

## An Integrated Innovation Management Model from the Viewpoint Fitting Customer Value: Based on Chinese Cases

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**Abstract**—Based on management situation analysis of local Chinese companies which have weak management foundation and previous researches, we find there are five typical basic management bottlenecks which prevent these companies from achieving innovation performance: strategic management, cultural representation, organizational form, management mechanism, execution. We track the present one of the fast-growth Chinese companies, Beijing XIAOMI Science and Technology Co. Ltd., deeply analyze the case, especially XIAOMI's attitude on the five associated core management elements above. XIAOMI has extended definition of their own innovation management through the way that highly fits the external customers' values and expectations, and it reflects an apparent characteristic of management and a unique management style. Therefore, XIAOMI has achieved rapid growth. After further analysis and research, we find that these five elements interact with each other and constitute a fundamental modern innovation management style. Based on this, we try to construct a theoretical framework, Pentagon Model, an innovation management model, which can be used for reference by local Chinese firms.

### I. INTRODUCTION

#### A. Background of this study

When managed to connect with the Internet in 1994, China then opened the door to enter the new Internet Age. After 20 years of development, Chinese Internet users reached 632 million. China gradually becomes a giant Internet country with an amazing speed. Internet is a powerful magic, which changes people's lifestyles and spending habits. The Internet detonates network economy, driving information consumption growth. Under the pull of information consumption, with the innovation of technology, service and business model, the Internet will have a deeper impact on economy and social development, provide many new opportunities for the adjustment of Chinese economic structure and industrial restructuring and upgrading. The Internet Economy is becoming a new engine to lead consumption, expand domestic demand and boost social and economic development. [20]

The new Internet Economy Age is characterized by simple, efficient, fast and changeable. It subverts our original thoughts and redefines our companies' management model and methods. The traditional thinking ways cannot explain or answer new questions, so it is the time to change. The management order needs to be reconstructed.

In the growth of local enterprises in China, some of them

innovate fully and have already achieved some success, such as Haier, Lenovo, Huawei, ZTE, etc. Although XIAOMI started late and has founded for just 5 years, it still achieves success quickly. But most Chinese enterprises still doesn't adapt to the new Internet Economy Age.

We visited more than 100 enterprises in China in recent years and find a lot of minor enterprises cannot get out of the strange circle of "short life and unable to grow up". Through analysis of local Chinese enterprises' situation, we found five typical management bottlenecks which are original and fundamental. In the new Internet Economy Age, any one of them can become a deadly strike to a company.

(1) Lack of strategy, myopia and backward value. The founders of local enterprises mainly focus on looking for clients, developing new markets and businesses. But what bosses really should do is to establish enterprise's long term development plans, build standard management mechanism, control finance, select talents. They hardly have time to sit down to consider long-term strategy and the enterprise's deep management mechanism. They are busy in engaging in social activities, meeting clients, meeting government leaders and attending a variety of conferences. They only have a narrow vision and regard pursuing personal profits as the first principle, mainly focus on short-term, present benefits instead of long-term, future ones. In addition, they are also interested in present profit instead of gains in the future.

(2) Lack of the belief culture. The quality of common entrepreneurs is not high. As a result, these enterprises do not have clear game rules. They refuse regularization and institutionalization, are mostly lack one kind of humanistic ideas, cultural literacy, rational thinking, and values that are gradually formed in the long-term production practice. What's more, they lack the concepts for achieving rapid growth and the ideas that everyone should follow together. In a word, there are no rules, no belief. There are only personal hobbies and opinions. This makes them lack of centripetal power.

(3) Short of organizational innovation motivation, the organization levels being clear and full of inertia. Entrepreneurs do not pay attention to study. There is no training system and plans. They just judge things by their feelings, experience, and personalities, are lack of sufficient respect for intellectual property and enthusiasm for innovation. They are good at copying and following the others. The organization levels of enterprise are very apparent. The employees need to report layer upon layer, making

organization very inefficient.

(4) Lack of organizational members' sharing mechanisms. Many enterprises merely require employees to give, but they are reluctant to give employees actual benefits. The practice of no opening, no sharing causes frequent brain drain.

(5) No attention to the execution with customer orientation and customer value. Execution is business owners' wills, but not customers'. Execution focuses more on business owners' hobbies, but not customers'. Execution pays more attention to business owners' feelings, but not customers'. This kind of execution deviate customers' value, as a result, enterprises are unable to operate well.

If the five typical fundamental problems above cannot be handled properly, the survival of local Chinese enterprises will be very hard in the new Internet Economy Age.

### *B. Literature Review*

The research from Peters and Waterman.[16] shows the reasons of 43 American outstanding enterprises' paths to success: values-driven, do what you know, simpler administration, temper justice with mercy, bias for action, close to the customer, independent innovation, productivity through people Goldsmiths and Clutterbuck [9] concluded the reasons of 26 British outstanding enterprises' paths to success: sense of involvement, market-oriented, stick to the fundamental, encourage innovation, honesty, good leadership, independence, a good control system. Crawford and Mathews [7], through the analysis and researches of 99 successful companies in the world, found that five elements of price, product, accessibility, service, and experience are all beyond the average level. Simon [18] studied 500 German enterprises and summed up the successful factors: have clear and ambitious goals, market defined in narrow terms, narrow market positioning with global-oriented marketing, close to the customer, product and process innovation, products and services forming a competitive edge, self-reliance, no lazy people, leadership style as a combination of principle and flexibility.

Jim Collins conducted a long-term study on enterprises with high speed growth. After tracking research of 18 American outstanding enterprises, Collins and Porras [3] proved that timepiece is not just made to toll, the pursuit of profit, save the core, progress stimulation, audacious goals, religious culture, optional evolution, home-grown manager, never be good enough, beginning of the end, vision building. Collins [4] did a thorough and comprehensive analysis on 11 enterprises from good to great and made a conclusion like Guan Zi, a famous ancient Chinese thinker in the Chun Qiu period, that if you want to get the world, you must get the talent people. Collins [5] didn't foresee that companies such as Fannie Mae collapsed so fast and triggered a financial tsunami. He had to supplement research failures in order to look for a stepping stone for his previous researches. Collins [6] became more cautious and stressed the unpredictability and unstable state. He focused more on the caution of managers instead of aggressiveness, on relatively

conservative instead of positive innovation. Besides, he also presented a concept that luck can be one of reasons to become an outstanding enterprise. The regularity behind reasons to become an outstanding enterprise is no longer important.

