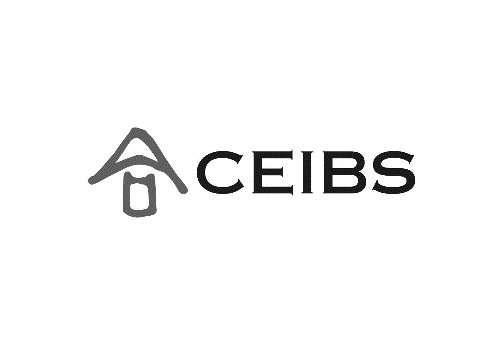
**** 

9B19C022

JD.com (A): a New Chief Human Resources Officer

Jean Lee, Jian Han, Ziqian Zhao, Leah Tan, and Rain Long wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com. Our goal is to publish materials of the highest quality; submit any errata to publishcases@ivey.ca. i1v2e5y5pubs

Copyright © 2019, CEIBS (China Europe International Business School) Version: 2019-07-26

By 2012, JD.com had become the biggest business-to-consumer e-commerce retailer in China. From 2009 to 2012, the company’s employee head count quickly grew from several thousand to nearly 30,000. It was still short of some needed talent, but management considered the human resources (HR) department’s role and business impact as insignificant. JD.com’s founder and chief executive officer, Qiangdong Liu, realized, however, that he had to strengthen the company’s internal management in order to sustain its rapid growth. In 2011 and 2012, he recruited several chief officers (COs) in the areas of operations, technology, and marketing (see Exhibit 1). Liu also persuaded Yu Long, who had been pursuing a profession as legal counsel in foreign multinational companies (MNCs), to join JD.com as its chief human resources officer (CHO) and general counsel in August 2012. Without prior HR experience, Long faced the challenges of bridging the company’s wide talent gap and establishing a sound HR management system. As a new CHO from outside who had to quickly build her credibility, Long thought about what her priorities should be as she tackled these challenges.

growth and workforce

JD.com originated in 1998 in Zhongguancun, an area in Beijing that was a hub of computer-related products and services. At the age of 25, Liu opened his first agency outlet, which sold CD burners. He then expanded his product portfolio to cover a variety of computer peripherals. With a business principle of selling only genuine brand products and offering after-sales services, Liu had grown his retail chain to more than a dozen stores by 2003. However, due to the SARS (severe acute respiratory syndrome) epidemic of 2003, sales at physical stores in Beijing dropped. As such, Liu turned to e-commerce and launched JD.com in 2004. JD.com soon gained a reputation as the leading e-commerce site for information technology (IT) and digital products. Around 2008, because the profit margin of IT and digital products had shrunk, JD.com began to diversify its products, and in 2010, the company became an all-category e-commerce retailer. In early 2012, JD.com purchased an online-payment clearing house, chinabank.com, to acquire the capacity to settle purchase transactions. From 2004 to 2012, JD.com achieved an annual compound growth rate of over 200 per cent, and the number of employees also increased rapidly (see Exhibit 2).

During these transformations, even though his executives had different opinions, Liu made several critical decisions that were based on his beliefs and intuitions. For instance, in 2004, when the company was considering alternatives for setting up an online store, Liu insisted that JD.com invest in its own infrastructure, while most of his executives felt that leveraging eBay, which was the leading e-commerce platform hosting e-retailers at the time, would be an instinctive choice. Later in the same year, when Liu was in a late night meeting with his six executives, four of them wanted to keep the 12 physical stores, which contributed 90 per cent of the company’s total revenues and 95 per cent of its total profits. However, Liu saw the importance of focusing on the e-commerce channel, and by 3:00 a.m., he had finally convinced the executives to close all the physical stores.

Whether or not the company should build its own logistics centre was another of these decisions. Liu strongly believed that in-house logistics were critical to provide prompt and reliable delivery service and to expedite customer payment and track inventory turnover. He aspired to build the most advanced logistics centre in China. The idea was criticized in the local media as a move akin to “burning cash,” but Liu was able to persuade investors to finance the construction of the company’s “Asia No. 1” warehouse. JD.com received four private equity investments in 2007 (US$10 million),[[1]](#footnote-1) 2009 ($21 million), 2010 ($150 million), and 2011 ($1.5 billion).

JD.com’s warehouse and delivery staff accounted for the majority of its total head count (see Exhibit 2). Although the company’s warehouse and delivery workforce was smaller than those of many courier companies, it was nevertheless competitive among the two types of e-commerce retailers. The first type was made up of traditional physical store chains that also tapped into e-commerce channels, such as home appliances market leaders GOME and Suning, who had established their own delivery logistics with varying levels of speed and reliability. The other type were “born online” shops that had not built their own full-scale logistics. For instance, JD.com’s key rival, Yhd.com, outsourced some of its deliveries.

