



EFFECTIVE OEC MANAGEMENT CONTROL AT **China** **Haier Group**

THE COMPANY HAS BECOME SUCCESSFUL THROUGH EXCELLENT CUSTOMER SERVICE, PRODUCT QUALITY, OPERATING EFFICIENCY, INNOVATION, AND SPEED TO MARKET.

BY THOMAS W. LIN, CMA

In 1984, Zhang Ruimin took over a nearly bankrupt refrigerator factory in Qingdao, China. In 2003, the company's global sales hit \$9.7 billion with a growth rate of 70% during the previous 19 years. Today, Haier Group is recognized as a worldwide brand. On January 31, 2004, the firm ranked 95th after such household names as Coca-Cola, McDonald's, and Nokia, which were the top three on the World Brand Laboratory's list of the 100 most recognizable brands. Haier was the only Chinese brand on the list.

So how did they achieve their success? As one of China's fastest-growing companies, Haier Group fits a 1999 Gallup survey profile for a successful company. Customer service, product quality, operating efficiency, innovation, and speed to market are among the top seven factors for success. Haier excels in all these areas.

To achieve success the company developed its corporate culture, business strategy, and OEC management-control system, which enforces firm work rules and discipline. Haier's Human Resource Management Director Wang Yingmin explains the OEC acronym: "O stands for Overall; E stands for Everyone, Everything, and Everyday; C stands for Control and Clear. OEC means that every employee has to accomplish the target work every day. The OEC management-control system aims at overall control of everything that every employee finishes on his or her job every day, with a 1% increase over what was done the previous day."

Why did Haier choose to implement the OEC system? According to CEO Zhang, "If you observe Chinese people's behaviors at the traffic lights, when the red light is on, people simply ignore it and cross the street anyway. At the workplace, Chinese people also tend to ignore rules and do not pay enough attention to details. We need a tough management system with fair rewards and penalty features to help our workers get things done properly."

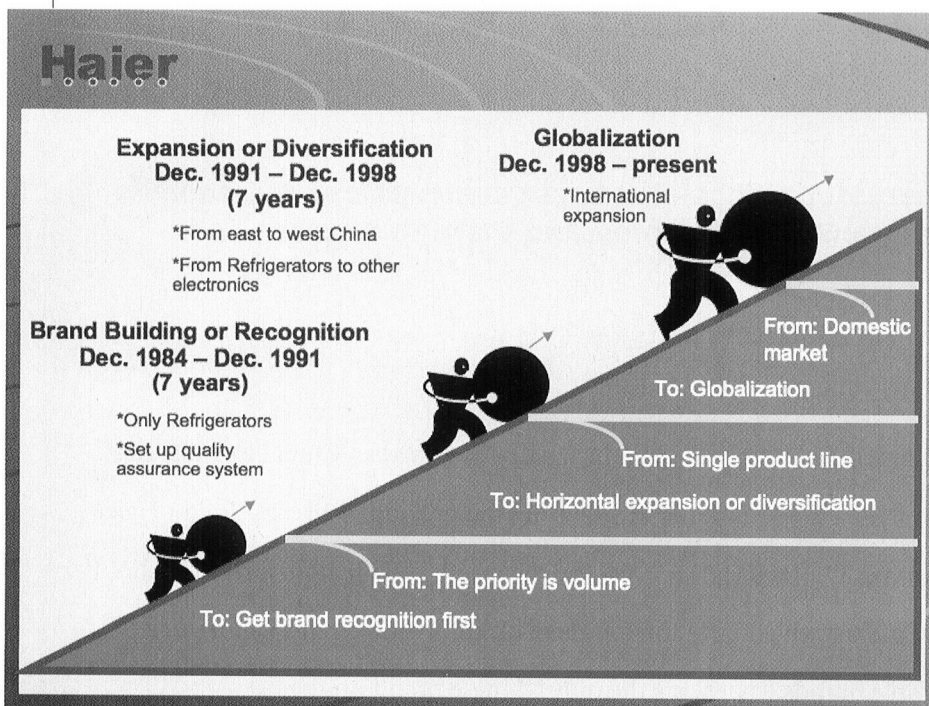
OEC works. When I visited Haier's air conditioner