Chinese scholars also conducted some researches on rapid growth enterprises. Chen, Zhao, and Zhao [2] studied 5 Chinese leading enterprises and found that there were 4 import factors: Chinese philosophy, western standard (management methods), heroic leaders (Internal power), community of the same interests (development strategy), channel driver (external power); 4 output results: rapid response, vision & mission, enterprise culture, core competitive power. Kang, Ke and Xu [11] studied Niche strategy of hundreds of enterprises from China, Japan and German and got a conclusion that if they could fully focus on the market segment, they would easily realize individual champion. Accenture PLC [1], through the analysis and research of 25 Chinese outstanding enterprises, found three reasons for their success: performance details--enterprise's fundamental cultural identity and philosophy, market focusing and location--know when and where to participate in competition, unique capabilities--ability of enterprises to create and use unique methods. Zeng and Williams [23] analyzed 4 Chinese leading enterprises and gave the reasons why they are leading: process innovation, disruptive innovation, low-cost innovation, integration and innovation, etc. Zhang [24] thought that high-growth enterprises had certain common characteristics and factors of success: have a strong vitality, have relatively fixed businesses values, strong human resources management, funds needed for the development of enterprises, firm founders love what they do. Zhao, Li and Zhang [25] concluded growth factors of high-growth enterprises that: (1) Fit trends of social development; (2) Have a forward-seeing leader; (3) Enterprises organically combine relevant new technologies and achievements so that enterprises can produce new process and new products; (4) Enterprise culture keep pace with the times; (5) Enterprise restructuring can effectively integrate resources; (6) Have integration ability of global human resources.

Korgaonkar, Wolin [12] and other researchers proposed concept of customer value. Ramani and Kumar [17] presented the concept of interactive guidance between enterprises and customers based on the features of the Internet Age. They thought that interactive guidance helped enterprises survive in an increasingly interactive environment and achieve success. It reflects the interaction capacity of each customer. It integrates the contents of Internet Age: interaction and responses, customization, customer participation, work together to create value, and explains the idea of sharing the benefits with customers. They divided the interactive guidance into four dimensions: concept of customers, interactive response capability, customer empowerment and customer value management.

Though researches above had certain significance on this

study, there are certain limitations due to the development of the time. (1) Some conclusions are still random, even contradict each other, and have not formed a general management model. (2) Limitations of studying objects. There are differences of environment, market maturity and management in different countries. (3) Limitations of research stages. Because of the differences between time and background, many previous studies focused on traditional enterprises under traditional economy and did not foresee the advent of Internet Economy Age. It is impossible for them to foresee that Internet Economy Age has a lot of features such as simple, fast, changeable, etc. (4) Past researches on customer value theory mainly emphasized importance of customer value, customer relationships as well as the interaction between customers and organizations. The researches have the shortage on management features of organizations completely fitting the customer value. So study on Chinese enterprises how to achieve rapid growth in the new Internet Economy Age is a vacancy, especially lacks of theoretical summaries.

In view of the above background and research shortages, it is necessary to carry out some theoretical and practical research in order to provide references for present Chinese firms (mainly privately-owned or minor stock system companies) to deal with basic management bottlenecks.

## II. METHODOLOGY AND DATA

### A. Methodology

Due to differences in economic environment, political system, culture background between China and Western countries, the Western theories cannot be copied completely to guide Chinese enterprises' management practice. Hence, using the case study method has a significant meaning on Chinese research of management theory.[19]

The case study method is not only a basic method of study on organization and management, but also an important way to establish management theory. Exploratory case study method applies to: (1) a less known phenomenon which few people explore; (2) unsolved problems which existing theories can hardly explain; (3) the project research is still in an early stage or some projects that have already researched need more fresh ideas; (4) researches could not rely on the previous documentation or empirical results to derive the proposition before entering the field investigation. [8]

This paper will discuss a new proposition on enterprises how to develop rapidly and successfully in the new Internet Economy Age. To do so, we take the exploratory case study method.

### B. The access of data and information

The evidence of single research comes from documents, files and interviews etc. During the process of using case studies to construct and validate theory, using information

rationally from a variety of sources is very important to improve the quality and credibility of case studies. [21]

There are a lot of thematic reports and studies on XIAOMI in recent years. It is applicable to this case study. The data and information of this research cover: field interviews with both senior executives of XIAOMI and customer representatives, annual enterprise reports, study of both internal and public from brochures, Internet, journals, official website, etc. The deep interview asks questions randomly and openly. In the process of data collection and processing, we pay much attention to analysis of a variety of sources and methods, checked frequently in order to ensure the reality, reliability and reducing mistakes.

We conducted open interviews with the company's executives, including vice presidents. Some interview questions include:

- 1) XIAOMI's product strategy is to adhere to the policy of diversification or adhere to the simple pursuit of the ultimate policy?
- 2) XIAOMI is how to pursue a simple product strategy positioning?
- 3) XIAOMI is how to make the product to the extreme, explosive product?
- 4) XIAOMI's biggest aim is customer participation, customer participation may determine the company's all policy, is that right?
- 5) XIAOMI is how to make the product image, how many fans of XIAOMI according to your estimation?
- 6) Please introduce the fans culture of XIAOMI. How much function of fans culture?
- 7) XIAOMI's organizational structure is a multi-level design or some others? It is said that XIAOMI is seeking an amorphous organizational form, how to understand?
- 8) Why XIAOMI choose a partner system? Please introduce the background.
- 9) What do you think of the attractiveness of the company to the intellectual talent?
- 10) In addition to the material rewards, are there spiritual incentives? Please specify the system of users voting for the product engineers.
- 11) Apple Corp's user experience is good, how about XIAOMI's?
- 12) From the perspective of strategic choice, cultural characteristics, organizational form, management mechanism, executive power and so on, please sum up the success factors of XIAOMI.
- 13) How to understand the relationship between XIAOMI's policy and customer participation? Is the two fit?