Liu was highly concerned about customer experience and therefore prioritized functions such as warehouse sorting, product packaging, and order delivery. He often personally experienced the logistics operations to understand the front-line staff’s working conditions. Even though the skill level of these workers was relatively low, JD.com offered above-industry-average compensation and benefits. For instance, unlike many courier companies, JD.com insisted on signing a formal contract with every delivery worker and bearing their social security costs. While the delivery workers of other companies usually received negative customer feedback and had high turnover rates due to low pay, long hours, and heavy workloads, JD.com’s delivery employees generated customer satisfaction.

HR Management Before 2012

Until July 2007, the company did not have a human resources department; only two employees used part of their time to handle basic HR tasks. By the end of 2009, JD.com’s HR department grew to eight staff. In 2010, JD.com commissioned an HR consulting firm to look into improving the company’s HR practices. However, at the end of the two-year contract, JD.com’s head count had almost quadrupled, which led Liu to call for reviews of and adjustments to the consultancy’s recommendations.

Recruitment

JD.com’s HR department shouldered a heavy workload for recruiting two groups of employees— warehouse and delivery staff and e-commerce management talent. Although the emerging e-commerce sector had attracted and developed more and more management talent, the sector’s evolution made the talent shortage persist. For instance, when online stores added product categories and other services, they also demanded versatile talent with leadership potential and specific competencies. Consequently, the rapidly growing JD.com found it difficult to recruit the ideal candidates.

Training and Development

General Staff

There were some training programs for basic skills, but not for competencies specific to various job categories.

Management Team

The company’s internal management had not geared up enough to match its rapid growth in both scale and complexity. Under the pressure of achieving high business performance, JD.com’s long-serving managers focused on immediate results rather than on the company’s overall long-term outlook. Moreover, they had been so occupied with results that they were not able to devote time and energy to sharpening their own leadership skills or acquiring competencies required by the new e-commerce business. Although Liu recognized this problem, he too did not have spare energy to think seriously about how to build a systematic talent “pipeline.” Nevertheless, in 2007, the company attempted to address this issue by recruiting two management trainees. Liu spent time talking with them and watching their progress, and in the following five years, JD.com continued to recruit a few management trainees every year.

HR Information System

In 2010, when the company had about 7,000 employees with 700 job positions, the HR managers had not yet implemented an HR enterprise resource planning system; instead, they were using Microsoft Excel to calculate and record salary payment. The company eventually installed new software for this purpose, but the software reached its limit as the number of employees continued to grow.

Employee Care Program

Although an employee care program existed, resources for it were limited, and it had not incorporated any company-specific features. The company also maintained a standard benefits package but did not customize it for different job ranks or categories.

Compensation Structure

Warehouse and Delivery Staff

The company allowed managers in different cities to decide the salary for local delivery employees and did not centrally factor cross-city differences in costs of living into its nationwide compensation structure.

Management Team

Remuneration of long-serving managers and executives at JD.com was below the average market rate. In the start-up stage, the company was unable to offer high salaries but gave out bonuses when performance was exceptional. JD.com was still able to attract management talent who saw the growth potential of the e-commerce sector and the company; some were even willing to lower their salaries to join.

More recently, as more and more newcomers arrived, their salaries, usually at market rate, sometimes surpassed those of their supervisors. For high-demand talent such as those hunted from the financial industry, the problem of “reversed supervisor–subordinate pay level” was even more common and serious. One senior manager commented, “These long-serving managers were actually very capable and had grown with the company. Although the company regularly raised their salaries, such increases did not catch up with the market rate.” Another senior manager noted, “The company has not yet had a job ranking scheme to guide whether a newcomer should join as a manager or director. The decision is often subjective.” Furthermore, these newcomers might not be perfect candidates, and they often needed time to adapt to the company and figure out how to deal with its increasingly complex business issues. This led to a morale-hurting perception of unfairness among underpaid long-serving supervisors. A senior manager complained, “If my subordinates were better paid than me, they should be more competent and bring more value to the company than me.”

Performance Evaluation and Incentive Schemes

To stimulate growth, in 2010, the company began to conduct performance reviews every month. Such frequency was much higher than the industry average. At that time, some managers did not do an objective performance evaluation—as they mistakenly thought that the purpose of the reviews was to calculate and pay out bonuses to balance salary differences among employees. These reviews were also not linked to benefits, training, or promotions. High performers therefore complained that the evaluation outcomes were not fair, that their contribution was not recognized, and that there was favouritism.

