating about 40% of the output.¹⁹ It is a statistical sign of the inefficiency of the SOE management.

A study conducted by the Second National Economic Census in 2008 counted 154,000 SOEs at the end of 2008, accounting for 3.1% of the total enterprise number. The study also states that of all the 208 trillion RMB total assets of the industrial and service sectors, about 63 trillion (~30%) was held by SOEs.²⁰ An article by World Bank economist, Gao Xu, demonstrates that the share of SOEs in the industrial sector has been on a rapid decline over the past ten years. He acknowledges that even though Chinese SOEs still make up a substantial part of the national economy, their shares have continued to decline in the past. Gao confides this decline is due to stronger growth of non-SOEs.

¹⁹ Satya J. Gabriel. "Restructuring State-owned Enterprises in China." May 1998.

²⁰ Communique of Major Data of the Second National Economic Census (No.1). *National Bureau of Statistics of China*. December 25, 2009. http://www.stats.gov.cn/english/newsandcomingevents/t20091225_402610168.htm.

Figure 1. Share of SOEs in the industrial sector has declined steadily in the past decade

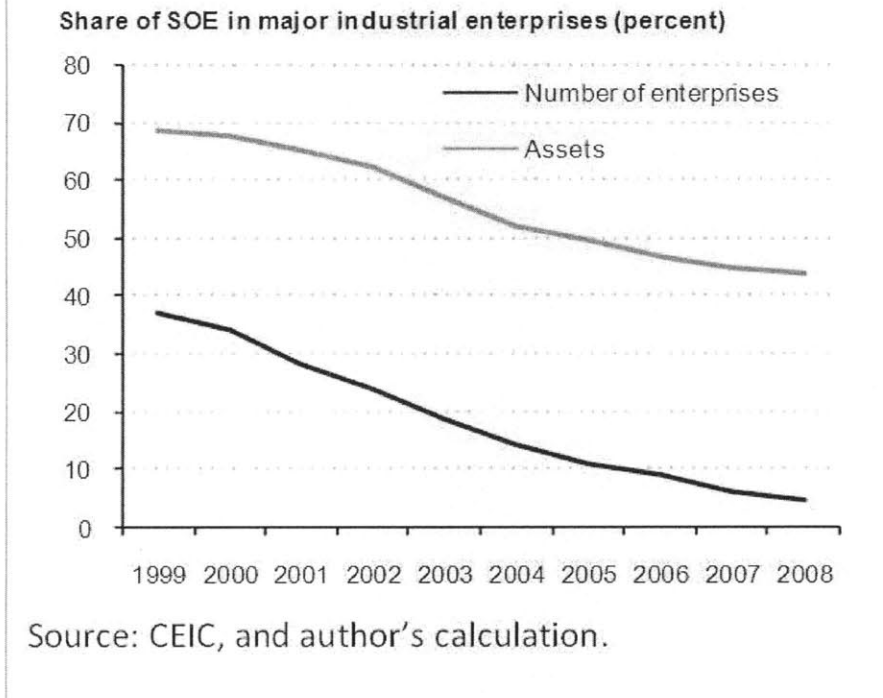


Figure 7 – Industrial Section Decline²¹

Unlike traditional SOEs, the privately owned enterprises (POEs) refers to various enterprises managed by domestic residents and entities abiding by market rules. These mainly include individual businesses, privately-owned enterprises (single operate, partnership, limited liability cooperate and joint-stock companies) and town-and-village enterprises. Over the past 20 years, multiple reform policies have been put in place to overcome disadvantages of the planned economy in 1978. The goal was to fill in the gaps left by the SOEs whom had their product and sale controlled by the plan of the government; to

²¹ Gao Xu. "State-owned Enterprises in China: How Big are they?" *The World Bank Group*. January 19, 2010

overcome the lack of incentives and enthusiasm in enterprises whom had no independence.

Time	Goals
1978-1984.10	Planned economy with some market elements as a supplement
1984.10-1987.10	Planned commodity-economy
1987.10-1989.6	'government regulates market and market guides enterprises'
1989.6-1991	'socialism can also adopt stock and securities market'
1992	'socialism market-economy'
1994	'company-oriented reform and ownership reform of state-owned enterprises'
1997	Develop diverse ownerships dominated by the public ownership; 'grasp the large (enterprises) and deregulate the small (enterprises)'
1999	Amendment to the Constitution: protect the private ownership equally develop; state-owned enterprises exit the competitive industries; to diversify ownership; to develop partnership and mixed ownership; to develop stock incentives for the state-owned enterprise managers
2001.7	To allow individual business owners and private entrepreneurs to join the CPC; to enrich ownerships further.
2004.3	Amendment to the Constitution: 'protect the private property'; equally treat private ownership and public ownership

Figure 8 - Reform Policy Goals since 1978²²

Over the past fifteen years, private enterprises have been allowed to enter more and more fields. Production value realized by the private economy topped 2 trillion yuan in 2003, rising from 42.2 billion yuan in 1989, said a survey jointly organized by the All-China Federation of Industry and Commerce and the United Front Work Department of the Central Committee of the Communist Party of China (CPC).²³ During the first half of 2004, 3.44 million private companies hired

²² Fan Gang, Chen Yu. Transitional Hybrids: Development of TVEs and Institutional Transition in China, *China Economic Quarterly*, Vol.4, No.4, July, 2005.

²³ Jiang Zhuqing. "Private Enterprises Expanding Quickly." *China Daily*. February 2 2005.

more than 47.14 million employees. By the end of that year, the latest tally of private companies were at 3.8 million.²⁴ Experts predict the growth rate of the gross of the private economy are beyond 10% annually during the next five years, accounting for 60% of the increase of the national economy.

The New Generation Chinese

By 2025, Casten A. Holz predicts China is likely to be the world's largest economic power by almost any measure²⁵. As the country continues to make the transition from a communist to a capitalist structured economy, the motivation behind this thesis is my belief that future thriving companies of China are those who understand how to leverage the power of its people.

In respect to China's history, specifically the Cultural Revolution in the 1960s that left much of its education and economy in shambles, it is certainly reasonable many of today's adult Chinese are simply happy to find work satisfying their basic physiological needs. Such needs primarily consist of food and shelter as described in Maslow's theory of needs (more about Maslow's theory in later chapters). However, the only child's born in the late 1970s and early 1980s are much different than their older generations. They are more open to diverse opinions, values, and lifestyles. This generation, now in their 20s and 30s, have witnessed their country's continuous economic development and have a strong sense of self-awareness. Furthermore, the internet, a portal to a world of

²⁴ Jiang Zhuqing. "Private Enterprises Expanding Quickly." *China Daily*. February 2 2005.

²⁵ Carsten A. Holz. "China's Economic Growth 1978-2025: What We Know Today about China's Economic Growth Tomorrow." *Hong Kong University of Science & Technology Social Science Division*

democratic cultures not previously available to the older generations living in a closed country until 1987²⁶, the change in values among the younger generation is consistent. Hundreds of thousands of new Chinese netizens under 35 years old are connecting to the world wide web for the first time each day. According to the China Internet Network Information Center, the number of internet users have grown from 22.5M at the end of 2000 to 298M at the end of 2008.²⁷ Nearly three-fourths of Chinese netizens are under the age of 35, most of them live in urban areas in cities like Beijing, Shanghai and Guangdong where 67 percent have college or advanced degrees.²⁸

One of the most popular Chinese TV shows, Struggle (奋斗), portraying the personal experiences of youngsters striving for a better life suggest that young people, especially those born after 1980, attach high importance to more individual freedom from the established rules.²⁹ Surveys have shown that they seek more trust and respect, and a voice in social affairs. These young people are much more goal oriented and seek a society with more humanity, democracy and fairness. The new generation Chinese is much different than the stereotypes portrayed overseas.

²⁶ Chinanews.com. "Chinanews.com." 中國接入互聯網.

²⁷ Statistical Reports on the Internet Development in China - The 24th Survey Report. *CNNIC*. December 31 2008

²⁸ Cate Riegner. "The great social wall of China." *iMedia Connection*. October 13, 2009. <http://www.imediaconnection.com/content/24697.imc>

²⁹ Yao Siyan. "Chinese new generation carry high hopes of nation." *China Daily*. February 20, 2008.

Why Management Innovation in China

Low cost Chinese labor has provided many multinational firms a huge cost advantage over the last few decades. However, within the local Chinese information technology industry, the abundance of cheap labor has spoilt many firms. The simple solution to resolving problems tend to fall into hiring and assigning an army of engineers and project managers at it. Such practice has been documented and proven to be anti-productive by many project managers and consultants over the years.^{30 31}

The price of a newly graduated engineer from a top university in China costs a fifth of what you would pay for a new engineer graduating from a prestigious university in America. Some of the resulting consequences of compensating problems with more employees are high turnover rates, lower individual productivity levels, and employees who are clearly not invested in their work. The employee's perspective is that there will always be someone else hiring for the same paycheck at another company.

The old SOEs of the past simply don't provide the incentives, work culture, and goals for the young generation Chinese. SOEs are largely dictated by the Chinese government party where upper level positions are predominately occupied by elder more traditional executives. The reason for their stagnant corporate culture and philosophies stems from a past where executives running the operation without a dire need for profitability metrics were the norm; these

³⁰ Brooks, Frederick P., Jr. *The Mythical Man-Month, Anniversary Edition*, Reading Massachusetts: Addison-Wesley, 1995.

³¹ Doug Putnam. "Team Size Can Be the Key to a Successful Project." *QSM*. http://www.qsm.com/process_01.html.

SOEs were supported by the Chinese government who held political agendas. Such circumstance creates a disjoint in values and working environment needs between the old and young generation. Even many of the today's POEs are run with management ideologies stuck in the past. They don't realize employees are now more self-aware and knowledgeable. The younger generation have more means to find out how other companies are being run, how much their peers are making, and which work environments are most suitable to their needs. This is not the same generation of uninformed migrants who traveled to the city from the village 20-30 years ago. The future Chinese management will need to acknowledge this change in workforce.

