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CASE STUDY

Fengbin Wang, Chi Zhang, Zhexiong Tao, Chunyan Sun

Midea's Re-adoption of M-form Structure

Abstract With a focus on the alignment between business strategies and organization design, this illustrative case study describes and analyzes the evolution and reform of Midea's organizational structure when confronting both internal and external changes. As one of China's biggest and fastest-growing household appliance enterprises, Midea adopted, discarded and readopted an M-form[1] organizational structure within a five-year period from 1997. This case study first investigates the reasons behind Midea's reform toward decentralization and the formation of governing rules to balance centralization and decentralization. Different decentralized structures are then contrasted basing on product segments, business streams or even key subsidiaries acting as second-tier group companies. After its trial transformation into an H-form company that holds majority shares in several incorporated subsidiaries, Midea chose to switch to a group company incorporated structure soon after its leadership transition in 2012. Preceding the shortening of the group's ownership chain was the construction, refinement, and evolution of its 9+2+4 divisional structure. This case study is prepared to provoke discussion and thoughts on the (re)design of a properly decentralized structure suitable for large-sized companies

[1] M-form structure is short for multidivisional structure which means a corporation is comprised of several business divisions that can be separated by region, product or market segment. Those divisions are quasi-independent units which retain operational autonomy but where corporate headquarters make strategic decisions. M-form is thought to be suitable for corporations that are large with diversified but related businesses.

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Fengbin Wang[a], Chi Zhang[b] (✉), Chunyan Sun[c]
School of Business, Renmin University of China, Beijing 100872, China
E-mail: [a]wangfengbin@rbs.org.cn, [b]rbszhangchi@ruc.edu.cn, [c]rucsuncy@163.com

Zhexiong Tao
School of Business, Renmin University of China , Beijing 100872, China; Desautels Faculty of Management, McGill University, Montreal, H3A 1G5, Canada
E-mail: zhexiong.tao@mail.mcgill.ca

with multiple businesses and the links with external and internal factors.

Keywords M-form structure, organizational design, structural evolution

1 Midea's Structural Changes

On August 25, 2012, the leadership of Midea transferred from Xiangjian He (hereinafter referred to as Mr. He), the founder of Midea, to several professional managers. Mr. He was 70 years old and he left the chairman's office to move into a new office. Meanwhile, 45-year-old Hongbo Fang (hereinafter referred to as Fang), the former board chairman of Midea Electric Appliance Co., Ltd. (which was formerly an incorporated subsidiary company with majority shares held by Midea as the group company) became the new helmsman in Midea's 44 years of history. Hence Midea became the first big Chinese private company where the leadership transition did not follow the traditional father-to-son pattern[2]. Mr. He had been regarded as the undisputed leader of Midea since the founding of the enterprise in 1968. Under the leadership of Mr. He and Fang, Mr. He's hand-picked successor, Midea survived numerous crises to become one of the biggest appliance manufacturers in the world. Along the way, Midea conducted several major structural adjustments which are believed to have contributed tremendously to Midea's growth and development.

Midea's first structural reform occurred in 1997. Due to its long-time focus on a single business, Midea was under a highly centralized management system. Mr. He was at the top of Midea's corporate pyramid and had to make numerous decisions on a daily basis, which resulted in him being overwhelmed while leaving the middle managers as mere go-betweens. Obviously, Mr. He's individual efforts were far from sufficient to maintain the efficient operation of a rapidly developing company, and Midea finally hit its growth ceiling in 1997. Mr. He then realized that for an increasingly diversified organization, collective intelligence is always more effective than mere reliance on a single individual. This made him decide to transform the burdensome functional structure into a decentralized organizational design based upon the division of product segments. They adopted an M-form

[2] The family business management style proved to be a bottleneck during further expansion (Zhang and Wei, 2015). And following Midea's practice, there are many family enterprises choosing professional management.

structure as the basis for their new organizational design. In addition to the change to departmentation, Mr. He delegated the business operation decision-making rights for each division. Parallel to the decentralization, a reform of property rights was deepened which creatively used Management Buy-Outs (MBO) to tie professional managers' career prospects to Midea's future. From that point, Mr. He started his 15-year journey of building up and training a professional management team in Midea.

Another dramatic structural reform under the leadership of Mr. He was the trial-and-error adoption of the H-form (holding company) structure. The establishment of a division-based structure in 1997 helped pave the way for Midea's rapid development and boosted the morale of Midea's professional managers. As a result, Midea achieved impressive sales performance in air conditioners, electric fans, and rice cooker products in just one year's time. However, the fast expansion brought about such issues as dinosaur disease[3] inherent to large companies. For instance, problems related to product quality and cross-divisional coordination gradually manifested in Midea. The situation became even worse with the passage of time and increasing competition in the domestic appliance market. Furthermore, Midea's increasing diversification into unrelated business areas made it hard for its headquarters to control numerous rapidly growing businesses. In 2004, Midea decided to merge several incorporated subsidiaries into two second-tier groups[4] so that different business lines or sectors might be managed in a more effective way and/or go public independently. However, these second-tier groups did not work as effectively as planned. In 2007, in order to select the most qualified successor from the professional managers in Midea, Mr. He made the decision to transform Midea into a holding company. By doing so, Midea, serving only as the majority shareholder, further empowered the leaders of second-tier groups. When several outstanding professional managers, including Fang, were appointed to lead the

[3] Dinosaur disease is also known as big company disease. Generally speaking, as companies grow bigger, they are more likely to encounter size-related problems, such as overstaffing, multiple leadership, talent loss, and so on. Popularly termed "big company symptoms", these problems can lead to severe consequences and impede the smooth development of companies with these problems.

[4] Second-tier groups are legally independent companies yet subsidiary to the parent company. They are set to take full charge of a subgroup's operations in designated regions or business areas while subject to the influence of the parent company.

second-tier groups, the horse racing[5] competition for the CEO position officially started.

On August 25, 2012, due to his outstanding performance and leadership in managing a second-tier group, Fang, who had been the Chairman of the Board of the listed Midea Electric Appliance Co., Ltd. and the CEO of the Midea Air-Conditioner and Refrigerator Group three years prior, stood out among Midea's professional managers (See Appendix A) and was selected by Mr. He himself as the successive Chairman of the Board of Directors of Midea.

Underlying the prominence in the public eye, Mr. Fang and the new managerial team were confronted with several challenges arising from the internal and external environment. Against the backdrop of Midea's ambitious objective to "create another Midea" set in October 2010, that is, to achieve an increase of 100 billion yuan in sales within five years, Midea's upcoming mass expansion was threatened by a decline in sales in the household appliance industry, which resulted from deteriorated macro-economic conditions including the end of favorable government policies, more rigorous macroeconomic regulation and control, the slowdown of commercial housing construction, and the high base number of the previous year. Consequently, the rapid development of China's household appliance industry began to slow down in 2011. The slowdown meant more fierce competition and reshuffling within the appliance industry. In October 2011, while on a business trip to Northwestern China, Mr. He became aware of the serious problems in Midea resulting from rapid expansion, including issues of extensive growth, slim profit margins, and problems related to product quality such as the recent purple clay cooker scandal.[6] As part of a strategic adjustment in the second half of 2011, Midea began large-scale layoffs in order to revitalize itself from the inside out (See Appendix B and E).

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[5] "Horse-Racing System" is an HRM practice first proposed and adopted by Haier, a leading Chinese household appliance manufacturer. The aim is to let employees compete for managerial positions in a similar way to horse racing.

[6] Midea depicted in commercials that its purple clay cookers were made of pure natural purple clay until the Weekly Quality Report, a China Central Television TV program, proved this to be deceptive advertising. The TV program found out that the cookers are made of ordinary pottery clay and with chemicals added to make them look purple. Hence they not only do not have the health benefits as claimed by Midea, but also are harmful for users. The incident was described by the media as the 'purple clay cooker scandal'.

On the second day of the power transition, the formerly publicly-listed Midea Electric Appliance Co., Ltd. announced the suspension of trading for planned major issues. In September 2013, the whole company became publicly listed after asset reorganization, which marked another property rights restructuring in Midea. Meanwhile, Midea announced the elimination of subsidiary companies and switched to an internal organization known as a "headquarter-division structure", which aimed at making Midea a more flattened and streamlined organization.

After discarding the H-form structure, Midea's new organizational structure had a 9+2+1 composition, which included 9 consumer product divisions, 2 accessories or core components divisions, and 1 international operating platform. In 2014, for the purpose of resources integration and strategic development, Midea added three new platforms, namely the e-commerce, logistics, and financial platforms, thus forming a new 9+2+4 structure. The international platform was under the leadership of the international division; the e-commerce, logistics, and financial platforms were run by the E-commerce Company, Annto Logistics, and the Finance Division, separately.

The 8th day of the lunar year in 2015 marked the first day back at work for Midea staff. At the morning tea party, Mr.Fangmade his New Year speech with great enthusiasm, expressing his utmost confidence in Midea's future. Fang, encouraging his employees, said that "In this great age, you can touch the sky as long as you dare to reach out your hand; you can accomplish your objectives as long as you are persistent to dream boldly and work hard". Mr.Fang believed that if Midea was committed to continuous streamlining of its organizational structure and pursuing innovation, then Midea could definitely achieve its long-term strategic objectives. However, how to continue deepening the transition, achieve reform, utilize existing platforms to create cross-divisional synergy, prevent the re-adoption of the divisional system, and to not make the same mistakes in the past would remain key challenges for the new managerial team at Midea.