We also applied consumer survey questionnaire (Table 1) in order to further understand XIAOMI's management behaviors in an angle of the motivation from customers' requirements.

TABLE 1 OUTLINE OF CONSUMER SURVEY QUESTIONNAIRE

Items	Questions of survey questionnaire
The choice of strategy	1. Mobile-phone manufacturers should focus on making one smart-phone perfect and continuously updating strategies, or focus on many types of smart-phones and meeting a variety of demands.
Cultural representation	3. What do you think of XIAOMI CEO? 4. What's your feeling about using XIAOMI phones? 5. Are you one of XIAOMI fans? 6. XIAOMI fans' word-of-mouth marketing greatly promotes the sale scale of XIAOMI phones, what is your comment?
Organizational form	7. In order to quickly response to customers' requirements, internal organization should be simpler and reduce levels, do you agree? 8. What do you think to pursue fixed organizational form in order to completely meet the customers' demands?
Management mechanism	9. What do you think of XIAOMI's attraction to talents? 10. Aare you willing to join in XIAOMI? 11. XIAOMI encourages users to vote and reward product service engineers after solving the problem, if your mobile-phone problem can get satisfying solution, will you vote?
Execution results	12. XIAOMI engineers interact with customers both online and offline. What is your opinion about this doing? 13. Customers' comment is the only standard to judge the execution of XIAOMI. Do you agree?

III. BACKGROUND OF XIAO MI

Case study requires sample selections that have extremity and significance. [22] This paper takes Beijing XIAOMI Science and Technology Co. Ltd., which grows rapidly and operates successfully in only five years, as an exploratory case.

XIAOMI was formally established in April 2010. Jun Lei is XIAOMI's founder, and also chairman and CEO at present. It is a mobile Internet company focusing on independently developed high-end smart-phones. XIAOMI Logo is a figure of MI which is the abbreviation of Mobile Internet. It presents that XIAOMI is a Mobile Internet company. If reverse XIAOMI Logo, you will find that it is a Chinese word of heart without one dot. This means in Chinese that XIAOMI hopes customers to worry little about its products. Smart-phone is its core business. Its products mainly orient to fans and cost-effective mobile phones. XIAOMI smart-phones rely on powerful configuration and a very competitive price to win the attention of the market. According to the information currently available to the public, XIAOMI smart-phones' supply is obviously not adequate to the demand.

XIAOMI has sold 61.12 million smart-phones in 2014, increasing 227% compared with 2013. Tax-included sale was 74.3 billion CNY in 2014, increasing 135% compared with 2013. In smart-phone industry, XIAOMI has reached the top place in Chinese market share. Such glorious achievements make XIAOMI be widely recognized by capital markets.

XIAOMI has just finished a new round financing with 45 billion US dollars. It has made XIAOMI become currently the world's most valuable technology company unlisted. 2014 is inevitably an important milestone in the history of XIAOMI development. In the past, XIAOMI was a chaser in this industry. But now, it is pursued by other competitors. Since started in April 2010, just in few years, XIAOMI has achieved incredible success by the innovation of products and business models. XIAOMI has become the national brand of consuming electronics, the founder of smart-home ecosystem, the distribution platform of mobile Internet's content and services from one manufacturer of smart-phone. This has never been seen before in the global technology industry. XIAOMI has come to the forefront in this industry.

IHS Technology, a market research organization, said smart-phone sales in China in 2014 (Table2). [10] It tells that XIAOMI is at the top place.

XIAOMI takes the strategy quite different from Apple and Samsung and attaches great importance to the quality and performance. For example, XIAOMI doesn't spend a single penny on TV advertisement. In addition, product selling is not through physical stores. The company entirely relies on word-of-mouth marketing to sell products and has achieved impressive results, especially in Chinese market. XIAOMI puts the fee originally on marketing and sale to lower equipment price. In China, the company's mobile phones sell for around 200 US dollars, far below iPhone's 700 US dollars.

TABLE 2 SALES OF SMART-PHONES IN CHINA IN 2014

Sales ranking in China	Brands	Units (million)	Market share (%)
1	XIAOMI	60.8	14.97
2	Samsung	58.4	14.38
3	Lenovo	47.3	11.65
4	Apple	46.6	11.48
5	Huawei	41.3	10.18
6	Coolpad	40.1	9.88
7	Vivo	27.3	6.72
8	OPPO	25.5	6.28
9	ZTE	18.2	4.48
10	Others	40.5	9.97

In 2013, Apple's Smart-phone sales volume in China was 23.1 million, followed by XIAOMI's approximately 18.7 million. But in the first quarter of 2014, XIAOMI's sale was up to 10.4 million while Apple's was only 9 million. This is also the first time in Chinese market that XIAOMI surpassed Apple. XIAOMI puts great pressures on some famous brands such as Apple and Samsung.

Generally, XIAOMI is one of the most successful Chinese enterprises in the new Internet Economy Age. It is the company that uses Internet thinking successfully. As a milestone in the transformation and upgrading of China-making to China-creating, it is a great challenge to famous Samsung and Apple, especially in Chinese market.

IV. INTEGRATED INNOVATION MANAGEMENT MODEL BASED ON EMPIRICAL ANALYSIS

A. XIAOMI's strategy choice

The basic problem of strategy management is how to rely on own operation to obtain consistent competitive advantages or even better than peers. In the new Internet Economy Age with dynamic variation, strategies fitting environment is particularly urgent for firm operation. Considering the rational principle of strategy development with dramatically changing environment, the choice of strategy must consider two key factors: (1) Strategy must highly fit the expectations from external environment; (2) The choice of strategy should transfer from diversity goals to simple one.