Now is the time for opportunistic POEs and more open-minded SOEs to fulfill the new standards sought by the more ambitious and better educated new generation. Such adaptability and change in workplace management will allow them get above the curve and emerge as the future winners of their industries. Select companies such as the Alibaba Group are making head winds, but only mark a tiny spectrum of possibilities among a country of 1.3 billion people and 2 million private enterprises.³²

It is typical to find five or six waiters at a restaurant in Beijing, China compared to two at a similar sized operation in the United States. Having spent years living in both countries, I have pondered for some time why that is? I would quickly refute the notion that Chinese people are slower, less hardworking, or less productive than their American counterparts. I allege it is due to poor management. Poor management in the sense that such inefficient

³² Yang Lei. "More private companies in China: census." *Gov.cn*, December 08, 2005.

levels of management are the norms of the country. The typical Chinese worker is treated like a grunt in the operation; easily replaceable and only worth the minimal salary they are compensated with. This characteristic parallels the way Chinese family businesses have been run for centuries. The power structure in Chinese organizations is usually characterized by two distinct levels: the core controlled by the boss or a small number of people; and the second level formed by the employees. There is no ranking among the workers and obligation is what bonds the two hierarchies together.³³

If anything, capitalism in the west and many up-and-coming major corporations coming from China have demonstrated family-run businesses are not the future of a capitalistic society. Entrepreneurs who acknowledge the need for this shift in thinking and ways of management will be rewarded considerably. This acknowledgement is management innovation. And such thriving culture and practices will certainly be one of few components found in successful companies who embrace such change.

In the next chapter we will assess a few select companies that have proven to embrace change in management –from how their organization is structured to the environments in which their employees work in. Some of these companies have shown not to be bound by traditional practices; they often have distinct views as reflected in their values and philosophies. Each company analysis will consist of a brief company overview, their guiding principles or values, and some of their more notable, successful mechanisms and outcomes from putting their philosophies into practice.

³³ Jean Lee. "Culture and Management - a Study of Small Chinese Family Business in Singapore." *Journal of Small Business Management*. Vol. 34, 1996.

Chapter 3. Management Innovation at Outstanding IT

Companies

Google

Company Overview

We start off our analysis with Google, possibly the most widely known company for its distinctive work culture and new approach to management. A multitude of books and articles have been published regarding their road to search engine dominance. Google generates profits from advertising bought on its search portal, free-to-user e-mail, online mapping, office productivity, social networking and video-sharing services. Advert-free versions of their services are also available via paid subscription.

Google's headquarters, often referred to as the Googleplex, is based in Mountain View, California. It has 70 more offices spread across the world, many of them in developed countries and nearby prestigious universities with a steady supply of IT workers. As of March 31, 2009, the company had 19,786 full-time employees³⁴, the majority of them skilled with high technical competence and holding post-bachelor degrees. The high transparency of their company, as observed from their company website, has made them an invaluable source for data for our analysis.

³⁴ Google Inc., <http://finance.yahoo.com/q?s=Goog>. *Yahoo Finance*, Dec 23, 2009.

Philosophy/Culture

Google's corporate website lists their guiding principles for shareholders and potential employees to scrutinize. All new hires are also given a handbook containing similar memorandums regarding the company's culture and its values. A footnote at the end of the list of principles also asks readers to hold them to their principles.

For the sake of this analysis, I have decided to dismiss Google's philosophies which are directly related to their products and review only those relevant to management throughout IT firms:

Principle 1. Focus on the user and all else will follow. Google encourages its employees to create products to serve the user rather than their own internal goal or bottom line. Their philosophy is that the most value can be created via providing the best user (customer) experience possible. Since the very beginnings of the company, founders Larry Page and Sergey Brin rejected pop-up advertising and banners which were distracting and irritating to users. These principles prompted them to re-engineer the thinking behind web design; they decided to offer a clear and simple homepage interface; clearly marking advertisements on search result pages; and only offering relevant advertisement throughout their products.

Principle 4. Democracy on the web works. Google acknowledges the true power of the web. The millions of individuals posting content and links on the

internet determine the importance of each site. Internally, Google also employs the same philosophy to validate emerging products at their research and development lab, also known as Google labs. They do this via a rigorous quantitative approach using both public and internally sourced product usage analytics. In the same vein, Google also embraces the idea of open source development where innovation takes place through the collective effort of many programmers.

Principle 6. You can make money without doing evil. Very much similar to their first principle, Google focuses on the user; respecting their time and experience before profits. They don't allow ads to be displayed on results pages unless they are relevant where they are shown. The company advocates that their ads can provide useful information if, and only if, they are relevant to what you wish to find –possibly leading to certain searches resulting in no ads at all.

Google requires all advertising to be clearly identified as "Sponsored Links," so it does not compromise the integrity of their search results. They do not allow manipulation of rankings to put partners higher in search results and trust objectivity will create the most long-term value with its users.

Principle 9. You can be serious without a suit. Larry and Sergey designed Google around the idea work should be challenging and fun. They believe innovation is more than just offering the right company culture. Along with team achievements, there must also be an emphasis on pride in individual

accomplishments. The company puts great stock in “energetic, passionate people from diverse backgrounds with creative approaches to work, play and life.” They believe a casual atmosphere can also coincide with ideas which are traded, tested and put into practice at rapid speeds.

Principle 10. Great just isn't good enough. Google stretches its employees to be perfectionists in the sense there is always room to improve. They dare employees to create lofty challenging goals. By trying to tackle problems nobody has answers to yet, employees anticipate needs not yet articulated by the global audience. This often allows their products and services to set new standards. Ultimately, Google encourages its employees constant dissatisfaction with the way things are become the driving force behind the new initiatives they pursue.

Google
Principle 1. Focus on the user and all else will follow.
Principle 4. Democracy on the web works.
Principle 6. You can make money without doing evil.
Principle 9. You can be serious without a suit.
Principle 10. Great just isn't good enough.

Figure 9 - Google Principles

Mechanisms

Since its founding in 1998, Google attempts to maintain a small company feel. Employees are encouraged to sit and dine in the free office café at any table with an opening. Their commitment to innovation depends on everyone being comfortable sharing ideas and opinions. They expect every employee to be a hands-on contributor, wearing several hats. Their culture proclaims every employee to be an equally important part of their success, allowing anyone to pose questions directly to any of the executives in their weekly all-hands meetings.

In face of dangers arising from growing too big and becoming “*too corporate*”³⁵, Google even designated a chief culture officer in 2006 to maintain its unique company culture. The purpose of the position is to maintain and continue to develop the culture, working on ways to keep true to the core values that the company was founded on in the beginning -a flat organization with a collaborative environment.³⁶

Evidence of the company’s belief of satisfying employee’s passion and basic needs, and providing a comfortable yet stimulating environment for them to work in is best found at their offices. At their office, they provide an on-site doctor and dentist; massage and yoga; professional development opportunities; shoreline running trails; lunch, dinner, and snacks; Foosball and pool tables; volleyball courts; pianos; ping pong tables; and gyms that offer yoga and dance classes.

³⁵ Rivlin, Gary. "Relax, Bill Gates; It's Google's Turn as the Villain." *New York Times*. August 24 2005.

³⁶ Mills Elinor. "Meet Google's culture czar." *ZDNet*. April 30 2007

Each employee is given a budget to decorate their work desk or cube. The majority of office space consist of such sharing cubes, yurts and huddle rooms - very few solo offices exist. Many of the spaces were designed intentionally to foster collaboration and open discussion, an example being whiteboards plastered along hallways.

Zappos

Company Overview

Zappos is an online commerce company specializing in footwear, bags, and purses. Currently headquartered in Henderson, Nevada, the company warehouse and outlet is located in Shepherdsville, Kentucky, along with outlet stores in and Henderson, Nevada. The company employs 1500+ employees, many of them working in customer support or in logistics at their warehouse. Zappos uses a loyalty business model and relationship marketing. The primary sources of the company's rapid growth have been repeat customers and numerous word of mouth recommendations. In 2005, chairman Nick Swinmurn reported that 60% of customers were repeat buyers.³⁷

Philosophy/Culture

Zappos claims to place great emphasis on company culture and core values. The company publishes an annual "*Culture Book*" consisting of

³⁷ "Spotlight on BBBOnLine Participant Zappos.Com." *BBBOnLine Update*. June 2005, Vol.5 No. 6.

contributions from employees describing what the company culture means to them.³⁸ The company's culture focuses on making sure every interaction with the customer results in them saying, *"That was the best customer service I have ever had."*

Beyond a passion for customer service and company culture, CEO Tony Hsieh also places great emphasis on happiness in his company. This stems from Hsieh's past observation that great companies all have strong cultures and a vision beyond money, profits, or being number one in the market. He claims researchers have correlated increased happiness in people with those who find a higher purpose in something greater than themselves.

Zappo's company website states *"there are very strong parallels between what's good for business and what's good for your own personal happiness."*³⁹

According to the company, the core value is to "deliver 'wow' through service." A list on their website lists ten guiding principles embraced by the company:⁴⁰

Core Value #1. Deliver WOW Through Service. To WOW, Zappos encourages employees to differentiate themselves by doing something a little unconventional and innovative. They encourage employees to do something above and beyond what's expected to create an emotional impact on the

³⁸ "Free Shipping Both Ways & 365-Day Return Policy." *Zappos Culture Book*. 2007 Edition

³⁹ Carmine Gallo. "Zappos CEO shares secrets to building buzz and loyalty with Communications Coach." <http://pitch.pe/19495>

⁴⁰ "Zappos Core Values." *Zappos.com*. <http://about.zappos.com/our-unique-culture/zappos-core-values>.

receiver. They expect every employee to deliver WOW because they don't see themselves as an average company with average service provided by average people. The philosophy at Zappos is to WOW with service and experience, and not with anything directly relating to monetary compensation. Their website claims their on-going success to "*WOW-ing our customers, our co-workers, our vendors, our partners, and in the long run, our investors.*"⁴¹

Core Value #2. Embrace and Drive Change. Zappos understands the need to embrace chaos in an increasingly competitive electronic commerce environment. They explicitly tell employees and potential hires if they are not prepared to deal with constant change, they are probably not a good fit for the company. Front-line employees particularly, are instructed to embrace and drive change since they are closest to the customer and various issues. Difficulties with policies and status quos are also prompted to change as well as they are often signs of companies not able to respond and adapt to the new marketplace quickly.