2 China's Household Appliance Industry and Midea

2.1 A Brief History of China's Household Appliance Industry

The development of China's appliance industry from 1949 to 2014 can be divided into four stages. The first stage is from 1949 to the middle of the 1970s, in which

the main appliance products were the "Old Big Three".[7] Appliance manufacturers produced and sold their products strictly according to government plans and regulations. As a result, supply was far less than demand. Consequently, manufacturers usually lacked the motivation to innovate, and the design and functions of appliance products remained almost the same throughout three decades.

China's appliance industry began to pick up speed from the late 1970s to the early 1990s. During that time, as China's economy grew stronger, standards of living generally improved. The "New Big Three"[8] became popular, and new household appliance products with better designs and state-of-the-art functions were well accepted. Expanding market demands fuelled the rapid development of China's appliance industry.[9] Manufacturers also had more autonomy and flexibility at this stage. Meanwhile, the Chinese government launched a decentralization and transfer-of-profits campaign so that manufacturers could make their own decisions in accordance with market demands. However, at this stage, a vast majority of China's appliance manufacturers were small in size and engaged in the assembly business.

The next stage was from the middle 1990s to 2006. By the late 1990's, China's household appliance industry entered into a mature period. During that period, the production technology and product quality were both greatly improved. Partly because of the influx of foreign companies, China's appliance industry was relatively higher technology-intensive and had a faster pace for product upgrading as well as industry upgrading comparing with other traditional industries. Air conditioners, microwave ovens and other types of electricity-guzzling household appliances became more and more popular. Appliances made in China were exported to more than 80 countries and regions, opening a new era of internationalization for domestic manufacturers. However, during the process of

[7] The "Old Big Three" refers to a bicycle, sewing machine, and watch. Sometimes an electrical fan was also included. These appliances were expensive and in high demand at that time.

[8] The "New Big Three" refers to a washing machine, refrigerator and television.

[9] According to statistics from the features made by Netease and other institutions, from the late 1980s to the early 1990s, China's appliance industry entered into a fast-growing period with an average profit margin of well over 10%. Household appliance manufacturers in this period grew dramatically driven by the substantial amount of profit they gained. During this period, each hundred urban households owned 19.5 color TVs in 1992, as compared with only 6.7 in 1985. Similarly, refrigerators ownership increased from 0.4 to 3.4, nearly 8.5 times.

internationalization, some companies suffered major setbacks for seeking instant success. A typical example was the failure of TCL's overseas acquisition.[10] At the same time, facing the challenge of international rivals, domestic manufacturers began to fight a price war and finally retook some of the market share occupied by foreign brands at the cost of thinner profit margins. At this stage, distribution companies gradually became more powerful, which further lowered the profit margins of appliance manufacturers. Meanwhile, due to market saturation in the cities, the problem of supply exceeding demand started to become increasingly prominent. Following throat-cutting competition in the household appliance market, many businesses suffered big drops in their product prices. Gross profit margins decreased year on year, causing some big domestic manufacturers such as Prima and Amoi to exit the market or be merged due to heavy losses. After the market reshuffling, several big-name manufacturers became dominant players in different appliance products, such as Hisense (refrigerators), Little Swan (washing machines), and Chang Hong (TV sets).

The latest stage started in 2007. Beginning in 2007, the Chinese government applied a series of stimulation policies to promote domestic consumption of household appliances, such as the household appliance trade-in[11] and rural appliance subsidy policies.[12] Except during a brief discontinuance of these favorable policies in 2009 and 2010, domestic demand for major household appliance was greatly stimulated. As a result, China's household appliance manufacturers began to resolve the problem of high inventories and poor sales. China's appliance manufacturers gradually switched from price war tactics to an emphasis on product quality, service, brand building and other diversified marketing strategies. Sales in both domestic and foreign markets rallied in 2007. In 2008, total sales for major appliances, including refrigerators, washing machines, televisions, microwave ovens, and electric fans reached 1.19 million,

[10] Announced on April 26, 2004, TCL and Alcatel of France set up a joint venture called T&A, which engaged in research and development, manufacturing and sales of mobile phones and related products and services. However, the newly-founded venture soon began to suffer from ethical and cultural conflicts, giving rise to a series of crisis and losses. A year later on May 17, 2005, TCL closed the joint venture.

[11] This policy provided subsidies from the Chinese government if consumers trade in their old appliance for a newer model. The policy aims to stimulate domestic appliance consumption in the context of the global financial crisis.

[12] This policy provided subsidies (amounting to 13% of the labeled price) from the Chinese government to residents of rural areas if they choose to purchase certain appliance brands and models.

13.42 million, 12.5 million, 9 million and 100 million, respectively. The gross sales of China's appliance industry soared to 250 billion yuan in 2008. However, the global economic crisis in 2008 pummeled China's recovering appliance industry from 2009 to 2011. Fortunately, the industry still managed to improve somewhat each year and the gross sales of the whole industry reached 1,410 billion yuan by the end of 2014. Challenges and opportunities coexist at this stage. Although both domestic and foreign markets continue to be sluggish and inventories remain high, the trend for upgrading major appliances also emerged during this stage. Digital and intelligent technologies have also gradually transformed the traditional household appliance industry.

To summarize, despite being hard hit from the global recession, some domestic appliance manufacturers like Midea and Haier continue to grow during this stage, thanks to their successful reform and restructuring.

2.2 A Brief History of Midea

Midea has now grown into a gigantic corporate group covering a variety of business sectors, including real estate, logistics, finance, and machine manufacturing, with household appliances as its primary business. Midea is one of the biggest white goods manufacturing and export bases in China, as well as one of the top five white goods manufacturers in the world. Established by Mr. He and 23 other persons in 1968, Midea started as a small workshop making plastic bottle caps in Shunde, Guangdong Province. In 1980, it entered into the household appliance industry. In 1981, it was officially trademarked as Midea. In 1985, the Midea Air Conditioning Equipment Factory (later renamed Guangdong Midea Refrigeration Equipment Co., Ltd.) was established. Soon after, Midea entered into other household appliance domains such as heater fans, rice cookers, motors, etc. In 1988, Midea was granted a license for self-import and export rights by the Guangdong Provincial Government, which gave Midea the right to export household appliances to overseas markets. In March 1992, after obtaining approval from the Guangdong Provincial Government, Midea established the Guangdong Midea Electric Enterprise Group. In June of the same year, Midea launched a 120 million yuan IPO, restructured its governance system, as well as compiled and applied new financial and administrative policies to initiate a modernized corporate governance system. Three months later, Midea was

renamed Guangdong Midea Group Co., Ltd. (later changed to Guangdong Midea Electric Appliance Co., Ltd. shown as Appendix C). In 1993, Midea was listed on the Shenzhen Stock Exchange and became China's first listed township enterprise.[13] Midea's annual revenue in 2014 reached 100 billion yuan and ranked No.70 among China's top 500 companies, second only to Haier in the household appliance category. Midea currently has over 110,000 employees, and owns ten well-known brand names, including Midea, Little Swan, Welling, Hualing, etc. Midea possesses China's biggest, and the most complete air conditioner, microwave oven, washing machine, refrigerator, and dishwasher industry chains. Midea is also China's biggest manufacturers of small and kitchen household appliances.

As the founder, Mr. He had remained on the top of the management pyramid in Midea Group Co., Ltd. and in one of its most important subsidiary-- Midea Electric Appliance Co., Ltd. until he let Mr.Fangtake over his position in late August 2009. Three years later, Mr. He retired from the position of Chairman and CEO of Midea Group Co., Ltd. to make way for Fang. Jian Huang, the former President of Midea Small Electric-Appliance Group, served as Midea's new president. When Midea formed its new Board of Directors in 2013, almost all the new members were professional managers mentored by Mr. He.

3 Midea's Change in Organizational Structure

3.1 Functional Structure at the Early Stage

3.1.1 Environmental Factors

The early stage of Midea's development occurred during the first two stages of the history of China's household appliance industry from 1949 to the early 1990s. In 1968 when Midea was founded, China had a centralized planned economy.

[13] Township enterprises mainly refer to rural collective economic organizations or those which develop mainly through farmers' investments in order to undertake obligations to support agriculture in villages and towns. It is a specific outcome of socialism with Chinese characteristics. Midea was listed on the Shenzhen Stock Exchange, becoming the first listed company that emerged from the restructuring of township enterprises approved by the China Securities Regulatory Commission on November 12th, 1993. Its stock name is "Canton Midea" with 000527 as its stock code.

Supplies were limited and a compulsory rationing system was established for almost all commodities. Production of household appliances was carried out in accordance with government plans. Neither customer needs nor market changes had any impact on appliance manufacturers. Most of the manufacturers were collectively-owned enterprises.

Starting in 1979, China adopted a new reform and opening-up policy and switched from a planned economy to a more market-oriented one. Since then, China has achieved rapid economic growth and incomes increased greatly. As a result, the demand for household appliances has increased exponentially, bringing unprecedented opportunities to China's appliance manufacturers. Meanwhile, the Chinese government has gradually loosened its control over the market to encourage enterprises to become more market-oriented. However, at this stage, laws and regulations were not in place and production, rather than marketing and service, was the most important function for manufacturers.