Hence, we make the following extension: (1) Based on the

rational principle to develop strategy fitting external environment, we particularly emphasize the choice of strategy fitting customer value; (2) In order to achieve highly fit with customer value in external environment, strategy choice should return to simple goals and principles; (3) Coexistence of both focusing on simple goals and emphasizing extreme highest goals. In this expression, we give prominence to three words: (1) Focusing, which means concentrating resources to obtain a comparative advantage; (2) Simplicity, the essence of strategy is to make a choice, of course, including doing nothing, so we choose simple principle to develop our model; (3) Extreme, which means the best, to the maximum extent.

The integration of strategic resources is the root of innovation. We have seen a lot of emerging Internet industry firms which can quickly become giants mainly because fast and effective integration of a variety of resources including technology, human resources, capital, rather than only relying on some disruptive technology.

Beijing XIAOMI Technology Co. Ltd. was officially established in April 2010. It devotes to create a unique company culture of innovative and fast Internet culture, equal and relaxing atmosphere. As a result, XIAOMI attracts many top talents from technology, product, design and other areas.

We may apply Porter's SWOT theory initially analyze XIAOMI's advantages, disadvantages, chances and threats (Table 3).

In past five years, XIAOMI follows the following strategic path (Figure 1).

TABLE 3 INITIAL SWOT ANALYSIS ON XIAO MI

<p><b>Advantages:</b></p> <ol style="list-style-type: none"> <li>1. A lot of talents, strong team.</li> <li>2. Establishing MIUI, it can fit many brand models, users increase dramatically</li> <li>3. High configuration of mobile-phone products, low price.</li> </ol>	<p><b>Disadvantages:</b></p> <ol style="list-style-type: none"> <li>1. Established late, brand reputation lacks popularity.</li> <li>2. Early products have some problem, this affects the users' experience.</li> <li>3. Mobile-phones supply chain has problems, low production efficiency.</li> </ol>
<p><b>Chances:</b></p> <ol style="list-style-type: none"> <li>1. Chinese mobile-phones still impressed copied brand.</li> <li>2. iPhone is expensive, XIAOMI has space to develop.</li> <li>3. Young buyers aged from 18 to 30 have high requirements for price-quality ratio.</li> <li>4. E-commerce.</li> <li>5. Huge smart-phone market demand.</li> </ol>	<p><b>Threats:</b></p> <ol style="list-style-type: none"> <li>1. Fierce competition in mobile-phone market.</li> <li>2. Technology is limited by Android.</li> <li>3. High cost, low profits.</li> <li>4. Bigger threats from foreign-brand mobile-phones.</li> </ol>

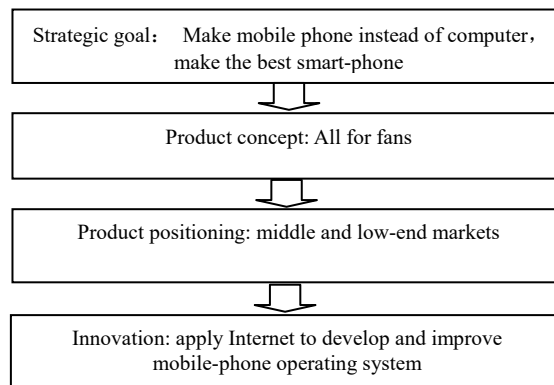


Figure 1 XIAOMI's strategic path

XIAOMI's strategy has the following characteristics.

(1) To focus on one simple thing: only make one type of mobile-phone.

It is a popular trend for Internet companies to insist the principle of simplicity. XIAOMI holds that the simpler things are, the more difficult to do. They firstly take simple strategy. Simplicity can focus and integrate limited resources. Simplicity can keep cost down to a reasonable range. Simplicity can make details become perfect. Simplicity can let users read easily and have a full and deep impression. If a company has many product lines, the cost certainly is higher. XIAOMI insists on doing one type of product and using one product line so the cost becomes lower. XIAOMI only makes one type of smart-phone. XIAOMI improves the product's appearance, performance, and configuration each year. The integration of company resources focuses on this type of smart-phone. XIAOMI tries to give customers amazing experience and let them enjoy low price.

(2) Do simple things extremely.

XIAOMI's product orientation is to make the mobile-phone with the best quality-price ratio. In the Internet Economy Age, low fee or no fee service becomes a new business model and it will be exactly a consuming trend. How to suit the features of the new Internet Economy Age and get suitable comparative advantages are strategic issues we must deal with.

User groups have different characteristics. For example, Apple and Samsung's price are high so their buyers are mainly white collars and elite class. Common people generally pursue smart-phones with high quality-price ratio. Thus, XIAOMI's position is mainly aimed at this common

people.

XIAOMI's annotation to extreme is that it is to do simple things best as possible as one can. No leeway for oneself and no space for others. [14] XIAOMI's products have the similar configuration as Samsung and Apple. But it launches price of much less than Apple and Samsung. Its products exceed customers' expectations and subvert many consumers' views on high-end mobile-phone.

Therefore, we conclude that XIAOMI has its own rational extended definition of strategy: strategy is to concentrate all simple things to be extreme. To locate simple goals and principles and to focus on the strategy that makes simplicity become extreme can further play a strategic effect and achieve customer's value.

XIAOMI's strategy model can be summarized as follows (Figure 2).

*B. XIAOMI's cultural representation*

Culture can be represented as a characteristic set, containing attitude, belief, self-concept, norm, role definition and value, which can be integrated internally and applied externally. Once the culture has formed, it changes slowly. We regard the belief in products as the main body of value. We think the effect of culture must serve for the improvement of enterprise's performance. Culture is able to unite all internal and external forces to achieve organization performance goals. The dynamic expansion constructive process of new cultural characteristic set fitted with customer's value will promote the growth of organization performance.