The philosophy behind driving change is partly a strategy Zappos employs to continue to stay ahead of their competition. They expect everything from their website to their 365-day return policies to be copied by competitors, but they claim their people, culture, and service cannot be imitated. Zappos openly states that embracing constant change is a part of their competitive advantage, allowing them to always stay ahead of their competitors.

⁴¹ "Zappos Core Value #1." *Zappos.com*. <http://about.zappos.com/our-unique-culture/zappos-core-values/deliver-wow-through-service>

Core Value #3. Create Fun and A Little Weirdness. Zappos urges its employees to laugh at themselves and look for fun in their daily work. They believe a culture of doing things that are unconventional or a little weird make life more interesting and fun for everybody –creating a unique and memorable personality for the company. One of the ideas behind encouraging weirdness is it prompts Zappos employees to think outside the box and be more innovative. Employees are more engaged in the work that they do, and the company as a whole becomes more innovative. Additionally, their culture celebrates and embraces diversity and each person's individuality. The consistency in their philosophy is in their belief people function best when they can be themselves.

Core Value #5. Pursue Growth and Learning. Zappos believes if people aren't making mistakes it means they're not taking enough risks. The company attempts to push its employees to develop his/her gut for business decisions. Zappos prods employees to make mistakes as long as they learn from them. The company asks employees to constantly challenge and stretch themselves. They see themselves as constantly growing, learning, and adapting. Zappo's corporate website describes the nature of business as not easy and hard work is necessary for success. It also maintains that continued success is continued hard work - there is no end goal.

Core Value #6. Build Open and Honest Relationships With Communication.

Valuing strong positive relationships with honesty and openness with managers,

direct reports, customers (internal and external), vendors, business partners, team members, and co-workers is a key component of Zappos. The company believes the key ingredient in strong relationships is to develop emotional connections. They value acting with integrity in relationships, and to be compassionate, friendly, loyal, in treating all relationships. The goal is to build trust that allows everyone to accomplish much more.

Zappos reminds employees on their company intranet that in any relationship, it's important to be a good listener as well as a good communicator. The company reminds employees it is about how they make people feel which matters the most. And in order for anyone to feel good about a relationship, he/she must know the other party truly cares about them, both personally and professionally. Customer support representatives at the company are instructed such positive relationships often requires going the extra mile in encouraging thorough, complete, and effective communication.

Core Value #7. Build a Positive Team and Family Spirit. Zappo's work environment is warm and interesting via encouraging and spurring on diversity in ideas, opinions, and points of view. They believe the best leaders are those who lead by example and are both team followers as well as team leaders. They believe the best ideas and decisions are made from the bottom up, meaning by those who are on the front lines and closest to the issues and/or the customers. And the role of a manager is to remove obstacles and enable his/her direct reports to succeed. Zappos states the best leaders are servant-leaders whom serve those they lead.

Zappos also states the best team members take initiative when they notice issues so the team and the company can succeed. The best team members take ownership of issues and collaborate with other team members whenever challenges arise, bringing a positive influence on one another and everyone they encounter. Zappos believe the best teams are those that not only work with each other but also interact with each other outside the office environment. The company states the best ideas have been the direct result of informal interactions outside of the office.

Zappos sets out to become more than just teams of employees -but a big family. The bonds employee form go far beyond the typical "co-worker" relationships found at most other companies. Family members watch out for each other, care for each other, and go above and beyond for each other because they believe in each other and we trust each other. Zappos creates opportunities for employees to both work and play together.

Core Value #9. Be Passionate and Determined. Zappos values passion, determination, and perseverance. Employees are inspired because they believe in what they are doing and where they are going. The company believes in having a positive, optimistic, and realistic attitude about everything they do because it inspires others to have a similar attitude. The excitement in knowing the entire company has a tremendous impact on a larger dream and vision, which they announce to all employees, often keeps everybody together along one vision.

Zappos
Core Value #1. Deliver WOW Through Service.
Core Value #2. Embrace and Drive Change.
Core Value #3. Create Fun and A Little Weirdness.
Core Value #5. Pursue Growth and Learning.
Core Value #6. Build Open and Honest Relationships With Communication.
Core Value #7. Build a Positive Team and Family Spirit.
Core Value #9. Be Passionate and Determined.

Figure 10 - Zappos Values⁴²

Mechanisms⁴³

Tony Hsieh shares the Zappos story with all who will listen, giving up to four presentations a week. *“It’s one thing to read about your company, but when a customer can associate it with an actual person, it creates a deeper, more meaningful connection to the brand,”* says Hsieh.⁴⁴

All employees hired for their corporate office, regardless of position, are required to undergo a four-week customer loyalty training course. After a week of training, the new employees are offered \$2,000 to leave the company if they

⁴² Zappos Core Values.” *Zappos.com*. <http://about.zappos.com/our-unique-culture/zappos-core-values>.

⁴³ Ellen Davis. “Building a Brand that Matters, One Employee at a Time: The Zappos Story.” *Shop.org*, February 3, 2009.

⁴⁴ Carmine Gallo, “Zappos CEO shares secrets to building buzz and loyalty with Communications Coach.” <http://pitch.pe/19495>.

feel the company is not a the right fit.⁴⁵ The idea is to make sure the employee is there for the love of the job and not the money. A Business Week article in 2008 cites that over 97% turn down the buyout offer.⁴⁶

The course also includes at least 2 weeks of talking on the phone with customers in the call center regardless of position. The company makes it obvious from day-one they strive to be the best customer service company in the world. They claim the time spent working in the call center is the fastest route to learning about customers and their customer-centric culture. Employees who do not conform to the way customers are expected to be treated are eliminated from employment contention immediately. Those who get hired learn to understand that everyone works for the customers and is part of the customer service delivery process.

Employee evaluations at Zappos reflect both on actual performance and commitment to the company's corporate culture mentioned earlier. Employees are encouraged to tweet on Twitter and keep their Facebook pages up to date while at the office. This transparency and strong personal connection between employees fosters a sincerity that could never be trained and makes people more likely to do the right thing.

⁴⁵ Bill Taylor. "Why Zappos Pays New Employees to Quit—And You Should Too." *Harvard Business Review*. 2008.

⁴⁶ Keith McFarland. "Why Zappos Offers New Hires \$2,000 to Quit." *BusinessWeek*. 2008.

Netflix

Company Overview

Netflix is the world's largest online movie rental service. For a monthly subscription customers stream movies and TV episodes to their TVs and computers and receive DVDs delivered to their homes. Netflix employs over 2500 workers at its shipping centers and Los Gatos, California corporate headquarters. Netflix's success has inspired multiple other DVD rental companies both in the United States and abroad, but none of the purely online companies appear to approach Netflix in terms of market share or revenues.

Philosophy/Culture

Netflix's culture is a sharp turn from those of Google and Zappos. The primary source of insight into Netflix's corporate culture comes from an internal presentation published mid-August 2009 by its CEO and founder, Reed Hastings.⁴⁷ The presentation lists seven aspects to their culture which are exemplified with action and are in every right measurable. The presentation also concludes with the notion its culture is very much '*still work in progress.*' The end of the presentation hints at some of the underlying intentions of Netflix's corporate design, its states they:

1. *Need a culture that supports rapid innovation and excellent execution*

⁴⁷ Reed Hastings. "Netflix Corporate Culture of Responsibility and Freedom Presentation." August 2009.

2. *Need a culture that supports effective teamwork of high-performance people*
3. *Need a culture that avoids the rigidity, politics, mediocrity, and complacency that infects most organizations as they grow*

The seven aspects to their culture will demonstrate how Netflix's intent is communicated told to its employees.

Culture Aspect #1. Values are what we Value

<p>Judgment</p> <p>You make wise decisions (people, technical, business, and creative) despite ambiguity</p> <p>You identify root causes, and get beyond treating symptoms</p> <p>You think strategically, and can articulate what you are, <i>and are not</i>, trying to do</p> <p>You smartly separate what must be done well now, and what can be improved later</p>	<p>Communication</p> <p>You listen well, instead of reacting fast, so you can better understand</p> <p>You are concise and articulate in speech and writing</p> <p>You treat people with respect independent of their status or disagreement with you</p> <p>You maintain calm poise in stressful situations</p>	<p>Impact</p> <p>You accomplish amazing amounts of important work</p> <p>You demonstrate consistently strong performance so colleagues can rely upon you</p> <p>You focus on great results rather than on process</p> <p>You exhibit bias-to-action, and avoid analysis-paralysis</p>
<p>Curiosity</p> <p>You learn rapidly and eagerly</p> <p>You seek to understand our strategy, market, subscribers, and suppliers</p> <p>You are broadly knowledgeable about business, technology and entertainment</p> <p>You contribute effectively outside of your specialty</p>	<p>Innovation</p> <p>You re-conceptualize issues to discover practical solutions to hard problems</p> <p>You challenge prevailing assumptions when warranted, and suggest better approaches</p> <p>You create new ideas that prove useful</p> <p>You keep us nimble by minimizing complexity and finding time to simplify</p>	<p>Courage</p> <p>You say what you think even if it is controversial</p> <p>You make tough decisions without excessive agonizing</p> <p>You take smart risks</p> <p>You question actions inconsistent with our values</p>
<p>Passion</p> <p>You inspire others with your thirst for excellence</p> <p>You care intensely about Netflix' success</p> <p>You celebrate wins</p> <p>You are tenacious</p>	<p>Honesty</p> <p>You are known for candor and directness</p> <p>You are non-political when you disagree with others</p> <p>You only say things about fellow employees you will say to their face</p> <p>You are quick to admit mistakes</p>	<p>Selflessness</p> <p>You seek what is best for Netflix, rather than best for yourself or your group</p> <p>You are ego-less when searching for the best ideas</p> <p>You make time to help colleagues</p> <p>You share information openly and proactively</p>

Figure 11 - Netflix Values

The first aspect to Netflix's culture is its emphasis on values (shown above). These are judgment, communication, impact, curiosity, innovation, courage, passion, honesty, and selflessness. Hastings believes the "*real company values*" are demonstrated by who gets rewarded, promoted or let go. The nine values are reinforced in hiring, 360 reviews, compensation reviews, and in promotions.