**"O STANDS FOR OVERALL;
E STANDS FOR EVERYONE,
EVERYTHING, AND EVERYDAY;
C STANDS FOR CONTROL AND
CLEAR."**

manufacturing facility in the Haier High Tech Industrial Park at Yellow Island in July 2004, the factory floors were clean, and workers, wearing uniforms with photo ID badges, operated in an orderly manner at the assembly lines. Banners featuring quotes such as "A Product with Defects Is Useless" and "Innovation Is the Soul of Haier Culture" line the factory walls. One large bulletin board says, "Every day is a new day; all activities are completed in the same day by innovations." The OEC management-control system implementation has resulted in satisfied customers, efficient and effective processes, motivated and prepared employees, sustainable revenue, and profit growth.

Let's look at how OEC helped turn the company into one of the world's top brands.

Figure 1: Three Stages of Strategy Development



BUSINESS STRATEGY

Haier CEO Zhang Ruimin and President Yang Mianmian say the firm developed three major strategies over three stages: brand building or recognition strategy, expansion or diversification strategy, and globalization strategy (see Figure 1). Called the famous-brand strategy, the first stage lasted from 1984 to 1991. During this period, the company created and built Haier-brand products and set up a quality-assurance system. In April 1985, Zhang gathered all employees and battered the first poor-quality refrigerator with a hammer, and then the employees responsible for these goods battered 76 defective refrigerators. The event woke up the quality awareness of all employees and established the concepts of "defec-

tive products are wasters” and “excellent products are produced by talented employees.” The thinking shifted from volume as the priority to quality and brand recognition being the priorities.

From 1991 to 1998, the second stage featured an expansion or diversification strategy within China. Since the firm bases itself on quality instead of quantity, it decided that if someone bought a Haier Group refrigerator, then maybe they would want to buy something else from the firm. The business was developed primarily through mergers and acquisitions to cover all kinds of household electrical appliances and electronic consumer goods instead of just one product. At this time it also focused on building great distribution channels all over China and improving product development speed and quality.

Since December 1998, the third stage has focused on the globalization strategy. Haier exported its products to Germany first, then to other European countries, the U.S., Southeast Asian countries, Middle Eastern countries, and India. In 2000, the firm opened a \$35 million refrigerator factory in Camden, S.C., and started selling products through Wal-Mart and many other national and regional chains. In 2002, Haier opened its American headquarters in New York City.

The firm’s international promotion framework encompasses global networks for design, production, distribution, and after-sales services. It established 18 design institutes, 10 industrial complexes, 22 overseas production factories, and 58,800 sales agents worldwide. Haier sells its products in 12 out of 15 European chain supermarkets and 10 of America’s chain stores. And it has design, production, and sales facilities in the United States and some European countries with local employees primarily running them. None of the employees at its New York headquarters is Chinese.

Two other key business strategies at Haier relate to winning over consumers: speed and differentiation. Speed means to satisfy the consumer’s needs as quickly as possible; differentiation means to introduce brand-new

3E Card Evaluation Criteria

(Note: U.S. \$1 = 8.27Yuans)

The 3E cards feature seven criteria items with 30 checkpoints. Employees complete a 3E card every day, which a supervisor then reviews. Beyond the seven criteria there are additional sections on the card relating to penalties and rewards as well as inspections. Here are examples from each of the seven OEC items.

PRODUCTION PLAN

If less-than-plan production occurs because of external factors, production plan should be achieved by nonpaid overtime.

QUALITY

Daily defective product costs should be fined according to the defective product prices announced by the Quality Inspection department.

TECHNOLOGY LEVEL AND PRODUCTION DISCIPLINE

Employees who fail to follow the technical requirements in production should be fined ¥20.

EQUIPMENT

Employees who violate equipment operation procedures should be fined ¥50.

MATERIAL

Employees who produce defective products should be fined an amount of up to 10% of the material price.

LABOR DISCIPLINE

Employees who are late for work should be fined ¥2; those who leave early from work should be fined the daily wage.

PRODUCTION SAFETY

Employees who operate without knowledge of safety operation rules and procedures should be fined ¥10.

OTHER AWARDS AND PENALTIES

This section will handle actions not mentioned above.

ENDORSEMENT

Additional explanations from the operators or inspectors will be recorded in this section.