3.1.2 Strategic Choice

Before China's reform and opening-up, as a start-up township enterprise, survival was the primary target for Midea. Mr. He and his management team had to secure Midea's survival by constantly seeking production quotas from local government. At this stage, the products were simple, and quantity and quality were essential to success.

Soon after the beginning of China's reform and opening-up era, Mr. He and his team found opportunities in the household appliance industry. Beginning with making electric fans, Midea gradually diversified its product categories. In order to attract more investment, Midea became publicly listed in 1993, thanks to the Chinese government's new shareholding system reform aimed at the restructuring of big enterprises while encouraging middle and small-sized enterprises to become more self-sustaining and competitive.

3.1.3 Structural Changes

In 1968, Mr. He led 23 Beijiao residents to raise 5,000 yuan and founded the Beijiao Community-Run Plastic Production Group (Beijiao for short), which

mainly produced plastic bottle caps and other simple products. In 1981, Beijiao registered the trademark of Midea and used Midea in its name one year later. In 1992, Midea transformed itself into a joint-stock enterprise renamed Guangdong Midea Group Co., Ltd. In the following year, Midea announced its successful public listing in the Shenzhen Stock Exchange.

Upon the 1992 restructuring, Midea went to considerable effort to set up a modern governance system. After the IPO, Midea established a corporate governance structure, which was composed of the categories of Shareholder Meeting, Board of Directors, Board of Supervisors, as well as General Manager, Deputy General Manager, Chief Engineer, and Chief Accountant. These were eleven sectors under the headquarters, including GM Office, Administrative Personnel Department, Accounting Department, Business Department, Sales Division, Import and Export Department, Securities Department, Law Office, Advertising Section, R&D Institute, and Technical Committee. Midea had a number of fan plants, air-conditioner plants, household appliance plants, real estate companies, trade companies and the R&D Center for Energy Conservation Projects. It also either controlled or held shares in other enterprises, including Midea Air-Conditioner Manufacturing Co., Ltd, Welling Motors Manufacturing Co., Ltd, and Welling Iron & Steel Co., Ltd. Thus Midea established a formal functional structure (shown as Figure 1) consisting of a number of functional departments.

In terms of decision rights, similar to many Chinese private enterprises, Midea adopted a highly centralized management model. The headquarters were responsible for all product development, manufacturing and sales. Rights for developing business strategies as well as marketing and resource allocation were concentrated in the senior management team. Mr. He personally served as the General Manager of Midea Company and was responsible for all product categories and all directors were required to report directly to him.

3.2 First Adoption of a Multidivisional Structure

3.2.1 Environmental Changes

In the mid-1990s, supply far exceeded demand in the appliance market. Timely responses to changes in market demand and other environmental factors became

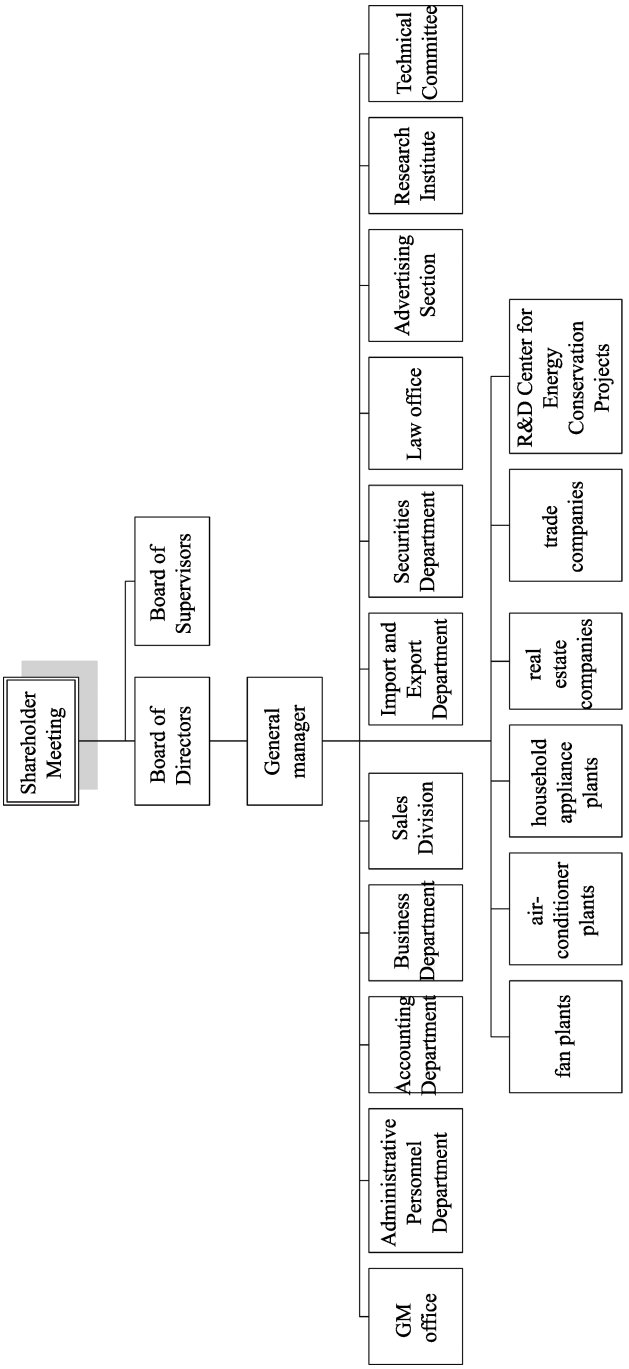

Figure 1 Midea's Functional Structure (1992)

extremely important to appliance manufacturers. Meanwhile, since the government decided to open China's appliance market and gave preferential treatment to foreign investors,[14] foreign investments and foreign brands flooded into the Chinese market. A great number of so-called Sino-foreign joint ventures were founded, further intensifying the competition. Meanwhile, a stable electricity supply also stimulated the consumption of major appliances such as air-conditioners and microwave ovens. The demand drove appliance manufacturers to rapidly diversify their businesses. Competing side by side and learning from their foreign peers, domestic manufacturers enhanced their technological competence and became internationally competitive. However, as brand concentration and market monopoly increased in the domestic market, some big manufacturers such as Changhong once again adopted price war tactics in order to survive the intensifying competition and squeeze out rivals.

3.2.2 Internal Conditions

Besides changes in the external environment, the establishment of a functional structure during the previous stage impacted Midea. The mode of centralized management was obviously not able to respond to market demand in a timely manner, and to make things worse, top managers spent most of their time and energy on daily operations. As a consequence, Midea's long term strategic planning was weakened. Meanwhile, middle managers served as mere communication channels between top management and grassroots employees. Demotivated middle managers not only further impaired Midea's capability to respond effectively to market changes, but also increased the possibilities of making wrong decisions and prolonging decision implementation. During this period, salesmen at the grassroots level became extremely disorganized as they constantly found themselves needing to sell a wide variety of very different products.

As internal problems related to coordination and operations continued to deteriorate, Midea reached a crisis point. In 1996, for the first time, sales of Midea dropped sharply. The air conditioning business dropped to No. 7 from the original

[14] The real form and content of this preferential treatment could vary greatly. Some were in the form of favorable policies. For example, the State Administration of Taxation made a policy to allow newly-founded joint ventures to pay less tax for a certain number of years.

No. 3. In 1997, almost all Midea's profits came from capital investment rather than from its main businesses. Midea's dismal performance even led to rumors such as "Kelon is going to acquire Midea". As Midea quickly approached a growth ceiling, how to break this bottleneck became the priority of the managerial team.

3.2.3 Strategic Choice

Suffering from a decline in market position, Midea adopted a more radical strategy to enhance its poor performance. A diversification strategy was adopted. However, to cope with the fierce price war, low costs were still critical, so Midea had to maintain production in its main businesses to take advantage of scale and cost. When seeking synergy, how to manage and coordinate different types of products while maintaining a rapid response to market demands were the key concerns of Midea's top managers.

Mr. He reasoned that, if 3 billion yuan revenue was Midea's ceiling as one company, then it should have been separated into smaller divisions. As the current revenue of each division was only 500 million yuan, they would have to grow 6 times before they reached 3 billion yuan. After separation, if each division could achieve an annual revenue of 3 billion yuan, then the new ceiling for Midea as a whole would become 15 billion yuan, 6 times larger than the current ceiling.

Using this logic, Mr. He made the decision to pursue organizational restructuring by means of breaking up the flagship so as to create a combined fleet.

3.2.4 Structural Changes

With this decision, a division-based and decentralized organizational structure was introduced. In accordance with the diversified product categories including air conditioners, electric fans, and rice cookers, Midea set up quasi-independently operating divisions, and started to apply the Horse Racing System to different divisions. From then on, Midea transformed itself from a manufacturing-oriented enterprise into a market-oriented one.

In January 1997, the air conditioning business was separated out to create an independent Air Conditioner Division. In July of the same year, the Electric Fan Division was founded. Shortly after that, the Rice Cooker Division, Electric Motor

Division and Small Appliance Division were established (as shown in Figure 2). In order to optimize the allocation of resources, in the second half of 1999, Midea merged the Electric Fan Division and the Rice Cookers Division into Midea Small Appliance Division I, and the former Small Appliance Division accordingly changed its name to Midea Small Appliance Division II. Later, manufacturing of the newly-launched water dispensers, microwave ovens, rice cookers and electric fans were all merged into the Household Appliance Division until 2002. At this point, with regards to manufactured products, Midea gradually established a decentralized structure consisting of 5 divisions, namely the Air Conditioner Division, Household Appliance Division, Compressors Division, Motor Division, and Kitchenware Division.