Culture Aspect #2. High Performance. Netflix believes that high performance workers are magnitudes better than average employees. In a C.E.S interview on January 9, 2009, Hastings once stated the best workers are two times better than the average in procedural work, and ten times better than the average in creative work.⁴⁸ Netflix believes the best work place is to employ high performance, stunning colleagues, and NOT by having a multitude of benefits like lavish offices, day-care, espresso, and health benefits.

Culture Aspect #3. Freedom & Responsibility. Netflix's philosophy accounts responsible employees thriving and being worthy of freedom. Their model is to increase employee freedom as they grow, rather than limit it. As the company grows, they aim to minimize rules and overcome chaos with even more high performance people. Their answer to the innovator's dilemma⁴⁹ is to increase talent density faster than complexity. The company believes flexibility is more

⁴⁸ Brad Stone. "C.E.S. Interview: Reed Hastings of Netflix on TV's Future." *New York Times*. January 9, 2009.

⁴⁹ Scott Allen. "The Innovator's Dilemma: What To Do When Your Great Idea Becomes Mainstream." Former about.com guide.

important than efficiency to continue to attract and nourish innovative people. The believe this expectation is their opportunity to long term success.

Culture Aspect #4. Context, not Control. Working smart is valued higher than working hard at Netflix. The effectiveness of an employee’s work is much more important than effort. Although, the company admits effectiveness is much more difficult to assess than effort, they believe measuring people by how much, how quickly and how well they work is far more significant than how late or how many weekends they stay behind.

Culture Aspect #5. Highly Aligned, Loosely Coupled. Complemented with hiring high performance employees, Netflix believes in deciding on the best strategy, obtaining buy-in from the team, and letting them run the rest of the show. Keeping people aligned with clear, broad, and specific goals –and less with tactics has been key to their success. Netflix believes trust between groups minimizes need for preview/approval of one other and allows them to move fast.⁵⁰

Netflix
Culture Aspect #1. Values are what we Value.
Culture Aspect #2. High Performance.

⁵⁰ Michelle Conlin. “Netflix: Flex To The Max.” *Business Week*. September 24, 2007.

Culture Aspect #3. Freedom & Responsibility.
Culture Aspect #4. Context, not Control.
Culture Aspect #5. Highly Aligned, Loosely Coupled.

Figure 12 - Netflix Culture Aspects⁵¹

Mechanisms

Responsibility, freedom, and high industry level compensation for excellent employees are Netflix's basis for management design. Since the company depends on high talent density, they pay top of market for all full-time employees. The company emphasizes this method retains talent since leaving the company guarantees a pay decrease.

Netflix employs a 'Manager's Keeper Test' where managers evaluate whether losing any of their people to a peer company would motivate them to fight hard to keep at the company.⁵² Subordinates who fall into the critical category will retain their top of the market compensation, be paid more than anyone else likely would, and be paid as much as a replacement would cost. The rest of the subordinates are suggested to be fired with a nice severance package. The notion is it would open the slot for a star to fill the role. Hastings views the corporate culture to be more like professional sport teams, rather than like a family at Zappos. Hastings believes that the managers role at every level of Netflix is to hire, develop, and cut such that there are stars in every position.

⁵¹ Reed Hastings. "Netflix Corporate Culture of Responsibility and Freedom Presentation." August 2009.

⁵² Reed Hastings. "Netflix Corporate Culture of Responsibility and Freedom Presentation." August 2009.

Continuing with the analogy of the professional sports team, Netflix pays top of the market regardless of whether the company is prospering or floundering like a professional sports team would for their players. In that regard, they also believe their employees should choose how to use their income. Stock options are not granted and employees can choose how much they want to link their economic destiny to Netflix's success or failure by deciding how much company stock or stock options they want to own. Netflix believes one big salary is the most efficient form of compensation compared to benefits and bonuses. They believe giving employees the freedom to spend as they think best is the most effective.

Furthermore, Netflix has no expense and no vacation policy. They ask employees to "*act in Netflix's best interests.*" This policy is strong evidence of the company acting upon their philosophies of valuing freedom, responsibility, loosely coupled, and context (effectiveness). Under their beliefs, it makes sense responsible high caliber employees deserve to take as much time off as necessary or expense as needed.

The company also does not offer courses, mentor assignments, rotation around a firm, nor multi-year career paths. They believe high performance people are generally self-improving through experience, observation, introspection, reading and discussion. Netflix reasons that formalized development is rarely effective and they don't try to do it. Hastings notes that "*individuals [ought to] manage their own career paths, and not rely on a corporation for planning their careers.*" All these benefits are said to be given to employees in the form of bigger pay checks.

Alibaba

Company Overview

Given the intent of this thesis, including the Chinese B2B e-commerce company, Alibaba.com, in this analysis would make it an appropriate fit. Considering that the rest of the companies included in this analysis were founded in the United States, the Chinese origins of Alibaba make it a particularly notable sample company. In fact, based on my surveying of 28 Master of Business Administration students at Tsinghua University, Alibaba was the single most dominant response to questions regarding companies they felt had an interesting culture, benefits, or were fun to work at. The main limitation in the analysis of this company, however, is access to credible data, a difficulty faced by the many researchers studying Chinese enterprises.

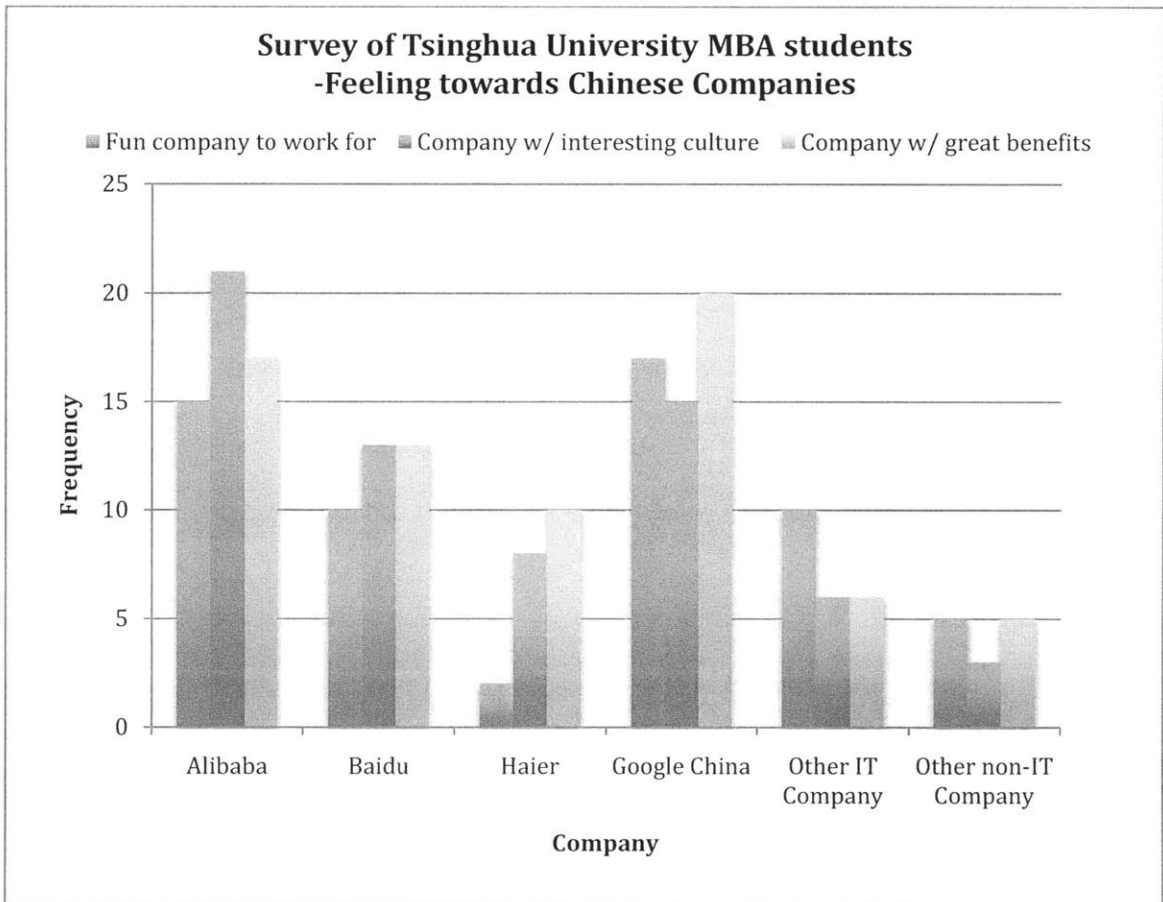


Figure 13 - Survey of Tsinghua MBA students

Alibaba's primary business is to serve as a directory of Chinese manufacturers connecting them to other companies around the world looking for suppliers. They operate two marketplaces; the first is an English based international marketplace tailored to global importers and exporters in China; the second is a Chinese marketplace that focuses on suppliers and buyers trading domestically in China. The Alibaba Group, which includes five core companies Alibaba.com, Taobao, Alipay, Alibaba Cloud Computing, and Yahoo! China hires around 12,000 employees; most to all of them are Chinese coming from an assortment of experiences revolving around commerce and computer science.

Philosophy/Culture

A strong culture based on Alibaba's shared value system has served as the cornerstone of the company since its inception. The company claims their business success and rapid growth was built on the spirit of entrepreneurship, innovation, and an unwavering focus on meeting the needs of our customers.

Culture is DNA. Culture is the most unique aspect of Alibaba. We always view culture as the genes of the entire company, that is, our DNA.

