

My Dream Relies on the Team to Realize

—— Interview with Li Ning Interviewers: Jianjun Zhang and Anne Tsui

About Li Ning Company:

Li Ning Company was founded in 1990 by Li Ning when he retired from gymnastics after winning six medals, three of them gold, at the 1984 Olympics and numerous world championships.

Li Ning Company Limited is one of the leading sports brand enterprises in the PRC, possessing brand marketing, research and development, design, manufacturing, distribution and retail capabilities. The Group's products mainly include footwear, apparel, accessories and equipment for sport and leisure uses under its own LI-NING brand. The Group has established an extensive supply chain management system, and a distribution and retail network in the PRC primarily through outsourcing of manufacturing operations and distribution via franchised agents. The Group also directly manages retail stores for the LI-NING brand.

The Group adopts a multi-brand business development strategy. In addition to its core LI-NING brand, the Group (i) distributes sports products under its Z-DO brand via hypermarket channel; (ii) manufactures, markets, distributes and sells outdoor sports products under the French brand AIGLE in the PRC, the exclusive right of which was granted to a joint venture established

In the afternoon of April 1, 2011, we interviewed Mr. Li Ning, the founder and now chairman of Li Ning Company in its Beijing headquarters. From Olympic and world champion gymnast to entrepreneur, what kind of management philosophy and wisdom does Mr. Li Ning get from his experience, what kinds of roles does he play in the company, and what kinds of management practice he has introduced, were among the main questions of our interview.

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Jianjun Zhang & Anne Tsui: It is a great pleasure to have such an interview. Could you please describe the philosophy, perspective and style of your management?

Li Ning: I am very happy to accept the interview. As far as I am concerned, no matter whether it is called management philosophy or style, the most important thing is to find a successful way to do the business, including what kind of business you are doing, how to do the business, the necessary knowledge and skills, the choices of managers and employees, the transformation of the business, etc. How to organize various kinds of resources effectively based on business need is the unchanging key in management. More specifically, it involves sales and marketing, product and design, finance and accounting, so on and so forth. In the last twenty years, the market and product of our business has changed many times. Consequently, our company has undergone corresponding



transformation and change. However, these key elements are indispensable. With the accumulation of experience, technologies and capabilities, we experienced a gradual shift in decision-making from one-man, direct top-down decision to a comprehensive, organizational decision. Meanwhile, such decisions are executed through the integration of human resource management. After all, however, any change and adjustment of the organization is goal-oriented based on the need of the business.

Zhang & Tsui: According to Jack Welch's views, every firm aims at winning. In pursuit of success, firms take different strategies and styles. Can you summarize some elements which contribute to the success of Li Ning Company?

Li Ning: Well, as you know, I was once an athlete. It is my personal pursuit and interest which originally motivated my moving into business. Undoubtedly, my own dream and passion has always been there, influencing the whole process of founding and running the company. Such dream and passion are reflected in the direction of transformation, the identity of the company, corporate culture and the value system. However, in the process of market competition, it calls for a strong organic organizational system with capacities in organizing, financing and human resource management to keep the company competitive and vigorous. So I hope that Li Ning can become a professional company, providing specialized/qualified product for the market, which could not be achieved by single man's effort. To make it, we need a strong professional team. In brief, passion and dream is the original drive for founding the company, while the building of the professional team and organizing capacity is a continuous task for sustained success. I have continuously been moving professional management

forward. This might be a unique character of Li Ning compared with other domestic companies.

Zhang & Tsui: What experience in your life profoundly influenced your business and management style?

Li Ning: From the point of my own experience, the most important thing is being an athlete. It makes me passionate for pursuing a dream. Meanwhile, I benefited from the years of hard training, which helped me find objective and continuously pursue such dream. Such passion and perseverance has taught me the insistence on goals as well as the confidence to overcome difficulties. As for managing a company, the key revolves around how to transform the dream of one man into an organization's goal, and transform a single person's knowledge and capability into the capacity of an organization, and finally win the business. For example, if some part of the business hasn't done well, I personally understand it is still an organizational problem rather than a single individual's problem.

Zhang & Tsui: Among domestic private entrepreneurs, your insight on the transformation of a single individual's ability into organizational ability is very valuable and prophetic. What experience inspired you on this?