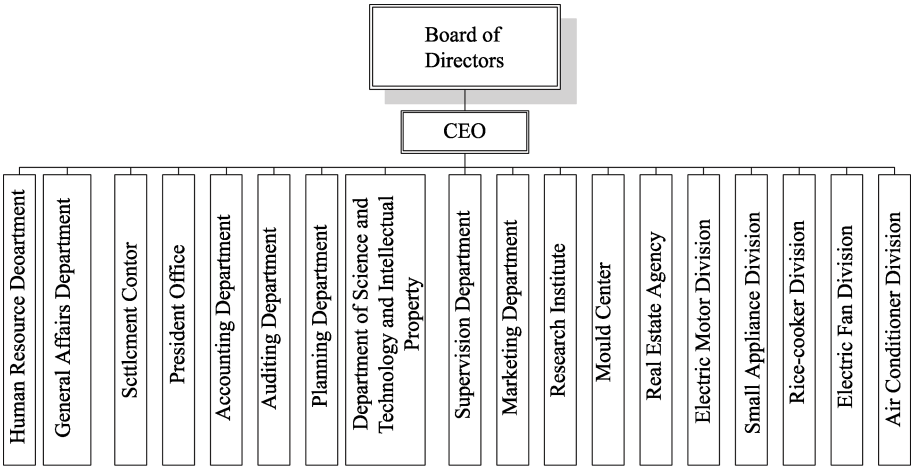

Figure 2 Midea's Multidivisional Structure (1997)

During the organizational restructuring, paralleled with the departmentation of business divisions, centralization and decentralization were regarded as the key paradoxical issues that needed to be solved. The paradox lay in that Midea had to make a hard choice between "everything halts with regulation" and "everywhere is chaos without regulation".[15] Mr. He firmly believed that decentralization was the inevitable outcome of expansion, and in the circumstances of a rapidly changing competitive environment, only by putting the decision-making power in

[15] This refers to the paradox Midea faced at that time. Midea had to choose between centralization and decentralization. Improper centralization would lead to stagnation or even regression. Excessive decentralization would result in disorder.

the place where information could be reached in the earliest and most direct manner, could it bring about truly efficient powers of execution. Mr. He also highlighted that decentralization requires a few necessary preconditions: first of all, to have a team of highly qualified managers who could independently and accountably take on responsibility; the second is the recognition of a unified organizational culture; the third is to have a full set of well-designed and standardized regulations and policies; and the fourth is to have a strong supervisory mechanism.

During the process of implementing the multidivisional structure, Mr. He constantly explored what powers should be centralized and what should not. Mr. He summarized his experiences into a well-known 16 Chinese-character formula: "Justifying each centralization move, regulating carefully when decentralizing, following rules when empowering, using power with limits". The policy dealing with the trade-offs between centralization and decentralization became the best summary of Mr. He's dialectical thinking underlying Midea's establishment of a division-based structure.

To implement the above policy, following rules when empowering and using power with limits was specified. Midea compiled a 70-page Manual for Decentralized Planning (herein referred to as the Manual) which defined in great detail the relationships, rights and responsibilities between Midea's headquarters and divisions, as well as the specific amount of authority delegated to all types of business operations. The Manual provided a systematic guide for Midea's decentralization practices. One thing worth noting is that Midea's decentralization was not static. As a convention, the overall system in Midea was reviewed and adjusted every six months. The principle of adjustment was to discard the dross and keep the essence by adjusting or deleting unworkable items, and to focus on simplification and further decentralization.

According to the Manual, the general managers of each division have a great amount of autonomy. Moreover, the authority of these general managers could grow proportionally with the expansion of their divisions, even in budget examination and approval. However, such empowerment is not without limits. General managers are not entitled to make decisions on matters falling outside the scope of responsibilities. Another feature of Midea's decentralization procedure was to keep the most important decision-making rights inside corporate headquarters. In particular, the investment-related decisions of each division were

only made at headquarters. Each division had to report its investment plan one year ahead of time. The Planning Department at headquarters then took into consideration each division's requests when making an overall investment plan at the corporate level. Moreover, Midea also set up a resource management center at headquarters to control and allocate resources and profit.

Decentralization was closely linked to accountability. Midea's business divisions were clearly required to shoulder responsibilities within the scope of their authorized boundaries. Usually, at the beginning of each year, the general managers of the business divisions might sign a liability form with headquarters, clarifying the performance goals of the year. By the end of the year, they would be assessed according to their actual performance. In order to strengthen management control and accountability**,** Midea established a series of regulations and systems, including the Business Division Decentralization Handbook, Management Information Report Standards, monthly operations update meeting, annual/semi-annual management review meetings, high-level manager reporting and appraisal, regular meetings on project investment, financial management and audit supervision (including auditing of finance, system, process and off-office).

Thus, each of Midea's business divisions had its own products and segmented markets, and wielded considerable autonomy to enhance performance. In terms of organizational hierarchy, each division consisted of a number of independent enterprises and several functional modules at the divisional level, including marketing, services, planning, finance and management. Meanwhile, headquarters focused on strategic planning, human resources, and market coordination, etc.

While redesigning the organizational structure, Midea's top management began to work on a new agenda—how to motivate and retain competent professional managers. In 2000, Mr. He creatively proposed a MBO campaign, which was a relatively new concept in China at that time. The MBO campaign signified that Midea extended its reforms from restructuring the organizational structure into property rights. Starting from 2001, after multiple issuings of natural person shares and corporate shares, as well as changes in stockholder rights among different corporate shares, Midea established the following shareholding structure: Midea Investment Holding Co., Ltd. (controlled by Mr. He- he held 94.55% of the company's shares in 2010) held up to 84% of the total shares of Midea Group Co., Ltd., and the other 16% shares were held by natural persons (among them, Mr.Fangheld 3.6% of the total shares, Jian Huang 3.0%, Liqun Yuan 2.4%, Qiwu

Cai 2.0%, and Jianwei Li 2.0%). [16] Although not publicly listed until 2012, Midea Group Co., Ltd. was the majority shareholder (holding 42.49% shares in 2010) of Midea Electric Appliance Co., Ltd. which became public in 1993. Mr. He maintained absolute control over Midea through a hierarchical ownership structure.

As the establishment of a multidivisional structure was not going to immediately solve all problems, Midea's management system was constantly being adjusted. Even though the rights and obligations between headquarters and specialized business divisions were explicitly defined during the initial structural reform, the (re)adjustment in the number of divisions as well as performance evaluation kept on going, especially with the continuous expansion of overseas markets and increasing complexity of coordination within and across divisions. In 2000, Midea launched an overall effort to promote corporatization within business divisions, which made the internal units of each business division operate as a lower-tier responsibility center for profits. For example, after a pilot test in the Small Appliance Division in August, 2001, Midea added several departments under the Air Conditioner Division, namely the Domestic Marketing Department, Overseas Marketing Department and Manufacturing Department. According to the idea of internal corporatization, the Marketing Department was treated as a 'customer' of the Production Department, thus changing the relationship between the two from peer departments into a relationship of buying and selling. Manufacturing plants were then required to be responsible for any loss caused by poor product quality. Midea believed that such a change would make each department under the same business division more market-oriented and customer-centered. In 2002, Midea transformed some of the key functional departments at headquarters, such as operations management, HR, and R&D into separate and empowered business sections. For example, third-tier subsidiary companies under each division used to recruit their own staff members and only report new recruits to the HR department afterwards. Now all recruitment-related activities had to be conducted by the division's HR section. As for R&D, while basic research or big research projects were conducted by the R&D Center at headquarters, smaller, localized or product related research projects were delegated to the corresponding business units under each division.

[16] The profiles of top management team members are given in Appendix A.

3.2.5 Adjustment Outcomes

The establishment of a decentralized division system turned out to be a great success. In 1998, Midea manufactured and sold more than a million air conditioners, a rise of 80% from the previous year; Midea also manufactured and sold more than ten million electric fans—anked No.1 in the world; rice cooker sales also steadily ranked first in the industry. Midea's total revenue grew rapidly from a total of 5 billion yuan in 1988 to 8 billion yuan in 1999, and then soared to 10.5 billion yuan in 2000, and then to a record high 14.3 billion yuan in 2001, four times higher than in 1997. From 1997 to 2001, the sales of Midea air conditioners were in the top three for five consecutive years, positioning itself firmly in the top tier of the appliance industry. Empowered professional managers were responsible for the sales of each divisions and subsidiary business units.

4 The Winding Road of Structural Reform Exploration

4.1 Streamlining Divisional Organization

4.1.1 Environmental Changes

Entering the 21st century, China's household appliance market was characterized by over-supply and cut-throat competition in both domestic and international markets. Even for big appliance manufacturers, it became hard to survive in such market conditions. In March, 2000, Hisense waged a price war in air conditioners. Subsequently, six air conditioning manufacturers, including Haier, Gree, Kelon and Midea formed an alliance against the price war. However, just 2 months later, Kelon announced a new price cut in its air conditioners and the alliance collapsed. Conditions were not much better for other appliance products. The protracted price war brought the household appliance industry into an era of meager profits. Worse, distributors began to take over manufacturers as the dominant player in the household appliance value chain. So manufacturers started to adjust their target markets and, at the same time, reorganize their domestic marketing channels.