- Jin Jianhang, co-founder of Alibaba

At the APEC SME Summit in Hangzhou on 21st of September 2009, CEO and Founder, Jack Ma, emphasized the need for his company to do more for others. He believes Alibaba first and foremost task is to help the society and make others successful. He believes the company's success will transpire over time if they can create value for others. Jack's ideology is apparent in Alibaba's mission statement "*make it easy to do business anywhere.*"⁵³

Furthermore, Jack also professed that "*the core competence of a company is people, and the core competence of people is the art of employment.*" He shares a similar philosophy along with Tony Hsieh about the people being a central advantage. Jack was quoted saying "*Your ideas can be copied, but the closeness of relationships cannot be copied, and the art of recruitment and training cannot be copied.*" Jack believes all employees have potentials that may be unlocked under the right environment. He goes on to further clarify three elements to creating the right environment: teamwork, good people, and accountable line managers.

⁵³ "Alibaba Culture & Values." *Alibaba.com*.
http://news.alibaba.com/specials/aboutalibaba/Culture_values.html

Alibaba reasons the first element, teamwork, is necessary to complement individual strengths and weaknesses to create well-rounded teams. Secondly, well rounded teams need to consist of “good people”. These are teammates whom are individually motivated, initiate challenges, and have fun while doing so. And thirdly, line managers need to be present. Lines managers to be held accountable delivery of work completed and for personal growth within their teams. Alibaba’s line managers are entrusted with two essential resources, capital and talent, to create value for the company. Beyond ensuring financial returns, line managers are expected to create value for their talent in terms of their growth and retention.

Alibaba’s six core values, also known as the six pulses magic sword, govern the company’s practices and are an important part to its competitive advantage. *“The value system is very important at Alibaba. We are crazy for it! In China, we might be the only crazy company who so strongly maintains our value system. People who don’t fit our values cannot survive in the company,”* says Jack. Their six core values are codified in their management systems for hiring, training, and performance evaluation.

1. Customer First (客户第一). Sharing Google and Zappos value that users come first, Alibaba also believes the interests of their community of users and paying members is their first priority. The company believes it is important to deeply understand customer needs, not competitor’s actions. Their corporate website states that understanding users needs is the beginning of developing concrete business plans.

2. Team work (团队合作). Alibaba expects its employees to collaborate as a team to make group decisions. Because of this mutual decision process, every employee is also supposed to be responsible for the objectives determined by the team. In contrast to the Chinese customs of abiding to authority, the company encourages ideas and opinions from their employees in the decision-making process. The company believes such process allows employees to be much more invested in the outcomes of the objectives.

Peng Lei, one of the co-founders of Alibaba, attributes the success of Alibaba to not only the great objectives and ideals that Jack Ma hold, but also because of their strong executive team.

3. Embrace Change (拥抱变化). Alibaba views itself operating in a fast-evolving industry. The company encourages its employees to maintain flexibility, continue to innovate, and adapt to new business conditions and practice. These values, although typical in the west, also starkly differ from the norms of Chinese culture –which are to follow orders and operate under the policies given.

The founders of Alibaba expect the company to remain a '*start-up*' as long as it is in existence. They share similar worries with Tony Hsieh of Zappos stability is the biggest enemy; and one method to overcome this stability is for the company to continue to innovate and grow. Alibaba strives to create a system and culture to perpetuate an entrepreneurial and start-up spirit.

4. Integrity (诚信). Jack Ma feels integrity is at the heart of Alibaba. His company believes trust is an essential element of all transactions in the marketplace. All employees are held to the highest standards of integrity and to deliver on their commitments whether internally or with external partners.

5. Passion (激情). Whether serving customers or developing new services and products, Alibaba employees are encouraged to act on passion. Jack Ma notes that people with a smile can make all the difference:

“When we hire people, we look for people who are naturally optimistic and happy. In the start-up process we will meet with difficulties and challenges. Optimistic and happy people can better deal with these challenges and succeed. It’s hard to make a happy person unhappy, but it’s even harder to make an unhappy person happy. I am able to tell whether a person is on our staff by their smile.”

6. Commitment (敬业) – Alibaba employees ought to have a dedicated focus and commitment to their work. They believe investing the time to understand customers and partner’s businesses are essential to attaining success. Alibaba takes a long term view on many of its initiatives, projects, and business relationships.

Beyond the six core values, Alibaba also deeply values a community where employees can have fun working along side one other with minimal bureaucracy and politics. In an article called “*Alibaba.com: A Smiling Community with a Dream*”, Jack describes his ideals for the work environment design at Alibaba:⁵⁴

Blue Sky (蓝蓝的天): Processes, systems, and decisions need to be open and transparent. There’s nothing that should be hidden from employees. We should be transparent.

Solid Ground (踏实的大地): Everything we do should be honest, ethical and contribute to the welfare of the society. The company should be on solid financial ground so employees won’t worry about the financial future of the company.

Free-flowing Ocean (流动的大海): Talent must be allowed to rotate jobs across subsidiaries and departments.

Green Forest (绿色的森林): Conducive conditions for continued innovation.

Harmonious Community (和谐的社区): Peers with shared values and simple interpersonal relationship.

⁵⁴ “A Smiling Community with a Dream.” *Alibaba.com*.

Jack's ultimate objective of such a community at Alibaba is to offer employees a work environment to grow, contribute, and live out their dreams. He views bureaucracy, secrecy, and stagnation all attributes that inhibit employees potential. One of the company objectives is to seek and put out those behaviors.

Alibaba
#1 Customer First (客户第一)
#2 Team work (团队合作)
#3 Embrace Change (拥抱变化)
#4. Integrity (诚信)
#5. Passion (激情)
#6. Commitment (敬业)

Figure 14 - Alibaba Core Values⁵⁵

Mechanisms

When Alibaba hires people, they look for people with the same “*smell*” - people who possess their six core values. After employees join the company, they attend an extensive orientation and team building program at the company's

⁵⁵ “Alibaba Culture & Values.” *About Alibaba.com*.
http://news.alibaba.com/specials/aboutalibaba/Culture_values.html

headquarters in Hangzhou, focusing primarily on the company's vision, mission, and values. These elements are reinforced in regular training programs, team building exercises and company events.

Many companies talk about mission and values, but values tend to be superficial and corporate culture eventually just becomes posters on walls. The secret to Alibaba's long-lasting corporate culture lies in putting ideas into practice and using ideas to guide practice.

- Zeng Ming, co-founder of Alibaba

The performance assessment of employees is 50% tied to values and 50% tied to business results. Employees who demonstrate behaviors contrary to company core values are asked to leave regardless of their business results or how senior they are.⁵⁶ Jack expressed it best when he said, *"The value system is very important at Alibaba. People who don't fit into our values cannot survive in the company."*

Jack's attentiveness to people is reflected in his management design and practice. At the monthly CEO meetings, he first inquires about his manager's team rather than their recent results. He will also spend time walking around the company to *"smell"* how people are being managed in different departments. Jack imposes that all senior executives at VP level also develop such *"smelling"* skills at the company to make sure it is being managed properly. Jack encourages company executives to be accessible in both professional and casual settings such as the company meetings as well as the intranet bulletin board service.

⁵⁶ Olina Qian. "Jack Ma: CEO and Founder of Alibaba.com." July 20th, 2009.

All employees of Alibaba receive stock options and are in effect owners of the organization. At Alibaba, stock options are not seen as a tool for retention but for reward sharing. From five cents per share to five dollars per share in six years, Alibaba employees have shown tremendous pride in the company. The company wants its employees to feel excited and part of doing that is via sharing the fruits of their collective success for the well-being of both the society and themselves.

Much like the chief culture officer at Google, Alibaba also holds a similar role at the company. Peng Lei plays a special role at Alibaba where she describes the executives as generals on the battlefield and sees herself more like a guardian. Peng's responsibility is to sustain the development of Alibaba's corporate infrastructure and preserve corporate culture amid the company's accelerating growth. Her tasks include designing the hiring processes, organizing lectures given by religious masters to the company's executives, and creation of the "*meeting of souls*" program⁵⁷. The "*meeting of souls*" program is an opportunity for employees to have "*mind-to-mind*" communication between each other. Peng describes it as a channel where employees can have open discussions about their view of one other, something missing from the countless company meetings where employees only discuss how to split tasks or how to schedule projects. Peng asserts employees at Alibaba have benefited very much from the program as it has created tighter and more open relationships within the company.

⁵⁷ Cao Kezhen Wang Ruibin. "An Interview with Peng Lei: The DNA Code of Alibaba." *绿公司杂志*. September 14, 2009.

Besides Peng's responsibility to maintain corporate culture and relationships, Alibaba also has an organization department for executives. The department regularly delivers lectures, organizes study tours, and is in charge of initiatives such as the "*parachuting program*" designed for its new incoming executives. Shortly after a new executive joins the company, the group head will review and assign a partner with similar experience and at similar level within the company to help them address problems. The company claims such programs are effective activities for relationship and team building.

W.L. Gore & Associates

Company Overview

W. L. Gore & Associates is the only privately-held company in this analysis. Headquartered in Newark, Delaware, Gore has a reputation for ethics and integrity in its dealings with customers, suppliers, and employees. The company is recognized for taking a long-term view when assessing business situations. Gore has approximately 9,000 employees, in 30 countries worldwide, and are best known for their materials technologies used in cable assemblies and components, outerwear, medical products, and in various other businesses and consumer products.

Philosophy/Culture

Founder of Gore, Bill Gore, once said, "*The objective of the Enterprise is to make money and have fun doing so.*" He believed it was important for the

company to have passion for what they do. His philosophy was if employees, known as associates at Gore, are passionate about their work, then they would naturally be motivated and focused. He saw that feeling pride and ownership, and wanting to make an impact all stems from passion.

Secondly, Gore designed a company based on honest respectful communication and relationship. From the outset, the company was cultivated to be less formal than most workplaces. Relationship between associates were open and informal, and everyone was encouraged to be treated respectfully and fairly. The belief is relationships are everything at Gore -relationships with each other, with customers, with vendors and suppliers, and with surrounding communities. Long-term relationships were encouraged to be built and maintained via direct communication as often as possible.

As the company grew, Bill Gore articulated a set of beliefs and principles he felt would help guide the company's decisions, work, and behavior toward others. He believed it was the basis for their strong culture, which would help connect associates worldwide regardless of their backgrounds. The four beliefs and four principles are:

Belief #1 - Freedom. The company was designed in such way where associates can freely participate in endeavors aligned with the success of the company. Employees are made aware all actions are prized, ideas are encouraged, and making mistakes are part of the creative process. The belief was associates will exceed expectations when given the freedom to do so.