INSPECTION AND REVIEW

Inspectors (team chiefs) are required to schedule inspections of the 3E card and give comments on evaluation and endorsement results. Reviewers are required to schedule reviews of the 3E card and release a review opinion. Employees’ wages will be determined according to review results.

Table 1: Division _____ Fiscal Year Guidelines and Goals

GUIDELINES	X-1 YEAR:		X YEAR:		X+1 YEAR:				
GOALS	CONTRAST ITEMS		CURRENT HIGHEST LEVEL HOME AND ABROAD		FACTS OF _____ DIVISION				
			LEVEL	COMPANY	X-1 YEAR	X YEAR	INCREASED BY %	PLAN OF X+1 YEAR	INCREASED BY %
	Capacity	Output (00,000 units)							
		Variety							
	Financial Performance	Sales (\$000,000,000) Profit (\$000,000,000)							
	Productivity	Productivity (Units per person, year)							
		Profit per person (\$10,000 per person, year)							
		Income per person							
	Management	Quality							
		Institutional Reform							
		Infrastructure Management							
	Market	New Products							
		Star Products							
		Cash Cow Products							
		Dog Products							
		Target Market							
		Market Position							
	Development	Science and Technology							
		New Projects							
		Fields or Business Lines							
Prepared by:			Verified by:			Approved by:			

products or products with features to meet different needs. For example, the firm's U.S. president requested that the Haier headquarters design a new refrigerator that has pullout drawers in the freezer chest for the U.S. market, and in 17 hours a micro-freezer prototype was built. This really exemplifies the firm's speed strategy. Another example of the firm's differentiation in action: One employee discovered through visiting rural customers in the western part of China that they frequently used their washing machines not only to launder clothes but to also clean vegetables. Later, the firm marketed the machines as versatile enough to wash both clothing and vegetables for China's rural areas.

Haier differs from other appliance companies in that it will build products to order and it doesn't compete on price. Its philosophy is: "Customer is the king for every Haier salesperson." All employees learn that they have to give customers what they want. For example, if a customer buys a refrigerator, an employee goes to the cus-

tomers' home to set it up for them.

HOW DOES OEC MANAGEMENT WORK AT HAIER?

For constant business growth, a company needs to continuously raise its goals and quality through innovation. That's where OEC comes in. Based on market competition, OEC management strives to continuously raise the firm's goals and improve management skills to achieve a sustainable competitive advantage. Every employee at Haier attends one month of corporate culture and OEC management training before being put to work.

Haier's OEC management-control system and enterprise culture have the following characteristics:

- ◆ Focus on and understand customer value, product quality, operating efficiency, innovation, and speed to market.
- ◆ Commit top management and leadership to creating a "new way of management" and a performance culture.
- ◆ Involve management and employees in creating the

Table 2: Divisional Management Account

Division _____ Fiscal Year _____

GUIDELINES

ADVANCED GOALS				
(1) NUMBER	(2) GOALS	(3) TARGET VALUES	(4) EXISTING PROBLEMS	(5) ACTION PROGRAMS
(1) 5	(2) Management	(3) ◆ Reforms of daily clearance management to achieve group's A level. ◆ Raise team management skill level. ◆ Benchmark goals to achieve the competitive advantage.	(4) ◆ Lower error-correction rate of daily clearance. ◆ Problems in on-spot management and low standards.	(5) (a) Through the daily clearance control procedure, we should integrate daily clearance into worker's daily life to ensure goal realization: task assignment, daily worksheet, error correction, result review, and salary compensation. (b) Achieve goals of: daily plan control; scheduled work achievement inspection timetable; error correction controlled by daily clearance; 100% item controlled rate; 100% "A level" goal attainment; larger than 95% "B level" goal attainment. (c) Use the industrial engineering method to streamline on-site management model. (d) Cultivate, educate, and select future higher-level managers and executive elites. (e) Set up a bulletin board to announce monthly job rotation and promotion results. (f) Prepare a compensation reform plan to solve unfairness in compensation. (g) Strengthen factory safety system to ensure zero occurrence rates in major accidents and less than 0.3% minor accidents. (h) Train and establish six to eight honor teams. (i) Train and establish three self-management teams and 10 exam-waiver teams.

Note: This table skips 1 to 4 and shows only No. 5 as an example.