4.1.2 Strategic Choice

Both pressure from domestic demand and the desire to explore new markets encouraged China's appliance manufacturers to enter into international markets. While this was going on, some appliance manufacturers, including some of the best known brands such as Haier, Meiling, Chunlan, TCL, Leroy, Kelon, Little Swan, and Changhong, engaged in a series of unrelated and diversified businesses such as internet and real estate.

Starting in 1997, Midea began to set up branch companies in North and South America, Europe, Japan, Korea, and Singapore so as to acquire foreign companies, learn advanced technologies, recruit world-class talent and above all, to form an international strategic network. Meanwhile, Midea continuously adhered to its diversification strategy and entered into a number of new businesses unrelated to household appliances. In 2003 and 2004, Midea acquired the Hunan Motor Coach Company and Hunan Sanxiang Motor Coach, symbolizing Midea's entry into the automobile manufacturing market. Meanwhile, Midea's acquisition of Royalstar Household Appliance and Hualing Household Appliance helped Midea grow in the household appliance industry. Midea's total assets reached 16 billion yuan. It hired 65,000 employees and owned more than 10 brands, including Midea and Welling. Midea had the largest and best quality production lines for air-conditioners and microwaves in China, and was also in possession of the most complete product lines for small household appliances and kitchen supplies.

Side by side with the rapid expansion of Midea came several problems from both the internal and external environments. The drawbacks of the divisional structure prioritizing sales performance began to emerge. As a result of each division's blind pursuit of revenue and market share, problems including impulsive expansion, overstaffing, low efficiency and management deficiencies became more prominent. Especially in 2001-2002, Midea was described by people as a sick elephant having problems walking. In 2002, the annual growth rate for Midea Electric Appliance Co., Ltd. was mere 5%, the lowest since its IPO, indicating that Midea's big company disease might become even worse.

4.1.3 Structural Adjustment and Its Outcomes

Coping with this predicament, Mr. He burdened himself with a field investigation and discussion and finally made a radical proposal for Midea's strategic

restructuring regarding business operations, management system, market promotion and regional distribution. Starting in June 2002, Midea underwent its newest and biggest reform since 1997, which aimed at streamlining the organizational structure and downsizing the workforce. The headquarters of Midea Electric Appliance Co., Ltd. was downsized to five departments and the total number of employees was reduced to 120,400. The management levels in all functional departments were cut down from five levels to three levels. Particularly, the appliance division, which manufactured dozens of appliance products in six major product categories and had annual revenues of 4 billion yuan, was split into four smaller product-based divisions, namely rice cookers, electric fans, water dispensers and microwave ovens. More than 300 employees (around 30%) were laid off in the downsizing effort.

Through trial and error, Midea's big company disease gradually ceased; the problems of impulsive investment and low efficiency were alleviated by means of strengthening rules and regulations, and Midea was able to resume its healthy and fast growth. Following the adjustment, Midea's revenue for 2004 surged 89% to 33 billion yuan, and in 2005, reached a record high of 45.6 billion yuan.

4.2 The Trial Adoption of H-Form Structure

4.2.1 Environmental Changes

Such fine tuning, however, could not offer a complete solution. Just like most market-orientated companies, Midea relied heavily on sales and revenue when evaluating the performance of each subsidiary. The idea that performance talks and market share were everything prevailed in Midea. The heavy burden of high sales targets, along with a rush for quick results and professional managers' decentralized power within each business division were the main reasons for the occurrence of several quality-related scandals of Midea products.

On the other hand, almost all business divisions in Midea had their own strong and deep-rooted sub-cultures, making it difficult for decisions made by headquarters to get implemented efficiently. Meanwhile, supporting platforms were needed for autonomous operating divisions, as Midea entered into multiple lines of businesses and international markets,

In 2004, under the guiding principle from separation to mergence, Midea attempted to establish two comprehensive second-tier platforms directly under the

headquarters in the organizational hierarchy, namely the Midea Air-Conditioner and Refrigerator Group and Midea Small Electric Appliance Group to provide administrative and operating support for different business lines under each platform. However, these platforms did not function as expected as their roles overlapped with both headquarters above them and individual divisions under them. Moreover, it was difficult for personnel not only to move between the two platforms, but also to transfer among different divisions under the same platform. In order to increase the market share of their own brands, many divisions built up exclusive chain stores and refused to allow other divisions to share their sales channels, resulting in a huge waste of resources and serious conflicts of interest between different divisions.

In a review meeting held at the end of 2005, Mr. He pointed out that the division-based organizational structure initiated in 1997 had now become, to some extent, a barrier for Midea's future development. Mr. He made up his mind to re-design and return to the former autonomous business divisions.

4.2.2 Preliminary Establishment of the Holding Company Structure and Its Outcomes

In early 2006, after seeking consultation from BearingPoint, a multinational management and technology consulting firm headquartered in Amsterdam, Netherlands, Mr. He proposed a new reform plan aimed at transforming Midea Group Co., Ltd. into an investment company holding shares in second-tier groups. The headquarters' operation management functions and certain personnel management rights were also transferred to the second-tier platforms, including the already established Midea Air-Conditioner and Refrigerator Group, Midea Small Electric-Appliance Group, and the newly-founded Midea Electro-mechanical Equipment Group and Midea Real Estate Group (both established in 2007). Thus these second-tier groups had the right to appoint deputy general managers for their subordinate third-tier operating units. After the planned restructuring, Midea's organizational hierarchy would consist of only three management levels (Figure 3): On the top, corporate headquarters were responsible for making overall strategy; in the middle, second-tier groups were responsible for compiling specialized development strategies in their own industries, and at the bottom, the third-tier companies or operating units were focused on developing specific competition strategies.

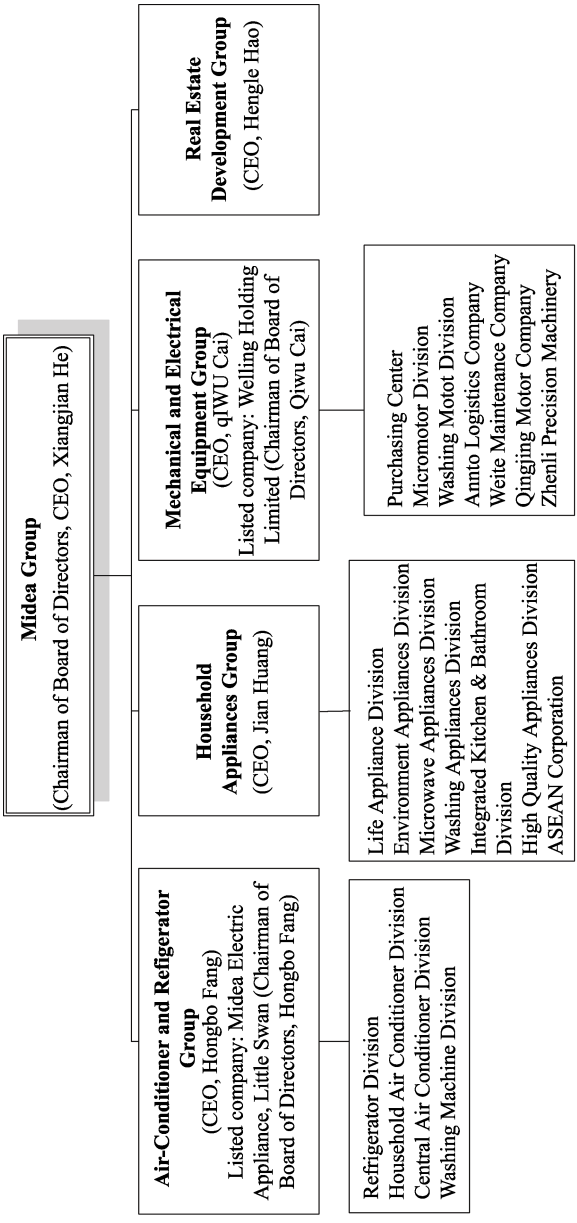

Figure 3 Midea's Holding Company Structure (2007)

As a result, second-tier groups obtained more rights regarding operations management and decision-making from headquarters, as well as regained rights regarding R&D, marketing and financing from the third-tier units. The purpose behind this structural adjustment was to set up a shared platform at the second-tier group level that would provide resources and coordination between different business divisions within each second-tier group.[17]

At the end of July 2007, Mr. He took an essential step towards transforming Midea into a shareholding company. In a meeting with top-level executives, Mr. He made it clear that Midea Group Co., Ltd., as the future controlling shareholder, would adopt a decentralized approach and make the second-tier group managers and controllers of numerous third-tier units. In the new organizational structure, Midea Group Co., Ltd. would focus on corporate value management aiming at maximizing the overall value of Midea. The second-tier groups would be responsible for developing strategies for the business divisions under their wings. The third-tier business units would focus on market growth and profit maximization.

Thus, Midea's 10-year-old division-based organizational structure gradually gave way to a group control system under the framework of an investment holding company. The new system transferred more rights downwards from Midea's headquarters to second-tier groups which function as the intermediate layer of a three-tier organizational hierarchy. Corresponding to the investment holding company architecture, Midea took steps to set up a corporate governance system that featured a unified structure of ownership and management similar to the structure of capital holding companies.