Associates are also asked to be empowered to help others grow in knowledge, skill, scope of responsibility, and range of activities at the company. The company website claims when such empowerment is put in practice, it would in turn allow associates to grow themselves as well.

Belief #2 - Belief in the Individual. This belief very much complements Gore's belief in providing freedom to their associates. Similar to the trust and responsibility principles of Netflix, Gore also believes trusting individuals and believing in them will motivate them to act in the best interest for the company. Furthermore, their culture welcomes different viewpoints and people from a variety of environments and backgrounds. Gore believes its associates are what differentiate Gore as an enterprise and fuel their growth.

Belief #3 - Power of Small Teams. The lattice organization Gore is widely known for harnessing fast decision-making, diverse perspectives, and collaboration of small teams (further discussed in the next section). The idea is the lattice organization invigorates the company with rapid iteration and input from different members across Gore to keep innovation at the forefront of the organization.

Belief #4 - All in the Same Boat. Gore believes all associates should share the risks and rewards of the company. By making them part owners of the company through the associate stock plan, the company can truly think and work as a

team and consider what's best for the company as a whole when making decisions. The notion is that by making associates invested into the results of the company, it gives them an added incentive to stay committed to its long-term success.

Principle #1 - Long-Term View. Gore has always based the company's investment decisions on the long-term view. Decisions are based on long-term payoff and their fundamental beliefs in particular, are never sacrificed for short-term gain. This principle extends to their partner and supplier relationships as well, it is a principle one part based on strategy and another part on their belief in creating solid relationships.

Principle #2 - Fairness. Wrapping around their long-term principle, Associates of Gore are asked to demonstrate fairness to each other and everyone with whom they come in contact with. Associates at Gore are asked to be fair to their suppliers and customers. The belief is such fairness and reputation will be remembered in the long-run, and thus building a trustworthy stature. Such intangibles have kept Gore rooted within the value chain and made it a fair company to do business with. Such business principle is core to the company's belief the company will remain sustainable and steady throughout good and bad times.

Principle #3 - Commitment. Associates at Gore are not assigned tasks, but are expected to make their own commitments and keep them. The philosophy behind such principle is to create an environment of trust, integrity, and support for one another throughout the organization. Gore felt it was particularly significant for 'commitment' be a principle of its own as it defines the fabric for collaboration and ultimately innovation.

Principle #4 - Waterline. The principle behind waterline is two fold. Firstly Gore realizes a culture of experimentation, often resulting in learning failures, can lead the company resources ashtray. The waterline principle involves consultation with other associates before undertaking actions which could impact the reputation or profitability of the company. The waterline principle was designed to cross check endeavors which could otherwise "*sink the ship.*" The notion is to keep innovation under reasonable control within their highly innovative culture.

In '*How the Might Fall*', Jim Collins describes the water principle as a decision gone bad that will blow a hole in the side of the ship.⁵⁸ If a hole was blown above the waterline, the crew can learn from the experience and continue to sail. But if a hole was blown below the waterline, the crew faces gushers of water pouring in. And in the case where the blown hole is big enough, the ship will drop down towards the ocean floor very quickly. The waterline principle

⁵⁸ Jim Collins. "How The Mighty Fall: And Why Some Companies Never Give In." May 19, 2009.

was not put in place to prevent Gore make big bets, but to avoid big bets that could blow holes below the waterline.

Extra Principle - Diversity⁵⁹. Although not included among the beliefs and principles at Gore, focus on diversity is also a major element at the company. The importance of understanding when, why, if, and how differences affect relationships are important because the company views the quality of relationships very much related to how well their business performs. Gore believes harnessing diversity within their teams better drives innovation. Diversity and inclusion are critical ingredients for sustaining the Gore culture. Their diversity work seeks to ensure that all associates experience the inclusion in their fundamental beliefs and guiding principles.

W.L. Gore
Belief #1 - Freedom.
Belief #2 - Belief in the Individual.
Belief #3 - Power of Small Teams.
Belief #4 - All in the Same Boat.
Principle #1 - Long-Term View.
Principle #2 - Fairness.
Principle #3 - Commitment.

⁵⁹ "Diversity at Gore – A Culture of Diversity." *Gore.com*.
http://www.gore.com/en_xx/careers/whoweare/diversity/gore-diversity.html.

Principle #4 - Waterline.
Extra Principle - Diversity.

Figure 15 - W.L. Gore Beliefs and Principles⁶⁰

Mechanisms

Gore is well known for their innovation in the lattice organization for small teams. The lattice organization design along with the core principles are catalysts to the company's participation, communication, and creativity. In fact, Gore published what he termed "*culture principles*" in a paper entitled "*The Lattice Organization – A Philosophy of Enterprise*," which was distributed to Gore associates.⁶¹

The lattice organization approach is based on Bill Gore's previous experience with "*task force teams*" at the DuPont Company. And at his own company, he proposed a flat, lattice-like organizational structure where everyone shares the same title of "*associate*." The design incorporated no chains of command nor predetermined channels of communication. Leaders replace the idea of "*bosses*" and associates choose to follow leaders rather than have bosses assigned to them.

The lattice organizational structure and culture has shown to be a significant contributor to associate satisfaction and retention at Gore.⁶² Teams in

⁶⁰ "What We Believe – Our Beliefs and Principles." *Gore.com*.
http://www.gore.com/en_xx/careers/whoweare/whatwebelieve/gore-culture.html.

⁶¹ Robert W. Gore. "The Lattice Organization – A Philosophy of Enterprise." Page 129. 2008.

⁶² Gary Hamel and Bill Breen. "The Future of Management." *Harvard Business School Press*. 2007

the nonhierarchical lattice organization typically consist of multi-disciplinary individuals based on opportunities, new product concepts, or businesses. In these teams, hands-on product innovation and prototyping are encouraged. And as they evolve, leaders also frequently emerge as they gain followership; creating a system that develops and provides natural opportunities for associates to take on additional responsibility.

To maintain accountability within the company, associates are also encouraged to communicate directly with one and other and be accountable to the commitments they make to their teams. Each associate is responsible for managing their own workload and commitments. A "*core commitment*" is in their primary area of concentration, but additional commitments are common and depend on associate interests, the company's needs, and availability.

Beyond all associates owning company stock, the compensation and benefits the company offers are of fairness and are based on their fundamental beliefs in the long-term view. The company states they "*strive to be internally fair and externally competitive.*"⁶³ In Gore's organization design, the employee review system is based on a peer-level rating system between associates based on contribution. Many associates are involved in the employee review of each associate to ensure everyone is fairly compensated. Associates are asked to rank their team members each year in order of contribution to the enterprise. This numerical ranking also includes comments on the rationale behind the ranking as well as on particular strengths or potential areas of improvement for the

⁶³ "Working in Our Unique Culture – Make Money and Have Fun." *Gore.com*. http://www.gore.com/en_xx/careers/whoweare/ourculture/gore-company-culture.html.

associates on the list. The objective is to compensate associates based on their overall contribution to Gore, a manifestation of their belief that they are "*all in the same boat*" working towards common goals. Such employee review system also encourages teamwork and helping others grow in knowledge, skill, and scope of responsibility (Belief #1 Freedom).

Lastly, all associates at Gore are assigned a sponsor who is committed to helping them succeed. Sponsors are responsible for mentoring an associates growth and providing feedback on their strengths, development opportunities, and helping to connect with others in the organization. At Gore they have a fundamental belief in the potential of individuals to be creative, solve problems, and exercise judgment and initiative regardless of position or function. The "*freedom*" principle at Gore ensures all associates can find opportunity to grow and further develop themselves. The company doesn't offer pre-defined career paths or programs, instead, believing associates shall find their own path which enables them to maximize their contributions to the company. Associates have the freedom to become more specialized by becoming an expert in a certain field, or assume broader responsibilities in the areas they are passionate in. The company believes by also appending opportunities such as workshops on a wide range of topics including communications, computer skills, leadership, sales training, safety, and technical skills, employees choose what is best for them via their passions.

Final Comments

It is interesting to note that the five companies examined employ compelling mechanisms many of my business school peers at the MIT Sloan School of Management have not previously heard about. It evokes one to wonder why other firms out there have not made similar management investments. I suspect one of the major and more obvious reasons is because change is simply difficult. Organizational change, particularly, documented in multiple papers and books is an art of its own. We often read in the business press the large sums of money paid to C-level executives to lead such changes. Management innovation, as a culture, is much easier to implement during the earlier stages of a company.

In the next chapter, I will delve into our findings from the analyses in this chapter to make sense of how these management innovative companies position themselves for success. Hopefully, entrepreneurs and early stage companies will embrace these lessons learned whilst it is more affordable.

Chapter 4. Distilling the Underlying Philosophies of the Studied Companies

Overview

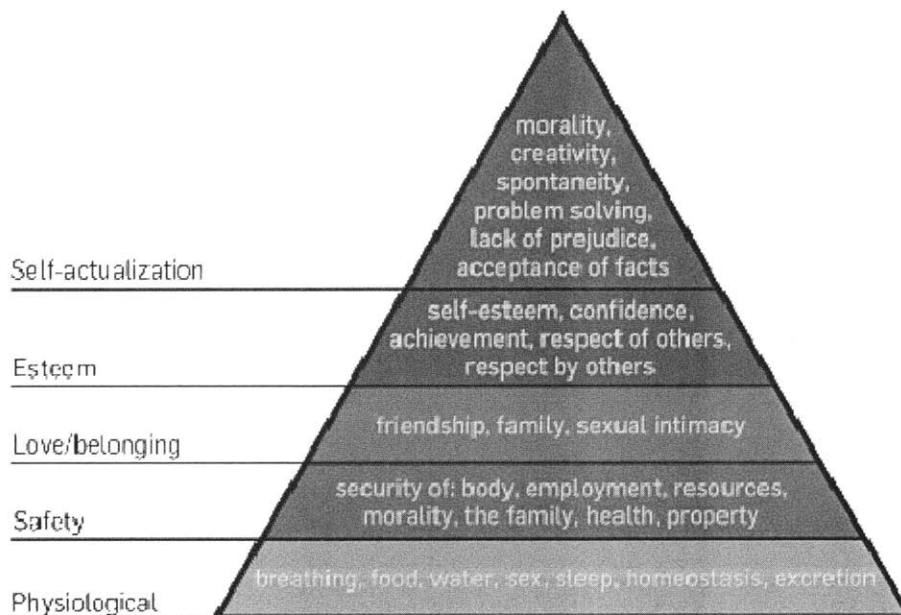
Based on the analysis of the companies in the previous chapter, it was clear many patterns had emerged. One such highlighting observation from the analysis was evidence no one set of principles or organizational design bested the rest. The principles were conditional on context and even more importantly based upon the founder's ideologies and values. Another significant observation were that the principles of each company wrapped around each other to layout a single vision of its design and culture. Netflix's organization, for example, is designed around top of the market individuals whom thrive on effectiveness, freedom, and responsibility. It is clear Reed Hastings has a specific vision for how he wants Netflix to operate, and his vision differs from those of Tony Hsieh, Jack Ma, and the founders of the other companies analyzed.