Li Ning: It should be attributed to my experience of studying in Peking University when such an idea became clearer theoretically in my mind. In the class, I heard of many business cases, for instance, the comparison between Chinese restaurants and McDonald's, the comparison between Chinese soft drinks and Coca-Cola, and the analysis of Chinese tea companies compared with Lipton, etc. From the beginning of my business, I have never thought that everything would belong to nobody but me, even though I participated in the first dress design, the first factory's building construction, the first store's location selection and decoration, and the first advertisement's photography and creativity.

When I was an athlete, to produce an Olympic champion was the dream of all Chinese people, because that could prove our ability and raise our national pride. I, myself, was able to win a gold medal to realize the dream of the Chinese people. But to create a first class sports brand needs support from various aspects such as technology, finance, sales and management, etc. Though it is my own dream, it relies on many people to realize it.

Zhang & Tsui: From the experience of realizing the Chinese people's dream by your own power, which might signify individual heroism, to the perception that the success of the company depends on team work, such a change of mindset should be very challenging. How did you effect this transformation?

Li Ning: The sports experience gave me contact with some international brands relatively early, such as Coca-Cola, McDonald's and Adidas, which inspired me. Meanwhile, I learned a lot from my coach and teammates. I am very grateful to them. Until now, I still admire my coach as father, and treat my teammates like brothers. A journalist once asked me long time ago about the difference between a boss and an athlete. In my view, I did not feel an unbearable shock and big change between the two. When I was in

the national team, even as the youngest, I was appointed to be the captain. This might indicate my talent and unique understanding of the sports. Such mentality might also be related to my personal values and observation. There is a technique in gymnastics which is called 'Four Arhat'. Audiences always focus on the top person, but actually, without the other three people's support, this action could never be achieved. I cite the example to illustrate that personal value relies on the team's support, which is also extremely important in doing business.

Professionalization: a difficult but necessary road

Zhang & Tsui: How do you position yourself in the company? When will you lead from the front? And when will you lead from behind?

Li Ning: First of all, I position my dream and passion as the spiritual pillar of the company. Secondly, it is my responsibility to make strategic choices concerning the company's direction and development. The two CEOs we have had after me both respected and valued my opinions very well, but sometimes I consciously let them make decisions independently. If I am too powerful, they will become too weak to make independent decisions. Very often an overpowering leader may result in too careful employees around and thus deprives the opportunity to develop organizational capacity. Organizational capacity should be constructed through market competition. Only through market competition can an organization make progress constantly and becomes vigorous. Of course, decisions concerning the life of the company, concerning the shareholders or basic values, I must participate. But for detailed decisions, I will step back.

This kind of style is also related to my experience as an athlete. In my training, my coach always left me a lot of space. When making plans, from the volume of training, understanding of actions to technical choices, my coach always gave me great discretion to decide, experience and transcend. This is very important. Some coaches who emphasize too many details would decrease players' independence. I have two main coaches, one in the national team while the other in the provincial team. Though they have different styles, both of them gave me room and influenced me significantly.

Zhang & Tsui: Did you bring in any particular management practice into your company? Why did you do so?

Li Ning: I introduced professional management in the company. In 1996, I let the relatives of mine and other top managers as well as my teammates leave the company. Many people think that I faced a lot of pressure then, actually I did not. In fact, I did not have any burden to take care of my relatives and thus have to run the business as a family business from the very beginning. However, the tradition of family and regional culture will affect the company values and the way in which the company is managed. Because of my fame, many people, such as my teammates or fellow-villagers, came to join the company, gradually forming some family culture in it. So I made a firm decision and asked my relatives to leave the company, with the purpose of providing promise and hope for all employees. So they don't have to care where they come from, just focus on what they do

don't have to care where they come from, just focus on what they do and whether they would make a contribution. At that time, the scale of the company was small, and some of my top managers complained that professionalization was too early and would hurt efficiency. But this action (i.e., professionalization) in fact established a very good culture and atmosphere in the company. People come to Li Ning to pursue their dreams, so they don't need to check anybody's face.

Meanwhile, I also felt that professionalization is very difficult in China. When the whole society have not developed a profound understanding of professionalism, when many people are faced with many external temptations, it is extremely difficult for professionalism to show the "noble spirit," i.e., the spirit of sacrifice. On the contrary, the current professionalization generates certain kinds of SOE (state-owned enterprises) phenomena, such as irresponsibility, inefficiency and lack of vitality. These are not what we want, and need to be addressed in the future.

Zhang & Tsui: Have you ever experienced conflict between personal emotions and business rationality? Now looking back, how do you think they should be dealt with?