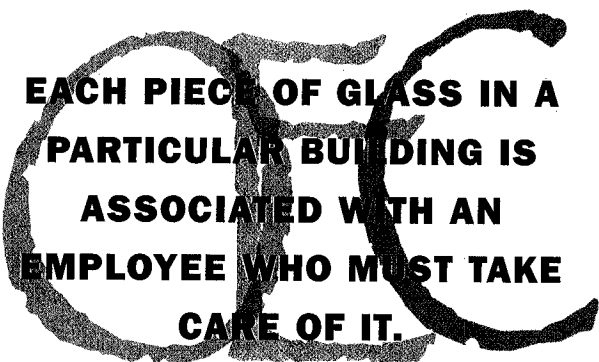
(7) DEPARTMENTS RESPONSIBLE												★ RESPONSIBLE	★ ASSISTANT	X SUPPORTING
(6) PERIOD	HR	FINANCE	PLANNING	MATERIAL	QUALITY	EQUIPMENT	INSPECTION	AFTER-SALE SERVICE	FACTORY I	FACTORY II	FACTORY III	(8) STANDARD	(9) VERIFICATION MATERIALS	(10) REVIEW METHODS
(a) Aug	★	★	★	★	★	★	★	★	★	★	★	New Standard	Mode Material	Monthly Review
(b) All Year	★		★			★						Q19509A	Exam Sheet Evaluation Result	Monthly Report and Review
(c) May						★			★	★	★	:	:	Monthly Plan Review
(d) All Year	★					★						New Standard	Operation Evaluation Result	Quarterly Plan Review
(e) March	★											:	Announce Result	Monthly Review
(f) March	★					★						:	Evaluation Result	:
(g) All Year	★				★			★	★	★	★	954401-954405	Not Exceeding Standard: Announce	Daily Report, Monthly Review
(h) Sept.	★	X	X	X	★	X	X	★	★	★	★	:	Evaluation Result	Monthly Plan Review
(i) Oct.	★	★			★	★	★		★	★	★	929501-929504	Standard Attainment Result	Monthly Report and Review

Prepared by:

Approved by:

OEC management-control system. Allow them to become familiar with OEC so they feel included and share in ownership of the system.

◆ Educate management and employees. Use seminars and weekly company newsletters to explain the firm's strategy, customer value, OEC management, and the idea of every employee being a strategic business unit (SBU) to enable them to understand the concept and appreciate the benefits. (SBU means that each employee is a profit



**EACH PIECE OF GLASS IN A
PARTICULAR BUILDING IS
ASSOCIATED WITH AN
EMPLOYEE WHO MUST TAKE
CARE OF IT.**

center with the responsibility to make a profit. Each employee generates his or her revenue by providing the best service to the employee in the next step downstream and incurs expense or cost by receiving service from the employee in the previous step upstream and resources from various supporting departments.)

◆ Create desired incentives, and reassure employees that they will be properly evaluated in accordance with their performance.

The OEC management-control system has three subsystems: target setting; control, checking, and clearance; and incentive mechanism. Here's how these subsystems work.

Target Setting

Every December, Haier headquarters sets the next year's guidelines and goals for each division by considering past performance, market demand forecast, group long-term goals, and each division's input on specific market-development needs (see Table 1).

Each division submits a divisional action program form with respect to its annual guidelines and goals. Also called the divisional management account, it includes specific annual goals, specific targets, and action programs, deadlines, responsible divisions, quality criteria, evaluation method, and frequency (see Table 2).

A department management account is the same as the

divisional action program. Before the 26th day of each month, every department head submits an OEC monthly control general ledger to his or her superior for approval. It includes a list of items, target value, last month's value, expected evaluation result, last month's error-correction numbers, this month's error-correction numbers, responsible persons, work hours, and daily clearance control evaluation summary.

Every employee also completes a daily activity control clearing account called an employee management account. It consists of task items, evaluation criteria (benchmark, past-period performance, and this-period goal), values, name of the responsible employee, daily actual results, evaluation results, actual compensation, and reviewer. To track performance, each job is assigned to a specific employee along with a clear delineation of the job's supervising manager, the responsible employee, the employee's partner, and the quality-check person. For example, each piece of glass in a particular building is associated with an employee who must take care of it.