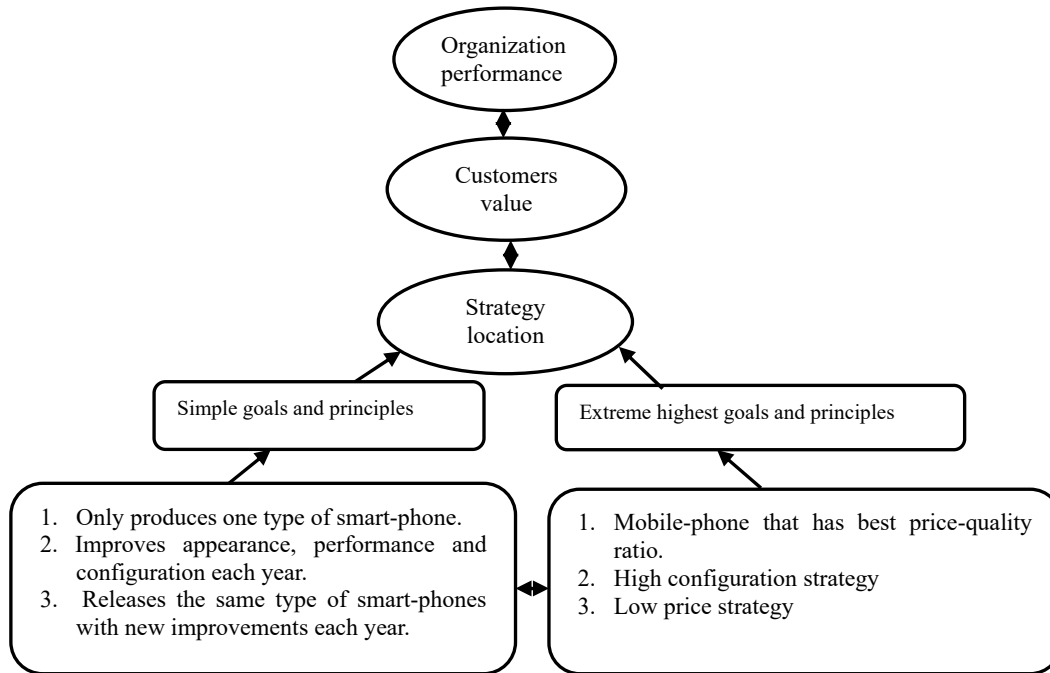


Figure 2 XIAOMI's strategy model

The culture of XIAOMI may use culture iceberg as an analogy, having both overt and covert parts. We do not describe XIAOMI's culture structure like to peel an onion. We only discuss its culture based on external adaptation and internal integration. Through tracking and observing, we find that XIAOMI culture's biggest characteristic is that it is divided into two parts of the culture iceberg. The hidden part under the iceberg is unconsciously rooted in the faith factor based on internal integration, embodied as faith to both founders and products. The visible part of the iceberg is based on the belief on products, diffusing the influence from traditional internal company to the external. This creates a new cultural representation, fan economy.

The culture innovation of XIAOMI answers two questions:

1. The most powerful factor of company culture is faith on founders and products.

The rise of Internet companies is different from traditional ones which emphasizing advertising and channel marketing. They have their own power and drive to expand sales. We studied great companies which have a certain size and fame. They all have one kind of power which brings inspiration to organizations and consumers. It gradually formed a worship of founders such as Gates' impact on Microsoft, Jobs' on Apple, Zhengfei Ren' s on Huawei, etc. We may believe that because there is a faith in people and products, there is a force to rapidly expand the scale of sales for these companies. Therefore, if consciously or unconsciously root faith factors in the corporate culture, organizations can achieve the most powerful extension.

We first consider Jun Lei's impact on XIAOMI.

- a) Redefine company's strategy. Lei put forward four key words for XIAOMI's development: concentration, extreme, word-of-mouth and fast.

Concentration: XIAOMI follows Apple that focused on one type of products, phones, iPhone, and tablet computers, iPad. The simpler things are, the more difficult to do them. XIAOMI makes only one product called "MI ONE".

Extreme: To achieve the limits of your ability. No leeway for oneself and no space for others. Make every product best.

Word-of-mouth: Products that exceed user's expectations have word-of-mouth. Your products and service must exceed the expectations of consumers.

Fast: When XIAOMI worked on MIUI system, many things got in contact with the users in numerous times. That is the most powerful thing of Internet. MIUI system has been updated 157 times in 3 years.

- b) Build a new culture of freedom and equality: No strict hierarchy. Every employee can show their creativity in a free, equal and relaxing working atmosphere. He promotes the concepts of opening, innovative Internet culture, and full service.

Just because of Lei and his concepts, many well-known

multinational talents are attracted to him. A wide range of high quality entrepreneurs formed a strong team and created the rapid success of core business because of their trust and faith on founders.

Next, we discuss the formation of the product belief of XIAOMI.

- a) The original fanciers: At the beginning, XIAOMI just wanted to focus on a major group of consumers, smart-phone fanciers. To design products for smart-phone fanciers as an identity appearing in the market can be easier to win the preference of professional persons. XIAOMI then uses this professional identity to propagate to target customers by word-of-mouth. Therefore, it can easier to go into the vision of target customers.
- b) Concentrated and extreme products: Extreme and cheap products attract a lot of fans. An impression that XIAOMI products are high-quality with low price is formed. As time passes by, fans' attitudes are gradually changed from preference to belief.

2. Expansion of dynamic constructive process of XIAOMI's culture set after fitting the customer value.

The most significant feature of XIAOMI is Fans Economy. This contributes greatly to its phones' sales and reputation. Now all companies are going to become individual media companies. Because of the arrival of the Internet, it enables the revolution of point-to-point business structure. Lei said, the achievements of XIAOMI today are created by XIAOMI's fan. If we consider XIAOMI as a successful company, one of the most successful reasons is of forming its own fan culture. Fans deeply believe in the quality of products. From reliability to belief, fans gradually become the spokesman of XIAOMI. They propagate the advantages of XIAOMI and protect its reputation.