Li Ning: In fact, when I asked my teammates and relatives to leave, none of them complained. But the then general manager did not understand me. He thought that my solution was too simple. He also thought that transparency and professionalization would affect negatively on the efficiency. In my view, although short-term efficiency might be affected, professionalization would ensure long-term efficiency. Of course, we should give a detailed arrangement to those people left, since doing so not only reflects personal courtesy, but also shows our conformity to the social norm. Mutual respect and friendship should be kept.

Zhang & Tsui: At the beginning of your business career, when you made the first batch of shoes, you failed because of the inferior quality of the shoes even though your team made a lot of efforts. Before you decided to destroy the shoes, had you ever hesitated?

Li Ning: No, I did that without any hesitation. After throwing away the inferior product that couldn't be sold, the only thing we could do was continuously seeking what can be sold. This is the basic requirement for a product. As a new team, making mistakes is very common. What I can do is that, first, I should take the responsibility. Second, I gave them space to pursue the right thing with their passion. Since, after all, what they wanted was also to create an excellent brand. This kind of so-called lenience/tolerance is partly related to my experience as an athlete. As athletes, we played a lot of games. People may just see or remember your successful and honorable moments, but as the proverb says, failure is the mother of success.

Zhang & Tsui: Is there anything that you cannot tolerate?

Li Ning: As far as I am concerned, benefiting oneself at the expense of the company, and taking personal rebates are among the acts that cannot be tolerated. Such cases occasionally happen. This phenomenon has very complex social roots, because China's social environment is very complex. Legal infrastructure is not sufficient and effective. Therefore, the key is to establish an effective mechanism to prevent and constrain such behavior. Li Ning still faces such problems that lot of our follow companies are bothered. We shall maintain a balance between two difficulties. On the one hand, we should avoid such live-off actions to protect the interest of the company. On the other hand, we should ensure efficiency. For example, a single item of higher cost in fifty cents often might mean

billions' profits in total. Why have American and European companies shifted their production line to Asian countries? The major concern is lower cost.

Zhang & Tsui: Your observation on professionalization is very profound. It is a double-edged sword, bringing both benefits and problems. You often mention that you are a passionate person. How would you transmit your passion to common employees and motivate them to work with passion and dream, instead of just being a "salary man"?

Li Ning: I still think that professionalization is very difficult in China. Japanese culture has laid a real foundation for security and professional spirit. Since Japanese society and companies solve personal problems very well, individuals do not have to fight to gain a fortune in order to protect themselves when they are old. In China, by contrast, self-sufficiency is a thousand-year-old tradition, and universal social welfare has not been established in the process of industrialization. As a result, it is not very easy to form the "employee" attitude during the process of professionalization. Due to the inadequate social security, rapidly changing social environment, and numerous opportunities, it is difficult for Chinese people to calm down, and it will be more difficult to keep professionalism with basic values and ethics. Exposed to various temptations such as free-riding, the value of professional managers is easily challenged.

In 2004, after our IPO, we adopted stock options and other measures to improve the income of our key employees, and also strengthened training on passion and dreams. But there still occurred some managerial actions that brought harm to the company. I don't think it is an individual problem, but a social problem. Because employees come from society, they are unavoidably influenced by certain popular yet harmful values in society. Of course, I also recognize that it is the inevitable trend that the cost of human resources will be increased in the process of professionalization. Finally, the solution of the problem is up to the overall progress of Chinese society.

Zhang & Tsui: This is really a dilemma that Chinese entrepreneurs face. Entrepreneurs in the West face a mature society, from which professional ethics have been developed, while such a task is placed on entrepreneurs in China.

Li Ning: In Western society, people who do not conform to professional ethics will be kicked out of the market. Then it will be difficult for them to find another similar job in the industry. In China, the cost of job mobility is very low. You don't even need any certificate or documents. The role of reputation has not been established in Chinese society, which therefore cannot exert effective constraints on individuals. Without such a mechanism, it is difficult to have external constraints on professional managers. Of course, we should not be too eager on this issue. After all, the primary responsibility of the business is to grow, to be responsible to shareholders, and to be responsible to our employees. Companies have social responsibilities, but we cannot take all responsibilities from the society. We will consider how to improve organizational capacity and professionalism during the process of business survival and success.

Without passion, it is difficult for our company to make progress. The company's daily work is relatively trivial, from sewing cotton to making a garment. If employees are not passionate and only care about wages, it would be difficult.