Control, Checking, and Clearance: the OEC Daily Clearing Routine

The second subsystem—control, checking, and clearance—includes the OEC daily clearing routine, which involves a nine-step list of procedures:

1. Each team supervisor gives a daily briefing to workers before they start their work.
2. Production workers conduct their activities by following the seven OEC criteria to check and control: production quantity, quality, material consumption, technology level, equipment maintenance and condition, production safety and workplace condition, and labor discipline. For other workers, the criteria consist of activity items and specific targets.
3. Supervisors conduct on-site inspection tours every two hours, detect and solve problems, and complete the production site OEC form with the seven OEC criteria items.
4. At the end of the day, all workers conduct a self-check of their own work with the OEC criteria, fill out their 3E (Everyone, Everything, and Everyday) cards with seven OEC criteria items, and submit them to their supervisors. The OEC evaluation criteria include 30 items (see "3E Card Evaluation Criteria" sidebar on p. 41 for examples as well as fines if employees don't uphold the criteria related to the seven OEC areas).
5. Each supervisor examines the 3E cards, corrects

THE EMPLOYEES WHO ARE ACKNOWLEDGED AS THE BEST WORKERS FOR THREE CONSECUTIVE DAYS HAVE THE HONOR OF TELLING THEIR EXPERIENCES TO FELLOW WORKERS.

errors, gives a comprehensive evaluation, and submits the evaluation results to the work area manager. Evaluation results are graded as A, B, and C. If an employee achieves an A, ¥5 are added to that employee's daily compensation; if an employee receives a C, it's minus ¥5.

6. Each work area manager checks the sample 3E cards then fills out his or her own 3E card and submits it to the factory director.

7. Each factory director reviews the 3E cards and records the results in the factory OEC account. He or she then files a daily progress report to the Deputy Division General Manager regarding problems that have been solved, problems that haven't been solved, and suggested solutions to unsolved problems.

8. The Deputy Division General Manager reviews daily progress reports and suggested solutions and provides feedback before reporting to the Division General Manager.

9. If necessary, all production and supporting department heads get together to discuss and analyze problems found through the OEC process and work together to suggest corrections, improvement, and prevention that are needed.

Incentive Mechanism

Haier's third subsystem is the incentive mechanism, and its incentive policies are openness and fairness. The company adopts a point system for production workers using the 3E card, and if an employee earns more points, he or she makes a higher wage and bonus (this way, both management and employee know the daily wage and why).

The firm also uses quality-check coupons to provide an additional incentive mechanism. Each employee has a quality-check coupon booklet with red and yellow

coupons for rewards and penalties. The booklet lists all quality problems the firm has detected and provides guidelines for checking each defect. If an employee failed to self-check a quality problem that was later found by his or her team member during a cross-check or by the superior during a managerial check, the employee will lose a red coupon and receive a yellow coupon that will be counted against that day's wage and bonus.

As further motivation, each employee receives a daily grade for actual performance and progress toward achieving his or her target. Daily evaluation results are shown to workers the next day on the bulletin boards in the factory. The employees who are acknowledged as the best workers for three consecutive days have the honor of telling their experiences to fellow workers. The employees who become the best workers most frequently in one month are considered the best workers of the month. They have more opportunities to attend job training and more social benefits, while employees who become the worst workers most frequently in one month are demoted to probation workers.

Finally, the firm has an open competitive bidding system for job placement. When there's a job opening within the group, employees who have reached the qualified skill level through internal training seminars or on-the-job training can bid for that job. Management then makes the final decision and selects the best candidate based on the submitted bids.

SUSTAINABILITY

From a nearly bankrupt company to a recognized worldwide brand, Haier has come a long way. Through making employees responsible for meeting OEC criteria, Haier will continue to excel and achieve its short-term goal of becoming one of the world's top three white-goods manufacturers. In this current competitive market economy, many companies have much to learn from Haier's culture and OEC management-control system. ■

Thomas W. Lin, CMA, Ph.D., is a professor of accounting and the Leventhal International Faculty Fellow in the Marshall School of Business at the University of Southern California in Los Angeles. You can reach him at (213) 740-4851 or wtlin@marshall.usc.edu.

The author acknowledges the financial support provided by the IMA Foundation for Applied Research and would like to thank Haier University President Zou Xiwen for providing the tables, which were originally in Chinese.