Under the new structure, Midea headquarters would only retain control over finance, budget, investment and the power to appoint and remove professional managers. Second-tier groups would gain a high degree of autonomy to practice substantial control of strategic issues as well as business operations. Specifically, they could independently make all decisions along the value chain regarding R&D, manufacturing, marketing, and services. Similarly, each division as a third-tier business unit could enjoy a high level of autonomy: Division managers could build up their own management teams and approve investments of up to 100 million yuan.

[17] Source: http://www.rztong.com.cn/newshtml/2007119/ns15629.shtml

Midea's restructuring along the lines of an investment holding company achieved initial success. In 2007, Midea's revenue increased from 3 billion to 50 billion yuan. In October, 2010, Midea ranked No. 2 in China's appliance industry and reached an annual revenue of over 100 billion yuan, second only to Haier.

5 Strategic Transition and Readoption of a Multidivisional Structure

5.1 Environmental Changes

At this stage, the environmental conditions were essentially almost the same as the former ones while differing in minor points. The Chinese government had introduced a series of consumption and export stimulating policies for the household appliance industry, including promoting sales of household appliances to the countryside. As a result, China's appliance industry achieved rapid growth, despite the fact that the yuan appreciated considerably in the same period and imposed enormous pressure on appliance exports. Meanwhile, as average Chinese were getting richer, they became less price-sensitive. Old appliances needed to be replaced and innovative appliance products became popular. Over the years, Chinese appliance manufacturers accumulated experience, improved technologies through international acquisition, enriched knowledge through R&D, and achieved economies of scale. Together with China's relatively low labor costs, China's appliance manufacturers were ready to compete in international markets.

Good times did not last long. In 2011, China's household appliance industry was confronted with a number of difficulties, including a sharp decline in demand in the US and European markets, the downturn in the real estate industry, the cancellation of the appliance subsidy program in rural areas and other favorable government policies, the high base number of the previous year, and even weather. Other environmental factors affecting the appliance industry in this period included increased labor costs, anti-dumping charges and sanctions against Chinese appliance manufacturers.

Yet despite all these setbacks, consumption of appliances continued to grow, although at a slower rate, due to improved living standards in China, continuous construction of affordable housing, lower costs of raw material, exploration of

new market opportunities, and upgrading of industrial structures.

Under such circumstances, the priority of China's appliance industry switched from increasing manufacturing capacity to structural adjustment, industrial transformation and changes in growth patterns.

5.2 Internal Conditions

In the first ten months of 2010, Midea's revenue reached 100 billion yuan. Greatly encouraged by Midea's rapid growth, Mr. He proposed that "in the next five years, Midea will 'create another Midea', which means that Midea would have to achieve an annual revenue of 200 billion yuan in 2015, and strive to become one of the Fortune 500 companies. In response to this call, Midea started to expand in the most dramatic way. The number of employees increased from over 60,000 at the end of 2009 to nearly 100,000 by the end of 2010, and revenue reached 115 billion yuan in total (See Appendix F). Midea invested and built six manufacturing bases, such as the Handan Air-Conditioner Base, Jingzhou Air-Conditioner Base, Wuhu Monoblock Engine and Compressor Base, Southern China Air-Conditioner and Refrigerator Base, and Eastern China Central Air-Conditioner Base, to increase production capacity on a larger scale. Midea promoted brand construction and built production bases through investment in Southeast Asia, Latin America, Eastern Europe, Africa and other areas. Midea had over 10,000 exclusive shops and over 60,000 marketing network partners in China.

However, Midea soon found that this large-scale expansion failed to bring the expected benefits. In addition to the external factors mentioned above, there were also problems within Midea. The capacity expansion of the previous years had created tremendous pressure on inventory. The direct companies established through the marketing channel shift made the structure of Midea even more bloated. Net profit growth was lower than sales growth. Midea's gross margins were far below that of other competitors. The pursuit of a large-scale, low-cost development model brought about numerous R&D and quality issues.

In addition, on August 25, 2012, Midea completed its leadership transition from Mr. He, the founder, to professional managers. After a competition and selection among top managers from the second-tier groups using the horse racing mechanism, Mr.Fang(Chairman of the Board and CEO of Midea Electric Appliance Co., Ltd., and CEO of Midea Air-Conditioner and Refrigerator Group) became the successor of Mr. He as the new Chairman of the Board of Midea Group Co., Ltd.

5.3 Strategic Transition

Under such circumstances, from the second half of 2011 until 2012, Mr. He proposed that Midea should focus on "transformation of growth mode, adjustment of product structure, controlled increase of inputs and guaranteed return of investment." Hence Midea no longer emphasized exclusively investment and scale, but started to pay attention to the balance between growth and return on investment. Specifically, Midea decided to update its internationalization strategy from sales expansion to brand building, which meant that Midea would launch brand-building campaigns worldwide by investing in technology innovation, manufacturing of high-quality products, and establishing a positive brand image.

Under the guidance of this new strategy, the Midea Air-Conditioner and Refrigerator Group and Midea Small Electric-Appliance Group launched massive downsizing campaigns. The number of joint-venture sale branches under the Midea Small Electric-Appliance Group dropped from the original sixty to only eleven after downsizing, and the remaining branches were merged into 50 subsectors. During the campaigns, some small sale subsidiaries laid off 20 to 30 employees, while some big sale subsidiaries laid off as many as 40 to 50 employees. By the end of 2011, Midea had laid off nearly 30% of its employees.

On August 25, 2012, Mr. He pointed out at an internal meeting that "with the rapid development of Midea, the coexistence of Midea and second-tier groups has gradually given rise to a series of problems, including unclear market positioning, ineffective policy implementation, low operation efficiency, time-consuming procedures, slow market response and high costs. We overemphasized diversification in the past, and it has wasted our resources and made coordination difficult. From now on, the function of Midea is to coordinate, serve, instruct, monitor and handle these major risks." Mr. He said that the new organizational reform was the result of a three-year repeated discussion on current problems facing Midea, as well as the adoption of a future-oriented approach.

5.4 Reconstruction of a Multidivisional Structure

On August 26, 2013 the second day after the power transition, Midea announced the suspension of trading for major events planning and other significant structural adjustments, including replacing second-tier groups with business divisions.

Headquarters then focused on strategic management, management control, risk monitoring, synergistic integration and a strengthened future-oriented growth strategy. Business divisions were positioned as strategic business units, to assume full responsibility for the operation of the whole value chain. Business divisions in Midea were responsible for setting short, medium and long-term development goals in their relevant industries and cultivating competitive power. Xiaoming Huang, senior vice president of Midea, announced that the "the aim in eliminating the second-tier groups is to flatten the organizational structure, reduce response time and improve efficiency." Alongside the goal of establishing an agile organization, Midea insisted on the management philosophy of a small Midea headquarters and big business divisions, and merged and reorganized different product divisions. The Midea Real Estate Group was incorporated into the Midea Holding Company, but the other three large second-tier groups, that is, the Air-Conditioner and Refrigerator Group, Midea Small Electric Appliance Group and Midea Electro-mechanical Equipment Group were restructured and managed by the newly founded Midea Group Co., Ltd. and its 15 business divisions. Industry analysts generally believed that this new restructuring not only solved the problem of the coexistence of listed and unlisted businesses within Midea, but also reduced the management levels, strengthened control over professional managers in the third-tier units, and lowered business operation costs.

On September 10, 2012, Midea announced at an internal meeting a new restructuring plan for its small appliance businesses. The number of business divisions was then downsized from eight to six.

Jinliang Wang, Director of the Midea Domestic Market Division, regarded the new structural adjustment as a deepening of Midea's strategic transformation since the second half of 2011 which not only had increased operational efficiency of the small appliance businesses by focusing on core products and on coping with external environmental changes, but also improved operational efficiency. For example, the cooker and microwave businesses were integrated into the kitchen product group, while soybean milk machines, kettles and electric cookers were included in another group.

On September 18th, 2013, Midea Group Co., Ltd. listed as a whole by stock-for-stock merger of Midea Household Appliance Co., Ltd. Thus Midea connected and coordinated all components and channels along the household

appliance value chain by integrating all of its big appliance, small appliance, electric machines, and logistics businesses.

Midea gradually completed its restructuring into a two-tier organizational structure and completed the establishment of an agile, market-oriented, integrated enterprise. The new Midea structure represented a 9+2+1 model, with nine consumer product divisions, two industry chain core component divisions, one international operating platform, and one nationwide logistics company, totaling 13 business units. The 9 terminal divisions of consumer products included the Household Air-Conditioner Division, Refrigerator Division, Washing Machine Division, Central Air-Conditioner Division, Life Appliance Division, Kitchen Appliance Division, Washing Appliance Division, Environment Appliance Division and Water Heater Division. The industry chain core component divisions consisted of the Compressor Division and the Motor Division. The International Business Division was the international operating platform. As well, Mr.Fangplanned to rely on Annto Logistics[18] for inventory management and delivery of refrigerators, air conditioners, washing machines and all small appliance products. By doing so, Midea would be able to accelerate and streamline all the steps of ordering, manufacturing, stocking, and delivering in the household appliance industry. In February, 2014, Midea set up an Innovation Center in Shunde, Guangdong and added a Headquarter R&D Center and a Smart Home Innovation Center to its existing organization structure.