Mrs. Dai [the general manager of human resource management, Li Ning Company]: Our motivation/incentive system has been changing all the time. From 1997 on, we adopted an annual salary system to managers. Later, we introduced various measures such as stock options to promote people's long term horizons. Such measures were very competitive in attracting and retaining talent at that time. In addition, we emphasize recruiting passionate employees from the very beginning. It is very important to select people who have vision and drive to help this brand to go global. For new recruits, we prepare a training program called 'four days and three nights' camp, during which our new employees get a good understanding of our corporate culture and history. All these measures aim at cultivating employees' identification with the company. In this fiercely competitive market, we try to keep the core employees by letting them get a reasonable return and career development, and to have enough incentive and motivation to do their work.

We only have bronze medal now, but we are flexible for change

Zhang & Tsui: From the perspective of competitive advantage, what do you think is the strongest capability of Li Ning Company?

Li Ning: Compared with our domestic competitors in the industry, the strength of our company is our capacity in managing a brand. However, there is still room for us to efficiently transform this capacity into company development and profit. Our competitors may be good at manufacturing and building channels, which enable them to better realize a good opportunity to develop. By comparison, the best potential of Li Ning Company still awaits excavation. This is a strategic direction that has already been included in the next strategic step.

In addition, Li Ning has a relatively strong organizational capacity. In the past twenty years, we underwent various changes. From millions to billions in revenues, from single to multiple products, from single level to multilevel markets, Li Ning Company has always been changing. Such experiences give us strong organizational capacity in turbulent environments. For example, in the late 1990s when we first introduced ERP requiring new processes and new ways of doing things, many people felt it hard to adapt and complained to me. But I firmly insisted in pushing this change forward. Finally we succeeded with the organization's capacity being promoted to a higher stage.

For another example, as the first publicly listed company in Hong Kong in this industry, we experienced tremendous challenges. Back then, we faced huge pressure to transform a traditional and indigenous enterprise into a modern company that conformed to Hong Kong's laws and regulations. All our managers and accounting staff underwent a painful process, like a process of transformation from a worm to a butterfly. Although everyone was very tired, and resistance was frequent, everyone followed and grew, so that during the process we gained better understanding and progress. We can say that the strength of our organizational capacity is reflected very well in these two experiences. Of course, there is still room for us to improve our commercial organizing capacity.

Any change was not personal but organizational and systematic. Actually, Western companies were also experiencing constant change in the past 100 years. Change seems a permanent task. The capacity of organizational change can help us find the right direction, seek more resources and space to develop, and finally bring in more benefits. The unceasing transformation will make our organization more flexible. Therefore, I am always determined to embrace change.

Zhang & Tsui: What would you like to share with others in terms of your experience in founding and managing a company?

Li Ning: We can see a condensed picture of Chinese economic development in the past 20 years through the window of our company growth. However, it is still difficult for me to sum up some detailed lessons. For now, it is probably too early to share my thoughts on management with others, because our ideas might be outdated, or our ways of doing things still need improvement. For example, professionalization is our unique feature, but it is still difficult to judge when we can confidently claim that professionalization is really achieved. It took Li Ning Company three years to complete the current so-called professionalization, but whether this is the true professionalization we want is still problematic. As a matter of fact, we just gave up some family or regional culture. We still need to generate the efficiency from professionalization. We still need to manage the balance between business efficiency and basic values.

Zhang & Tsui: The spirit of a champion is in the search for excellence. If you were asked to make an assessment to Li Ning Company in terms of gold, silver and bronze medals, what do you think you have achieved?

Li Ning: At the current stage, I would say we have reached the bronze. Of course any evaluation concerns the criteria. I think that we still have too many things to improve. What we have achieved might be just like this: we succeeded only because we were bold enough and started early enough than others. When the market was at its early stage, competition was not intense. As long as you are brave enough, you will succeed. Except this, our so-called success won't bear scrutiny of detailed analysis from a business, management, skills, or marketing point of view. So maybe we still don't have anything to be proud of, and we don't have successful lessons to promote now. If we can achieve what Apple Company has achieved, that is, to create new consumption demand in a highly-saturated and perfectly competitive market for computers and cellular phones that might deserve to be promoted. Li Ning

Company just started one step earlier and accumulated something in the market. The reason I would give Li Ning a bronze medal instead of gold or silver is because we still have a lot of things to do to create new needs, gain more commercial gains, or influence the consumers' behavior in the whole society. To create new products and needs, we have to rely on organizational capacity instead of individual capacity.

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