These fans can not only bring sales, but also expand the influence of XIAOMI brand. Fans' passion and loyalty let more people know about XIAOMI. They have made more people become XIAOMI fans. It is just like rolling snowballs. More and more people join in the group of XIAOMI fans and further promote the sales.

Just like the above, the belief in founder has gathered a strong team. The belief in products has achieved a large scale of sales and great success.

So we conclude that the culture implanted faith factors, expanded from inside to outside of company and completely fitting the customer value, is more conducive to product image deeply rooted in customers, more conducive to sales performance.

### C. XIAOMI's organizational form

The Internet industry is full of entrepreneurial companies. They are trying different business modes, organizational forms and business processes. We believe, facing rapid changes in dynamic environment, the choice of organizational form should fit the customer value in the external environment, and amorphous and weak inertia

organization form is the most suitable to customer value in the external environment, is more conducive to organizational changes and update.

The most distinctive characteristics of XIAOMI's organizational form are informal, faster, more efficient and closer to the customers. XIAOMI doesn't walk on the path of traditional companies. Its organization structure form and organization operation all embody amorphous and weak inertia. Seamless connection with customers is the main objective of organization.

1. In order to respond customers quickly, organization structure is formed to be as simple as amorphous as possible.

In order to reduce middle parts and to boost energy, XIAOMI adopts the flat organization structure. XIAOMI's leaders deem that it is necessary to reduce the organization levels for supporting the implementation of strategies of making everything become extreme and achieve efficiency. Excellent people themselves have a strong driving force and self management ability.

XIAOMI's organization structure has few levels. The first level is seven core founders. The second level is department leaders. The third level is common employees who directly meet with customers and users. There are four functional modules of production, marketing, hardware, and E-business. Every module is in the charge of one of seven founders and each of them can execute thoroughly. The size of each working team is restricted to be large. Each one doesn't interfere with each other. Everyone tries to be able to do things together in their respective areas of responsibilities. All of them don't have management position except the seven founders. They are all engineers. This management system reduces the mutual reporting between levels and improves management efficiency.

2. The evaluation mechanism of organization members is built on customer comments without any KPI.

Traditional companies often organize employees to do things for the sake of promotion, every organization member works for promotion, not for the benefit of customers, engineer's highest task is to make technology become extreme, and users' feeling is the affair of marketing department.

But the situation is totally different in XIAOMI. XIAOMI has no KPI evaluation mechanism. Responsibility is at the first place. XIAOMI emphasizes that you need to think of other people's business as the first thing. Customers' value is the highest standard of evaluation. Engineers also act a role as salesmen and users' feelings are their most important motivation. They must be responsible for the users' value.

3. External promotion interface completely connecting with the customers.

Traditional marketing is channel marketing. Most of the manufacturers don't sell products directly to the final

consumers. Wholesalers and retailers buy merchandise between manufacturers and final consumers. There are also brokers, business representatives and sales agents who are responsible for finding customers. The shortage of this practice is that it isolates manufacturers and final consumers. These middlemen increase extra costs. Finally, it increases the payment of final consumers and directly undermines the competitiveness of manufacturers.

XIAOMI quickly becomes an outstanding company and has over 60 million smart-phones sale, its innovations are shown as following.

a) Sell directly by Internet. XIAOMI tries its best to delete the middle parts so that it significantly reduces operational costs compared with traditional companies. As a result, smart-phones' selling prices become lower. XIAOMI has a complete system of information flow, fund flow and logistics in this process.

b) Sell through word-of-mouth. XIAOMI's success through word-of-mouth is beyond expectation. XIAOMI relies on two magic weapons, maintaining transparency of products and good reputation to win the market. The reason why word-of-mouth selling of XIAOMI becomes a powerful marketing tool is that it has a viral effect. People like to talk no matter to tell their own stories or to tell other people's stories. The footstone of this viral effect is good quality of products and a competitive price without middlemen. A survey result from The Large Data Research Laboratory of China Information Statistical Service Center under National Statistical Bureau of China shows that XIAOMI's word-of-mouth ranks the first place among all phone brands.

c) Fans marketing. From MIUI, XIAOMI lets public deeply participate in product development. In addition, XIAOMI also encourages users and media to dismantle smart-phones. Fans are a specific user group. Their feedback greatly promotes XIAOMI to improve the users' experiences continuously. Users expanded the scale of fans again. XIAOMI has thus established an industry-leading mobile Internet ecosystem. Fans interaction directly pushes up the scale of sales.

4. The organizational operation highly fitting the customer value.

What kind of innovations in the Internet Age can widely affect human life? Business model innovation is indeed one of the most important innovations. Different from traditional phone makers, XIAOMI does not focus on selling of products or hardware, but on the organizational operation mode of double users (Mobile phone users and system users), separation of hardware and software, product + service. This specifically reflected in the following aspects.

a) Build community, and form fans group. The first step is to build community based on product characteristics, focusing on a small circle, attracting loyal fans, and then gradually forming fans group.

b) Conduct a small scale beta aiming at loyal fans. After forming a certain scale of fans, the second stage is to design



related products according to the fans' demands and conduct a minor scale product beta.

c) Produce massively and sell in advance. This stage generally needs three things to do: product launches, new products social marketing, and selling in offline channels.

d) Connection. In accordance with the logic of Internet thinking, it is just the beginning of marketing for XIAOMI after massive products are sold. At this time, it needs a system to connect all these products sold. Let the people behind these products become a community or a system.

e) Extension. According to the MIUI software thinking, its biggest advantage is its extension. In terms of software's extension, its costs are nearly zero. It is only some bytes on the server. Just because its extension, it enables the ecosystem of XIAOMI fans to grow up quickly.

Following is the diagram of XIAOMI's organizational operation mode (Figure 3).