In 2014, Midea proposed a "333" strategic plan (See Appendix H), stating that it was going to spend three years improving product quality, solidifying its foundation, consolidating its organizational structure and improving managerial efficiency; it also planned to use another three years to become the leader of the top three household appliance companies in China and another three years to become an important player in the global household appliance industry. In order to achieve these strategic goals, Midea would have to implement its strategic transformation plans in a determined manner and switch its focus from the scale of growth towards improving comprehensive capacities. Upon meeting these strategic goals, Midea would have transformed itself into a highly competitive,

[18] Annto Logistics, a professional third-party logistics company under Midea, was initially founded to reduce logistics costs for Midea. Since 2001, it began to acquire outside business, and has now become a professional third-party logistics company covering household appliances, fast moving consumer goods, furniture, clothing, automobile and other industries.

consumer-centered, agile organization and achieved sustainable growth in both revenue and net profits.

With regards to developing international platforms, Midea relied on its International Business Division to deepen strategic cooperation with Toshiba Carrier Corporation in order to establish joint ventures in foreign countries as a way to enter into overseas markets.

As for the e-commerce platforms, Midea established in-depth strategic cooperation with Tianmao, Jingdong, Ali Cloud, Xiaomi Mall, Yixun and other well-known e-commerce platforms in China. In February 2014, Midea established an E-commerce Sales Company for all its products at headquarters to replace numerous e-commerce sales departments under each division. Liqun Yuan, Midea's vice president said that Midea planned to continuously promote the construction of official flagship stores and online malls, which would further strengthen Midea's presence in China's e-commerce landscape. In 2014, Midea gave priority to the establishment of a unified e-commerce backend service platform, where management systems, processes, inventory, and settlement could be integrated into one unified system by coordinating ordering, manufacturing, distribution and delivery. It would take Midea two or three years to replace the Life Appliance Division with its new E-commerce Company, and to make the E-commerce Company the new sales platform for products which do not require technician installation services. Midea also planned to integrate a communications module into the E-commerce Company to activate and strengthen interaction with clients. In the future, Midea will continue to promote the development of its e-commerce business, e-commerce support and development systems from a holistic and systematic perspective, and to explore big data marketing by utilizing data collected by its e-commerce platform.

Midea's logistics platform was established on the basis of Annto Logistics, a logistics subsidiary of Midea. In 2014, Midea planned to complete the construction of six large e-commerce storage bases located in Beijing, Shanghai, Guangdong, Hubei, Zhejiang, and Sichuan, as well as 25 distribution centers for B2B and B2C dispatching services, hence achieving a seamless coordination between warehousing and dispatching and eventually covering all the third-tier and fourth-tier cities in China. Midea then planned to update its conventional logistics services into an e-commerce-based one. Media flagship stores, specialty shops and after-sale service centers and other offline high-quality services would

also be completely integrated into the e-commerce service supporting system. Annto Logistics would play a very important role in Midea's new e-commerce landscape and it planned to cooperate with all 1,600 Midea flagship stores, specialty stores and after-sale service centers as of 2014 to form a nationwide e-commerce logistics network.

Midea's financial platform was created on the basis of the Midea Finance Company. The priority of the platform was to provide internal financial services for Midea's divisions and subsidiaries, as well as to offer financial services to all upstream and downstream enterprises along the industry chain. The financial platform was also designed to provide financial support to and promote transformation in important enterprises in Midea's industry chain.

Upon the establishment of the four platforms, Midea's organizational chart consisted of a 9+2+4 structure by the end of 2014 (see Figure 4). On July 14, 2015, Midea further merged its Compressor Division with its Motor Division into a new Parts & Materials Division, of which Weiming Xiang was appointed general manager. At the same time, the former Headquarter R&D Center, Smart Home Innovation Center, and numerous R&D departments under different divisions were integrated into a unified platform and renamed the Innovation Center.

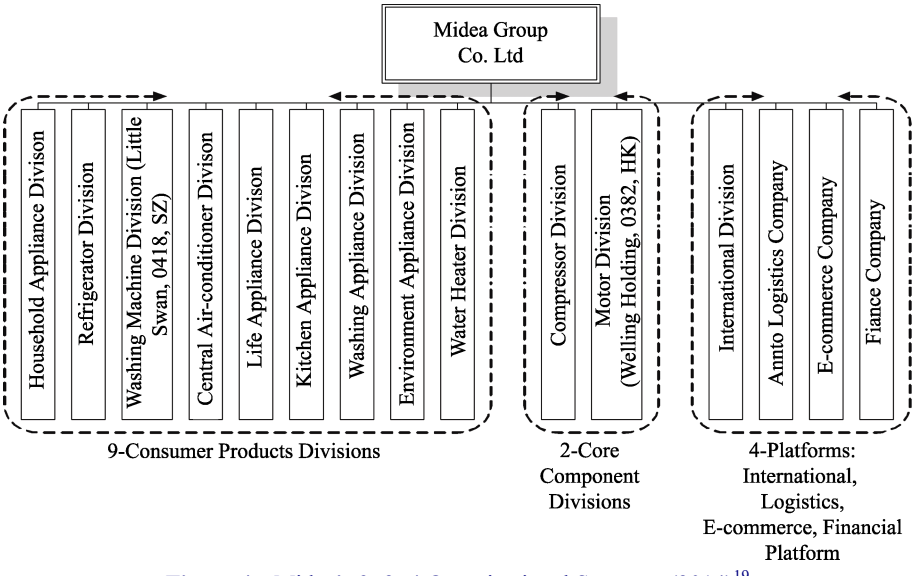

Figure 4 Midea's 9+2+4 Organizational Structure (2014)[19]

[19] Source: 2014 Midea Group Social Responsibility Report.

Midea also announced that further opening-up and cooperation would promote the realization of its Smart Home strategy and help Midea shift from a single-product manufacturer to a solution provider of systematic integration and innovation services.

In the future, Media expects to implement more drastic organizational reforms in order to establish organization structures that would adapt to the Internet+ era (See Appendix D).

6 Passing the Torch

Ever since its strategic transformation began in 2011, Midea has been following the guiding principle of Product Leadership, Efficiency-driven Growth and Global Operations in its attempt to fulfill its goals of One Midea, One System, One Standard. It has been over five years since Midea launched its latest structural adjustment characterized by establishing an umbrella holding company. In a sense, this adjustment has revitalized the division-based organizational structure adopted in earlier days. Since 1997, structural reforms in Midea have followed a trajectory of the division structure, to the holding company structure and then back to the division structure, while at the same time the second-tier groups were set up and then eliminated. Over the course of these adjustments, Midea has learned lessons and also accomplished much during its self-adjustments. In 2014, Midea's revenue reached 142.31 billion yuan, 17.36% higher than the previous year, and net profits soared to a record-high 10.5 billion yuan. In 2015, Midea entered the Forbes 500 list and was ranked number 436(See Appendix G).

During the Spring Festival Tea Party of 2015, Mr.Fangdelivered an enthusiastic speech: "We live in an age of changes…the internet is changing every aspect of our daily lives…the competition in the business world has never ceased. Midea is also standing at a new starting point, that's why we need to reform and open-up. Reform means rethinking our way of growing and operating, governance, incentive mechanisms, and organization development patterns, as well as our business model, operational pattern and strategic direction. And opening-up means opening our hearts and minds to build an open organizational structure. Opening-up should apply both inside and outside Midea and being open requires us to utilize all the available social resources to find our path of sustainable growth."

Mr.Fang expressed confidence in Midea's future. He said that "we live in a great age. You can touch the sky as long as you dare to reach out your hand; you can accomplish your objectives as long as you are persistent. As long as we carry on implementing the profound transition and reformation in Midea, we will definitely achieve the '333' strategic objectives." However, how to continue deepening the transition, achieve reform, utilize existing platforms to create cross-divisional synergy, and prevent the re-adoption of the divisional system from making the same mistakes in the past will remain key challenges for the new managerial team at Midea.

Acknowledgements This case shall only be used for class discussion, with no intent to indicate or demonstrate whether a certain managerial behavior is more effective than others. The authors appreciate the financial support from the Major Basic Research Project of Scientific Research Program at the Renmin University of China (13XNL004) and are grateful to Dr. Chaowei Zhu for his assistance with the translation and proofreading of the original case study.