Corporate Culture and Values

The company trained all newcomers to respect its values. Liu also repeatedly stressed at meetings that JD.com would not allow anyone with opposing values to stay, even if they delivered outstanding performance. Nevertheless, as these newcomers joined, they brought in additional values and cultural elements, as well as their associated work styles. When the company was smaller, the staff behaved according to the existing corporate values (through chanting slogans together, initiating communications with employees, and so on) because of Liu’s personal influence. But as the company grew, it had not considered how to articulate Liu’s values and translate them into employee behaviours. Facing influential new executives, JD.com’s founding executives were concerned about the possible dilution of the company’s original values, especially if Liu would be less and less in touch with every manager or employee in the future.

Top management team

Liu’s Leadership Style

When Liu was leading his founding executives to overcome countless hurdles during the start-up stage, he always required his team to fully execute his ideas. As the company grew, Liu still required his team to quickly fulfill his special requests. Being very diligent, Liu presided over nearly every morning meeting with dozens of executives, listened to their business reports, and made plans accordingly. When his executives did not instantly understand his visionary ideas, Liu—being straightforward—sometimes harshly criticized these executives, making them feel anxious and embarrassed.

Clashes between Long-Serving and Newcomer Executives

After hiring from outside, Liu had over 20 executives directly reporting to him. In 2011, JD.com added a new layer of COs—highly qualified candidates from renowned local companies and foreign MNCs. These COs reported to Liu, while the other executives reported to the COs of their respective functions. These newcomer executives did not necessarily believe in many of the original management practices of the company. Some chose to resign, while others were determined to change these practices, which created tensions with the long-serving executives. Some of the founding executives also chose to quit because they worried about the increasing pressure from the company’s rapid evolution and the subsequent loss of Liu’ confidence in them.

Challenges Facing Long

Long and Liu were classmates of an executive (UTStarcom) program in business school. Because of their different career backgrounds—one worked for a US-listed MNC, and the other founded a local company—they stayed with their respective communities and did not interact much. Liu was determined to hire Long because of her work experience and English proficiency. Although Liu was taciturn at school, he had now approached Long four times within seven months. Being impressed by Liu’s sincerity, Long decided to join JD.com. UTStarcom’s board chairman tried to make her stay, explaining that heading JD.com’s human resources department was not a wise choice: First, the drastic change from legal counsel to a CHO would be risky. Second, JD.com had become infamous for its high turnover of executives. However, Long started to feel that at UTStarcom she was as “little as a screw in a large corporate machine.” She commented, “In an MNC, you only need to do the job well and follow its rhythm. But in a local private company, there are far more development opportunities.” Long was attracted to the immense potential of JD.com, thinking that it would give her the stage to realize her career goals. Moreover, because she was outgoing and communicative, she was eager to experience the people-oriented nature of HR. In fact, even though JD.com was losing over ¥1 billion[[2]](#footnote-2) in 2012 and was rumoured to be running out of capital, the company continued to develop its business. Although Long was not sure about the outcome, she was thrilled by the huge challenges facing her—something she described as like changing the tires of a racing car on a high-speed track.

When Long joined JD.com in August 2012 as its third HR department head, the department had never had a strong voice in the company, even though it had grown to employ 280 people. Long was clear that the accumulated HR problems were interrelated and that the HR department needed a thoroughly thought-out plan for reform. Not only did she have to shape her working relationship with Liu and her role among the COs, but she also needed to gain the employees’ acceptance of the planned reforms. More importantly, because the foreseeable growth of the company would involve the incubation of new businesses, the HR reforms should adapt to the evolution of the company’s organizational structure and capabilities. Without previous experiences in HR management, Long was thinking about how to proceed.

Exhibit 1：JD.com’s CHIEF EXECUTIVES in 2012

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Position** | **Time of Appointment** | **Past Experience** |
| Shengqiang Chen | CFO | April 2007 | CFO of JD Mall, March 2012 |
| HaoYu Shen | COO | August 2011 | SVP of Baidu commercial operations |
| Yaqing Wang | CTO | January 2012 | Global VP of Oracle |
| Ye Lan | CMO | February 2012 | Assistant president and sales VP of Lenovo; President of Founder Tech |
| Yu Long | CHO | August 2012 | Asia-Pacific director of legal affairs of Switzerland-listed Myriad Group  SVP, global legal counsel, and chief compliance officer of US-listed UTStarcom |

CFO = chief financial officer; COO = chief operating officer; CTO = chief technology officer; CMO = chief marketing officer; CHO = chief human resources officer.

Source: Company information.

**Exhibit 2：JD.com’s Head Count**

Source: Company information.

1. All dollar amounts are in US dollars unless otherwise indicated. [↑](#footnote-ref-1)
2. ¥ = CNY = Chinese yuan renminbi; US$1 = 6.2943 on January 1, 2012. [↑](#footnote-ref-2)