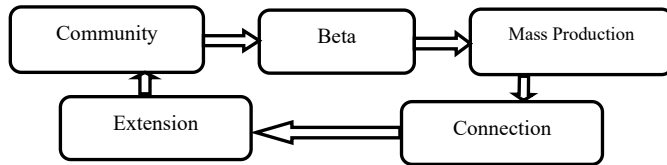


Figure 3 XIAOMI's organizational operation mode

So we can conclude that completely connection with the customers, amorphous and weak inertia organization form are more beneficial for the organization to adapt to the rapid changes in the Internet Economy Age and fit customer value.

*D. XIAOMI's management mechanism*

Human resources become the core of enterprise competence in the age of information and Internet. In our opinion, the overarching principle to design management mechanism is to accomplish strategic goals of the organization by fitting the customer value. The dual mechanism of organization sharing and spiritual leader can ensure organizational strategic goal to be consistent with employees'.

An entrepreneurial characteristic in Internet Economy Age is to have a high quality team of talents. To establish a sharing, opening and transparent mechanism of benefits then is the first priority to attract talents. XIAOMI is just doing so and tries to share benefits with employees as much as possible. When XIAOMI was founded, it let all employees get a shareholding and carried the investment plan of all employees.

XIAOMI encourages employees to work happily. Its working atmosphere is really pleasing. XIAOMI gives enough benefits for the working team and makes employees feel comfortable when working. Managers of XIAOMI consciously lower their position and mingle with common employees in order to listen to their ideas on how to make them feel comfortable, how to give them the sense of participation and achievement, how to give them enough

encouragement.

XIAOMI's benefit-sharing mechanism is open and transparent. XIAOMI has a separating distribution mechanism that can let people see the gap between themselves and others and think about their weaknesses in order to improve in the future. Furthermore, such a benefit-sharing mechanism can get employees' trust and let them work better. It can not only increase the motivation, but also increase the promotion of career. Such a working environment makes employees know what they need and what they should do. This is the significance that the sharing mechanism's impact on an enterprise's rapid growth.

The following mechanism is the spirit encouragement from customers pursuing. This can be seen from three points.

a) The satisfaction of feedback from customers. The source of XIAOMI's establishment is to make friends with customers. XIAOMI let engineers know the purpose to do best is to be responsible for the customer value, even requires all engineers to directly get in touch with customers through forum, micro-blog, QQ, etc. Whether they reply the suggestions from customers on time is an important standard to examine the work performance. When a newly developed function releases, the engineers can see the users' feedback at once and then have the sense of satisfaction.

b) The sense of existence from customers pursuing. XIAOMI even requires engineers to attend offline events like fans party. These activities let engineers know who they are serving for. They know about customers not only from numbers, but a lot of faces, a lot of real figures. [13] Engineers will feel that they write programs not exactly for XIAOMI, but for their fans.

XIAOMI also has an upgrade iteration mechanism. Customers vote timely who are their most favorite engineers. XIAOMI will reward a Popcorn award for the winner according to the votes. [15]

Therefore, XIAOMI extends the definition of management mechanism: A mechanism with the coexistence of organizational sharing and spiritual encouragement aiming to encourage all organization members to achieve specific goals.

We thus conclude that the dual mechanism of organizational sharing and spiritual leader will be beneficial for gathering high-quality talents and be more favorable to ensure consistence between organization strategic goals and employee goals in order to fit the customer value.

*E. XIAOMI's executive power*

Past theories and studies mainly discuss three major processes of enterprise execution power: strategy process, personnel process, and operation process. These theories' biggest problem is that it is limited in a closed system. However, execution needs to highly fit with the external environment in the Internet time. Based on this, our extension is that: A firm's executive system should transfer from closed systems to outward-opening system; execution's principles and goals should transfer from fitting authority expectation to

fit customer value, because the final judge of authority is customer value; besides traditional these three processes, customer cultivation process should be added and emphasized.

How XIAOMI innovates the execution system. Lei summarized six key factors: the power of e-commerce, the power of social media, making phones as computers, encourage common people to participate in, fans economy and a Silicon Valley-style venture in China. Frankly speaking, what XIAOMI sells is the sense of attendance. This is the true secret behind XIAOMI success. The sense of attendance just acts as the role of users and experiences the feeling of users.

The key to execution is to stand on the position of users and experience the users' feeling. Solve problems by making

friends with customers, to make friends with special customers like XIAOMI fans. Micro-blogs, forum, official website where can receive a lot of suggestions are the source of execution. To solve the suggestions from customers is the only standard to judge execution. There is a rule on micro-blog's customer service staff, quickly response in 15 minutes. They also developed a customer service platform. Whether there are any suggestions or complaints, they will be quickly solved or answered. Another special executive feature of XIAOMI it to train engineers with product marketing thoughts. XIAOMI let engineers show the program results in front of the users. When a newly developed function releases, the engineers can see the users' feedback at once.