Differences in vision aside, however, patterns still emerged from the analysis. My observation led me to conclude the essence of the five companies all revolved around a few fundamental characteristics. Most of them, if not all, revolved around people. Whether it was a principle based on focus on the customer, teams, or high caliber people, the human element of the underlying principles were apparent. Many of the principles very much supported Maslow's hierarchy of needs theory⁶⁴ different levels of needs ought to be provided for employees to perform at the best of their capabilities.

⁶⁴ A.H. Maslow. "A Theory of Human Motivation." *Psychological Review*. 50(4) (1943):370-96.

Breaking down Maslow's hierarchy of needs pyramid (below), we can observe motivational needs are being provided in some form or practice at all the companies examined. From basic physiological needs of food provided at the Google cafes to social needs of having a supportive and communicative community at W.L Gore, all five companies attempt to provide for these needs via thorough design of company policies and culture. The desire to enlighten employees where they reach self-actualization, being ethically strong and enjoying the means to an end, can be inferred from every data point among the founder interviews or company corporate values.

Figure 16 - Maslow's Theory of Needs Pyramid



In fact, my validation of Maslow's hierarchy of needs theory is a great result of the analysis. It proves that context, culture, and environment do not play a big role in the philosophies of today's companies actively innovating in management. The take away is basic human nature is and will continue to be the focal point of all management innovation in the near future. This makes the

translation of some of these essences to a different context such as China more plausible and believable.

Even though multiple shared elements exist among the companies examined, I have decided to sum up the learning's from the company analyses into 5 core principles. The primary reason is because I felt many other mentioned values and principles were extensions of these five core principles but also because I wanted to focus on a select number of easy to grasp principles to be taken away from this thesis. The principles are 'focus on user', 'power of teams', 'individuality', 'freedom', and 'aim high'.

The table below maps the five core principles to each of the companies examined to demonstrate the overlap between underlying philosophies.

	Google	Zappos	Netflix	Alibaba	W.L. Gore
Focus on User	√	√		√	
Power of Teams	√	√		√	√
Individuality	√	√	√	√	√
Freedom	√		√		√
Aim High	√	√		√	√

Figure 17 - Five Core Principles among Companies Analyzed

Philosophy #1 - Focus on User

Whether it is focusing on users or customers, Google, Zappos, and Alibaba's core principle was to put them first and foremost before business interests. For the first few years after Google's founding, Larry Page and Sergey Brin were strongly opposed to banner and pop-up ads even though the company has no viable business model and burning \$500,000 a month.⁶⁵ During those first few years at Google, the difference in financial health literally came down to flipping a switch which served ads Larry and Sergey called "*intrusive to the user.*" On the other hand, Zappo's intense focus on customer service throughout the organization is demonstrated by requiring all executives to train at front-line customer support during their orientation. And to top both Google and Zappos, Alibaba decided to offer Alipay and Taobao, equivalents to Paypal and Ebay, free of charge to its users. Founder-CEO, Jack Ma, expects to continue to offer new services free of charge for their first ten years!⁶⁶

Although W.L. Gore is not included as a company that is *focused on the user* in the table shown in figure 10, the company still parts a like philosophy. Their belief in trusted long-term relationships with partners, suppliers, and vendors is arguably similar. It is a shared belief that the people who benefit from those companies are more important than profits in the long run. The idea is to create value and share it with those around you, and in time, profits, intangibles, and success will follow.

⁶⁵ John Battelle. "The Search: How Google and Its Rivals rewrote the Rules of Business and Transformed Our Culture." Chapter 4&6. 2005

⁶⁶ Jack Ma. *Alibaba Blog*. <http://blog.china.alibaba.com/blog/yunma.html>

Philosophy #2 - Power of Teams

Most reasonably competent founders and executives understand the power of teams. But few companies bring it to a level of that of Google and W.L. Gore. Both companies have managed to rethink how teams ought to be organized and run at a large institution. More importantly, they have shown to successfully execute on their insight. The lattice organization structure described earlier at W.L Gore is still one of the main distinguishing features of the company -the innovation design has instigated much research from both business writers and professors alike over the years. It is an effective structure for the chaos and requisites required for highly innovative organizations.

Google's view on teams are multi-stage. Their principle that *democracy on the web works* empowers them to views teams as beyond the people of their own organization. They are happy to leverage the internet through crowd sourced product usage data as well as open source initiatives such as their Android mobile operating system platform. Another team-based innovation at Google are their collaboration tools Gmail, Google Wave, Google Apps, and many of their other products. This innovation, not only shared free with the rest of the world, but takes their team-based innovation approach to another level. Google has leveraged off the power of the internet to develop these tools to make team formation and collaboration much more accessible than it has been in the past.

Philosophy #3 - Individuality

All the companies examined demonstrated some aspect of personal individuality in their values. Some of them saw it as a channel of distinguishing itself away from becoming a stale boring corporation, which came across as one of few most worrying challenges faced by the founders. Google would provide a budget for its employees to decorate their cubes, Zappos encouraged weirdness from their employees, and Netflix and W.L. Gore expected individual excellence and individual career development from their employees. Alibaba did not provide any substantial evidence of individuality from the research, but their encouragement of voicing individual opinions, ideas, and suggestions to anyone in their organization is a major divergence from Chinese business culture norms.

Furthermore, possibly due to geographical bias, Google and W.L. Gore also publicize their value in diversity (Netflix, Alibaba, and Zappos are primarily situated only in their home country). Both Google and W.L. Gore view diversity an essential component to their company's continued success. They believed the difference in backgrounds and values among teams contribute to increased innovation and understanding of global user and partner needs.

Philosophy #4 - Freedom

Freedom was significant among all the companies examined, and they each had different takes on how to execute such philosophy.

Self-government was a center-piece to Netflix's organization design. Their belief was that employees ought to gain more freedom as their responsibilities

grew. They saw that capable employees did not need constraints as they tend to be highly motivated and self-governing. The company believed such responsible employees would act in the best of Netflix's interest.

W.L Gore provided freedom of passion and career development. Associates joined teams based on their interests in a project and product concept. They had the freedom to register for workshops and training sessions based on their goals -whether interest and/or career development driven. Their entire career development approach is based on choice, associates create their own development path. Whether to make a commitment within a team, or simply join one (based on their respect for the leaders) is up to the choice of the associate.

Google's well known "70-20-10" rule⁶⁷ where engineers are encouraged to spend 70% time on central business functions, 20% time on related business functions, and 10% time on areas entirely of their choice is a much more quantitative approach to their philosophy of providing freedom. Google believes such time work allocation is their key to continued innovation. Larry and Sergey acknowledge Google's initial startup success to luck and probability, rather they believe key to continued success is by providing a platform for other entrepreneur-minded employees to experiment with the next innovation at their labs⁶⁸. In view of such beliefs, many of Google's popular products and services such as their collaboration tools Gmail, Google Wave, and Google Calendar were born during their employee's free tinkering time over the past few years.

⁶⁷ John Battelle. "The 70 Percent Solution: Google CEO Eric Schmidt gives us his golden rules for managing innovation." *Business 2.0*. December 1, 2005.

⁶⁸ David A. Vise. "The Google Story." Nov 2008.

Philosophy #5 – Aim High

Three of the five companies in the analysis encouraged their employees to reach for something higher than short-term business goals. The companies expected employees to challenge themselves and perform work for a higher purpose. Competition was not once mentioned in these values; Google, Zappos, and Alibaba all challenged their employees to outdo themselves and continually beat the benchmarks they had initially set for themselves. Google believed it was these big difficult problems they were trying to solve which positioned themselves to become the standard de facto when others realized the need for such solution. Zappo's goal was to simply become the best customer service company in the world. Alibaba encouraged employees not to hesitate to dream and push for big things because it views itself only at the very beginning of the information technology wave. Alibaba believes the industry is still so young no one can possibly be an expert yet.

Final Comments

It is important to note the above five principles are based on the analysis of five companies. They are by no means a final verdict or requisite of management innovation. The five core principles are distilled comprehensions of my learnings from the company analyses, and much of the insight came about throughout the process.

Furthermore, I remind entrepreneurs and managers to adhere to strict guidelines and policies of the values they choose to instill their employees with. Without the appropriate practices in place, rules just become text on the wall.

Chapter 5. Conclusions

Applying our learned philosophy's under the appropriate context is vital for both local and foreign corporations to thrive in China. Foreign internet companies Ebay⁶⁹, MySpace⁷⁰, and Habbo Hotel⁷¹ made costly mistakes by assuming they could plug their company product and culture into the Chinese country. All three companies, and many others, underestimated the importance of localization in such gated Chinese community. After all, Chinese values and norms are an accumulation of centuries of rich history. And one or two mistakes, particularly if opposing the ways of the Chinese, can have disastrous effects to a company's brand image.

In this final chapter I will propose adjustments to our previous core learnings based on the Chinese context, and also note some of the management innovation difficulties faced by managers and founders. Based on my heritage and understanding of the Chinese business environment, it is my belief emphasis and curbing of a few selected principles will better fit the upcoming working generation and conditions of China.