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Appendix

A. Profiles of Midea's Executives

Name	Position	Previous Position	Remarks
Xiangjiang He	1. Controlling Shareholder of Midea Group Co., Ltd. 2. Board Chairman of Midea Holding Co., Ltd.	Board Chairman and CEO of Midea Group Co., Ltd.	Retired in 2014
Hongbo Fang	1. Board Chairman and CEO of Midea Group Co., Ltd. 2. Board Chairman and CEO of Little Swan Co., Ltd.	1. General Manager of Air-Conditioner Sector 2. CEO of Air-Conditioner and Refrigerator Group 3. Board Chairman and CEO of Midea Electric Appliance Co., Ltd.	
Jian Huang	——	CEO of Midea Small Electric-Appliance Group	Resigned in 2013
Liqun Yuan	1. CFO and Senior Vice President of Midea Group Co., Ltd. 2. Board Chairman of Midea Finance Company	——	
Hengle Hao	CEO of Midea Real Estate Group	——	
Qiwu Cai	——	1. CEO of Midea Electro-mechanical Equipment Group 2. Board Chairman of Welling Holding Co., Ltd. 3. Senior Vice President of Midea Group Co., Ltd.	Resigned in 2014
Jianwei Li	CEO of Midea Holding Co., Ltd.	1. Vice Chairman of Board of Media Group Co., Ltd. 2. Director of Midea Strategy Office	
Xiaoming Huang	Senior Vice President of Midea Group Co., Ltd.	——	

B. Number of Employees (by Functions) and Changes in the Midea Electric Appliance Co., Ltd.

Year	Total	Administrative	Financial	Sales	Technical	Manufacture
2008	40,795	1,514	774	4,737	3,835	29,935
2009	59,654	463	602	1,314	1,975	55,300
2010	98,676	692	802	1,316	3,216	92,650
2011	66,497	576	755	1,098	3,735	60,333
2012	67,521	585	767	1115	3793	61262

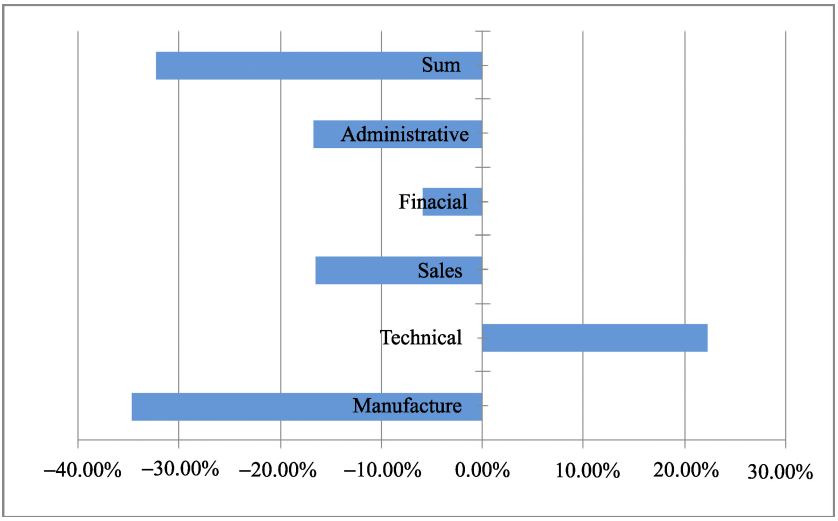
Source: Midea Electric Appliance Co., Ltd. 2008—2012 Annual Reports.

C. Changes in Midea's Name and Products

Year	Name	Products
1968	Beijiao Community-Run Plastic Production Group	plastic bottle caps, glass bottle caps, balls
1975	Shunde Beijiao Commune Plastic and Metal Products Factory	plastic bottle caps, hardware
1976	Shunde Beijiao Commune Auto parts Factory	car trailer brake valves, rubber parts
1980	Shunde Beijiao Commune Electric Appliance Factory	electric fans
1984	Shunde Midea Household Electric Appliance Factory	electric fans
1985	Midea Air-Conditioning Equipment Factory	air conditioners
	Guangdong Midea Refrigerating Equipment Co., Ltd.	air conditioners, cookers, electrical machines, warm air blowers
	Guangdong Midea Electric Appliance Group Co., Ltd.	air conditioners, cookers, electrical machines, air-conditioning compressors, water dispensers, dishwashers, magnetron, warm air blowers
1992	Guangdong Midea Group Co., Ltd.	electric products including water heaters, environmental appliances, washing appliances, kitchen appliances, personal appliances, central air-conditioners, refrigerators, household appliances, motors, compressors; logistics; finance; real estate

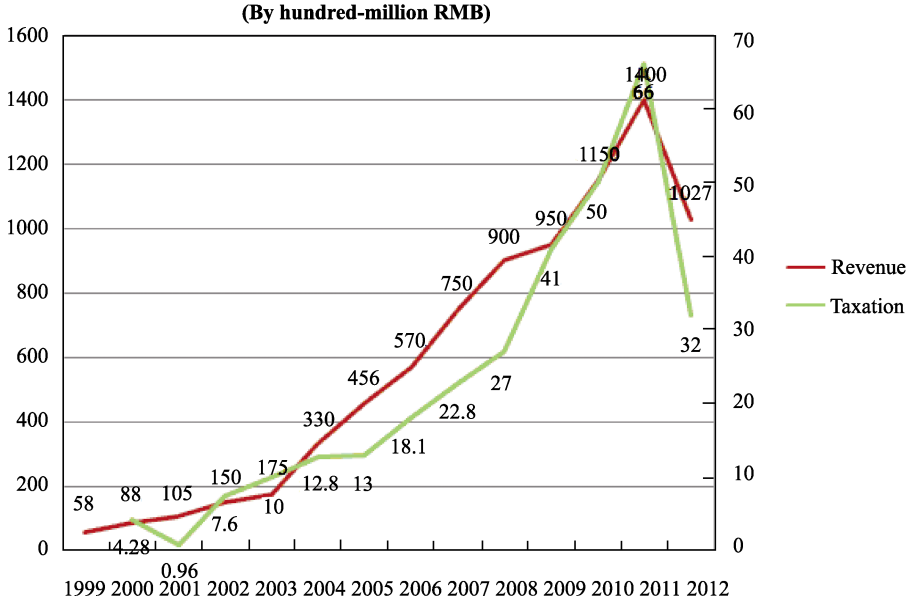
D. Correspondence between External, Internal Events and Structures

Stage of History	Duration	External Events	Internal Events	Structure and Adjustments
1	1949 to the middle 1970s	1. Old Big Three; 2. centralized planned economy; 3. demand exceeded supply	1. set up as a township-owned enterprise; 2. single product category	functional structure
2	the late 1970s to the early 1990s	1. New Big Three; 2. market-oriented; 3. exponentially increased demands	1. seeking governmental quota for survival; 2. entering household industry	1. functional structure 2.MBO
3	the middle 1990s to 2006	1. mature industry; 2. internationalization; 3. supply exceeded demands; 4. price war	1. side effects of linear functional structure; 2. divesified products categories; 3. crisis in 1997	1. M-form structure; 2. downsizing
4	2007 to 2013	1. supporting policies; 2. economic crisis; 3. more intense price wars;	1. related and unrelated diversification; 2. internationalizaion	1. H-form structure; 2. second-tier groups; 3. downsizing
	2013 to the present	4. competition on quality; 5. digital and intelligent technology revolution	1. leadership transition; 2. brand building strategy in the process of internationalization; 3. the tide of e-commerce; 4. side effects of H-form structure	1. M-form structure; 2. 9+2+4 organizational structure



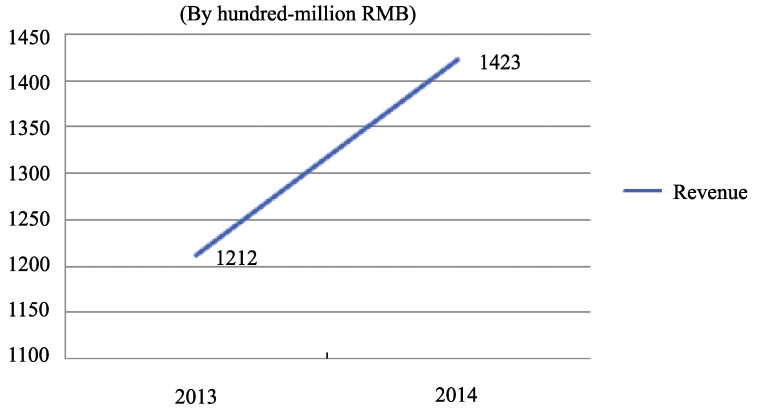
E. Percentage of Employees Laid off by Function in 2011

Source: Finance.qq.com, March 26, 2012.



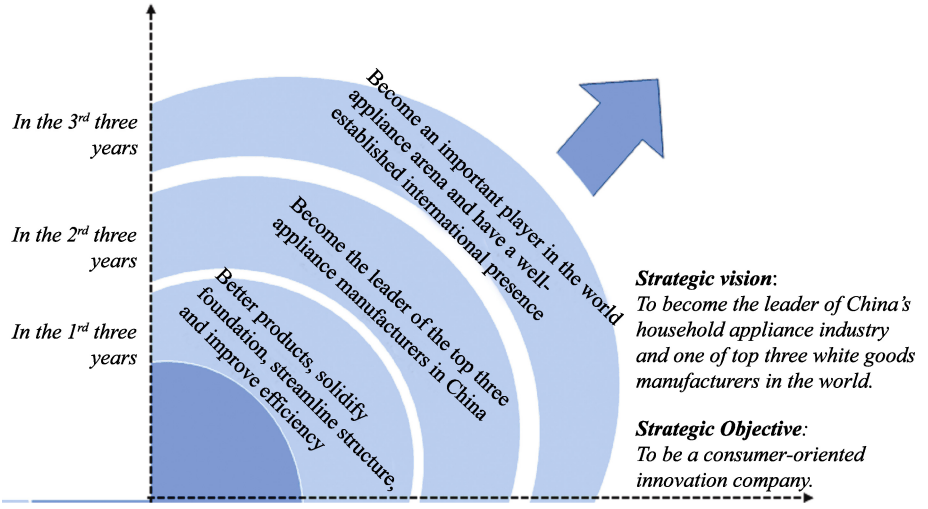
F. Annual Revenue and Taxation of Midea in 1999- 2012

Source: Social Responsibility Report and Annual Report of Midea Electric Appliance Co., Ltd.



G. Annual Revenue of Midea Group in 2013-2014

Source: Social Responsibility Report and Annual Report of Midea Group Co., Ltd.



H. Midea "333" Strategic Objectives (2014)

Source: www.Midea.com.