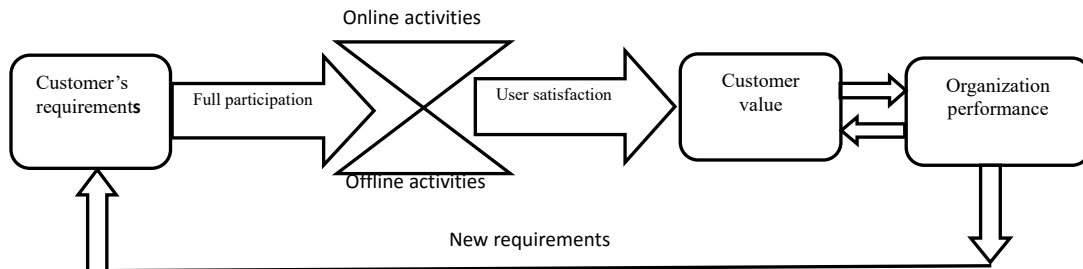


Figure 4 XIAO MI's execution model

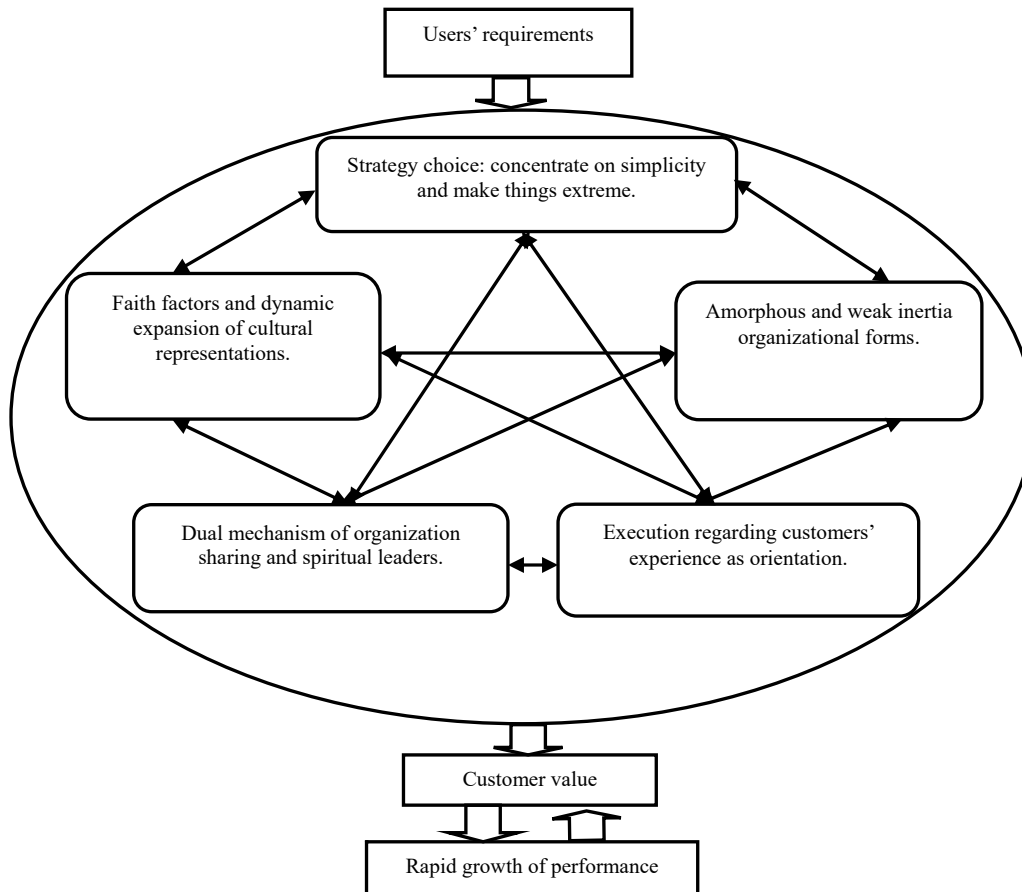


Figure 5 Pentagon Model

No matter which product has been developed completely, the standard to test whether it is successful or not is whether it can enter the market smoothly and be accepted by a wide range of people. Excellent standard is good users' experience. This is the key point. User experience is a pure subjectivity or a feeling. It is actually a feeling or an experience which built by users during the use of products. This experience or feeling will directly influence people's reliance on the quality of products and the word-of-mouth effect. Hence, when companies develop their products, they should focus on user experience and put user experience in the first position. Users' experience first is the cornerstone of any successful product development. It is the only standard to judge execution.

Therefore, XIAOMI has another extension of the definition for execution: Think of yourself as a user. To design, feel, experience according to users' thoughts and expand work around the users. Customers' evaluation on satisfaction is the standard of transaction. This is the executive power of customer-value-oriented open system.

Figure 4 is XIAOMI's execution model.

Based on the above analysis, we conclude that the executive power of customer-value-oriented open system is more favorable to promote enterprise performance and fit the customer value.

#### F. The integrated innovation management model

We have analyzed XIAOMI's strategy, culture, organization, mechanism and executive power in the above and can construct an integrated innovation management model called Pentagon Model as in Figure 5. This theoretic model is an organic system with inherent logic relationships among its elements. The strategy to concentrate on simplicity and make things extreme is the foundation of management. Simple and extreme products constitute a cultural representation. The amorphous and weak inertia organizational form and connection with customers give support on strategy and culture. Executive power with customer orientation provides guarantee for strategy, culture and organization. All activities rely on organization members to implement and promote. Therefore, the dual mechanism of organization sharing and spiritual leader becomes the linkage and determinants to implement the above operations.

To sum up, the five elements of this model are indispensable. The eventual formation of Pentagon Model comes from the motivation of consumers' requirements. XIAOMI has been applying it into practice and has already achieved rapid growth. We hope more organizations and late-found enterprises can achieve rapid growth by learning from this model.

## V. CONCLUSIONS AND SUGGESTIONS

### A. Conclusions

Through the exploratory research on XIAOMI's case, we find XIAOMI makes an innovative extension definition in five traditional associated key management elements:

strategic management, cultural representation, organization form, management mechanism, executive power fitting customers' value.

- 1) Basic element: Strategy choice to concentrate on simplicity and make things extreme.
- 2) Appearance characteristics: Implanting faith factors and divergence of infinite cultural expansion.
- 3) Basic kernel: Completely connection with customers, amorphous and weak inertia organizational form.
- 4) Communication bond: Dual mechanism of organization sharing and spiritual leader.
- 5) Performance guaranteed: Opening enterprise execution system with customer value as orientation.

Combining these five elements, this paper constructs an integrated innovation management model of Pentagon Model, which can give local Chinese companies reference in the Internet Economy Age. The main theoretical contribution of this paper is to extend the definitions of five elements and construct Pentagon Model to explain the high-speed growth companies' distinctive features like XIAOMI in China.

### B. Future research directions

The advantage of applying a single case is able to grasp and analyze the innovation management problems deeply and carefully. But its limitation is the lack of reference and comparison. It is difficult to put forward some general theoretical propositions. Whether Pentagon Model from case study of XIAOMI applies to different industries and regions, as well as different sizes of general local start-up enterprises still needs further verification.

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