Again, it is important to take into account the following proposals are simply starting points. As noted at the beginning of this thesis, innovation is a concept of experimentation where successes and failures are inevitable. All five companies in the analysis make it a point their culture is a work-in-progress, and

⁶⁹ Sherman So and J. Christopher Westland. "How eBay lost the China market." August 9, 2009.

⁷⁰ Eric Eldon. "MySpace China CEO quits; yet another U.S. tech company struggles in China." September 5, 2008.

⁷¹ Curt Feldman. "Habbo Hotel: Chinese Market Too Challenging to Be Worthwhile." August 30, 2007.

will continue to refine their approach to management over time. The key is to acknowledge, particularly in managing people, there is rarely right and wrong. Some mechanisms may work at one company and not at another. The key practice of continuing to learn from listening closely to your organization is expected to remain for many years to come.

Applying Management Innovation to China

A Developing Country

In respect to Maslow's theory of needs pyramid and how we observed management innovation IT companies are satisfying those needs, I contend a company moves up the stages of the pyramid as the country becomes more developed. I am referring to the fact standard of living is lower at developing countries such that local employee needs also tend to be more basic. Certainly, such claim is in respect to the tasks performed by the employees; computer engineers in China are better off working under conditions where higher-level needs are satisfied compared to both Chinese or American factory-line workers. My point is it is vital to keep in mind the varying degrees of environments required in respect to the country's development. The current and future needs of the local workforce is directly related to the speed at which a country is developing.

Google China, as an example, still lags the American Google workplace in terms of benefits and working conditions.⁷² During my visits to the Mountain

⁷² Personal observations from multiple visits to Google Beijing and Google Mountain View in 2008 and 2009

View Googleplex, I observed a richer environment compared to my sightings at Google Beijing. In terms of office interior spacing and design, employee decorated cubes, café food, and break rooms, the Mountain View campus was more sophisticated; Google's company culture and ideology seemed much stronger at Mountain View. It finally deemed on me later the two offices were serving the different needs of its local employees.

Focus on Compensation, Benefits, and Family

In line with satisfying the bottom stages of Maslow's theory, I propose that emphasis on compensation and core benefits should be much stronger in China-based companies. Albeit developing incredibly rapidly, the country is still emerging from a generation of poverty where it is still typical to find quality employees coming from poor backgrounds and rural villages. While social needs like community and respect are important, compensation that provides food, shelter, and money for their family is still commonplace. The Chinese are incredibly family oriented; an employee's basic physiological needs transcends him or herself and onto much of their family. Even in developed societies such as Taiwan or Hong Kong, the norm is for Chinese parents to financially support their children beyond their college years (and for their children to support them back later down the road for the rest of their elder's lives). In this sense, a Chinese employee's basic needs are much greater than their American counterparts. Such Chinese context may possibly best suit Netflix's belief that handing out one big paycheck and giving employees the freedom to spend as they deem best for them is most appropriate. It is commonplace to find

employees coming from diverse backgrounds where their spending habits differ drastically.

Invigorate Team Work

Organizational design to foster teamwork and keep politics at a minimum should also be an emphasis in China. Chinese people are extremely competitive. This can be observed around the world from the way the Chinese do business to their education values. Early throughout primary school, students at Chinese schools are already ranked in comparison to the rest of their classmates in every subject and at every test. Chinese parents often rarely focus on subjective grade guidelines, they want to know how their child ranks among their peers and often demand they rank in the top percentile –there is only one spot at the top of the class after all. Such competitiveness culture forced on by Chinese parents are well exemplified in Weijun Chen’s documentary ‘*Please Vote for Me*’.⁷³

This culture of competitiveness and self-improvement stemming from the adolescent years often results in office politics and impedes the overall productivity of Chinese companies. Chinese employees are motivated by personal career gain and often fail to work well in teams. My proposal for China based companies is to design their organization in a way such that team work is emphasized and rewarded, and politics are kept to a minimum. W.L. Gore’s lattice team design where associates self-select their project leaders and allow natural leaders to emerge based on their previous interactions with associates is a great example of such management innovation. Policies requiring all team-

⁷³ Weijun Chen. “Please Vote for Me.” pleasevoteforme.org. 2007.

peers to evaluate team work and overall contribution to the company would help create an environment where employees must play nice with one another. Such distributed network of compensation evaluations would also help minimize unnecessary politics and contribute to a fairer environment.

Keep Communication and Viewpoints Open

The encouragement of shared opinions and viewpoints, albeit contrasts the ways in which Chinese businesses have been run in the past, would generate mind-investment among employees. As Alibaba has demonstrated, encouragement of such culture of sharing ideas can be rewarding for Chinese companies. Allowing employees to contribute to the direction and operations of a company gives them more context –allowing them to feel less like a replaceable gear in the machine. Additionally, transparent access to executive viewpoints under an informal setting, such as the bulletin board service used by Jack Ma at Alibaba, provides transparency and fills in the gap between higher and lower levels of the company. As noted in the Zappos analysis, executives often benefit from gaining a better understanding of the issues from employees in the front-line. Lower level employees on the other hand will also feel much more involved with the company direction and strategy at large.

Management Innovation Challenges in China

Building Trust and Curbing Undesired Behaviors

A few notable challenges exist for companies embracing the concept of management innovation in China. One such challenge is employees moving on with their careers at another firm, particularly, after they reap the career development benefits invested by their former employer. Such circumstances are understandable, competing companies are happy to offer competitive salaries for better trained employees. The problem is the large number of companies being founded or entering China in such short period of time that most employees don't feel a need to become loyal to any of them. As employees acquire new skills and processes, they clearly understand as their value rises so do their options. Careful compensation and turnover metrics is one method to curb such event, but this a situation I suggest founders and managers to thoroughly think through in their organizational design. One such example of curbing such circumstance is Netflix's method of paying all their employees top of the range salaries to ensure that jumping ship will likely mean a decrease in pay cut.

Following the challenge of retaining employees, building trust between them and the company is also important and requires extra attention. A culture of trust requires integrity, fairness, openness, and honesty throughout an organization. And one broken spoke in the wheel can easily break the code of conduct. As observed at both Zappos and Alibaba, strong policies may be put in place to ensure such value-based conduct is maintained. The challenge is that for many Chinese employees, particularly those coming from more rural areas, acceptable behaviors of integrity and commitment can vary. Such diverse

characteristic of employees along with a harsh policies are a very difficult balance for an organization. No company cannot withstand frequently losing key employees nor have its value-driven culture compromised. My recommendation is such value-retaining-policies need to be well defined and clearly communicated as they become refined. It is a important for human resources to ensure excusable conducts are excused and improper behaviors are prohibited.

External Behavior and Influences

Besides ensuring the company remains value-driven, another major challenge for Chinese companies is how it maintains its relationships with partners, vendors, and suppliers. The reality is gifts and under the table money are more prevalent in developing countries like China. It is surprisingly difficult for a company and its employees to maintain its values when those that interact with it hold opposing values. Such difficulties also extend to government contacts and relationships –a requisite for any successful company based in China. Such relationships are key to the expansion of a company and include items such as obtaining various business and operational licenses. The need for such relationships could drastically speed up or impede the development of a company, particularly when proper timing is pivotal for every thriving company. A transparent company based in and operating in a much less transparent government is no easy-feat. Recent affairs revolving Google China's decision to uncensor its search engine is a great example of a principle driven company operating under the law of China. Granted the size and reach of Google today, a small to medium sized technology startup simply do not have negotiating power

and must choose to either abide the party's rule or simple have no business in China. There are simply no resolving examples so far and I leave it to the future founders and managers alike to determine a compromising solution.

Other Related Management Topics

The final two ideas, although less related to management innovation are also particularly noteworthy for companies operating in China. The first of which is to be wary of partners, vendors, and suppliers. Multiple reports of contaminated foods and improper chemicals employed in Chinese products have emerged over the past five years^{74 75 76}, and the last circumstance a company wants to be in is linked to such improper companies. In addition to leading to bad press, solely depending on such unethical partners will hobble company operations and damage bottom-line severely. This is a particularly challenging problem companies need to watch out for and will require intentional partner diversification. A company will also need to rationalize extra resources spent inspecting the credibility of their partners products and operations on a consistent basis.

The second and final recommendation is for foreign companies to re-assess their management innovations when looking to operate in China. As we have seen in the past, simply bringing values and cultures from abroad have not

⁷⁴ "Chinese-made drywall causing home and health hazards." <http://blogs.consumerreports.org/safety/2009/03/chinese-drywall-corrosion-health-problems-sulfur-odor.html>. March 19, 2009.

⁷⁵ Eric Lipton and David Barboza. "Unsafe Chinese-made toys cause alarm." *The New York Times*. June 18, 2007.

⁷⁶ Ariana Eunjung Cha. "China Food Fears Go From Pets To People." *The Washington Post*. April 25, 2007.

proven to be successful.^{77 78} Success stories have come from companies who adapted to the conventions of China. My professor, Warren Liu, at the Tsinghua University business school describes in his book '*KFC in China: Secret Recipe for Success*' how such methods and strategies catapulted Kentucky Fried Chicken past McDonalds to become the dominant fast food chain in China. One such fundamental requisite of localized success in China is for foreign firms to partner or venture with local ones. Examples of such a strategy by foreign firms include Nokia's mobile partnership with New Alliance⁷⁹, Skype and the NBA's operation rights partnership with the TOM group⁸⁰, Amazon's acquisition of online bookstore Joyo⁸¹, and many more.

⁷⁷ Seung Ho Park and Wilfried R. Vanhonacker. "The Challenge for Multinational Corporations in China: Think Local, Act Global." *MIT Sloan Management Review*. July 1, 2007.

⁷⁸ Shaun Rein. "How Multinationals Err In China." *Forbes Commentary*. May 24 2007.

⁷⁹ Suzanne Stevens. "Nokia expands in China with JV." *thedeal.com*. December 10, 2009.

⁸⁰ "Tom Group." *Wikipedia*. http://en.wikipedia.org/wiki/TOM_Group

⁸¹ "Amazon Forays Into China." *Fast Company*. Aug 19, 2004.