Built on Value

“Huawei is an enterprise that deserves respect and is worth learning from. The great importance placed by this tech company on financial management offers us inspiration and insight."

—Liu Chuanzhi, *Chairman of the Board of Legend Holdings Corporation, and Founder of Lenovo Group Limited*

"Enabling 'lead to cash', engaging in project operations, ensuring internal and external compliance, using the certainty of rules to deal with the uncertainty of results, allowing flexibility while also ensuring standard operations, rapidly striking a balance and then actively disrupting the balance, and inspiring dedication based on customers' interests… These are what Huawei Finance has done. Huawei's financial management practices have redefined the logic behind traditional finan

cial management, and opened a door to a broader world for Chinese enterprises that are working hard to catch up and overtake their global competitors." —Wu Xiaobo, *Director of the National Institute for Innovation Management, School of Management, Zhejiang University*

"Huawei is a world-class Chinese company that is capable of going head-to-head with the best in the global market. To compete successfully, Huawei focuses on delivering value to customers rather than just reducing costs. Huawei is also able to create value by leveraging the strengths of China. This does not only refer to cheap labor, but also to talented R&D employees who truly grasp core technolo

gies. However, just hiring these talented people isn't a guarantee to unlock their potential. That's why Huawei chooses to distribute shares to its employees. The company knows how to fully motivate employees and inspire dedication. These three points are what have made Huawei what it is today."

—Yang Guoan, *Management Professor at the China Europe International Business School*

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Built on Value

The Huawei Philosophy of Finance

Management

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The goal of any enterprise is to make itself more competitive, build trust among its customers, and survive market competition. Huawei's Board of Directors has made it clear that its goal is not to maximize the interests of shareholders or stakeholders (including employees, governments, and suppliers). Rather, it embraces the core values of staying customer-centric and inspiring dedication. This is the foundation for Huawei's survival.

– Ren Zhengfei

problems."

Forewords

"*Don't solve*

So advised the late patriarch of management theory Peter Drucker. What could Drucker have meant? Problem-solving is the chief preoc cupation and agenda of nearly all business managers and their companies. But when you solve problems, as this timely book shows, you tend to feed your failures, starve your strengths and sink into costly mediocrity. Problems orient you toward the past. Entrepreneurship is about the future. "Don't solve problems," said Drucker. "Instead, *pursue opportunities*." When you pursue opportunities, as Huawei's amazing history demon strates, you can transform your entire competitive environment. You can turn your previous "problems" into the maps and matrices of a new busi ness strategy. You can launch a juggernaut of innovation and growth. Exemplifying this transformative wisdom are Huawei's leaders Ren Zhengfei, founder philosopher, and his extraordinary daughter Sabrina Meng, Huawei Chief Financial Officer and guiding light of this book, which launches with her preface. Grasping its visionary principles of finance, you can gain new Druckerian insight into the miracle of Huawei. You may even understand how Ren Zhengfei in just three decades could turn the equivalent of $3 thousand into not just China's telecom equip ment champion but into a *multinational* colossus. It now commands $107 billion of revenues, operations in 170+ countries and regions, and 180+ thousand employees from around the world, 30 thousand of them non-Chinese. Its finance division, guided by Meng, commands hundreds of experts and managers from such schools as Harvard, Cambridge, Wharton, and Yale.

In the United States, anxious experts and rivals have offered many explanations and alibis for the Huawei miracle. They depict Zhengfei as an ex-army officer with sinister ties to the Chinese government. They imply he created his company as an elaborately mounted Trojan horse for com
munist hackers and spies. As the story goes, huge subsidies and gigantic heists of intellectual property account for Huawei's meteoric ascent as a state-owned and state-ruled enterprise.

Zhengfei's army career, however, was routine for Chinese youths of his era and devoted to engineering. As the son of a "capitalist roader" pillo ried during the "cultural revolution," Zhengfei launched one of the first fully private firms in mainland China. Long before the creation of any Chinese stock exchange, he founded Huawei with a major financial inno vation, what is called in the US an ESOP (Employee Stock Ownership Plan). Far from leaning on the government, Huawei triumphed by out performing all the state-owned enterprises previously dominating China's telecom industry. Huawei's accountants, KPMG, report no major state subsidies and verify Huawei's private ownership structure with 98.86 per cent of the equity owned by employees and 1.14 percent retained by Zhengfei.

Ren Zhengfei built Huawei in admiration for American openness, now ironically in danger of being lost in a siege of xenophobic fear of Huawei. This book quotes his 2014 riff on American success: "Openness is one of the factors that contribute to the success of capitalism. There was no eco
nomic success in China when it shut its doors to the outside world. Therefore, we must open up.

"Currently, many people in China hope to grow stronger behind closed doors. This is a mistake. Throughout history, China has shut itself away from the outside world for long periods of time, making it impossible to become strong. The US is the world's most open nation, and thus the world's strongest. Though the US may fall behind from time to time, it has seen constant waves of innovation: Apple, Facebook, and others. As long as the US remains open, who can stop it from moving forward?" (Ren Zhengfei: "Absorbing the Energy of the Universe over a Cup of Coffee," 2014).

Ren Zhengfei is also a supply-sider: "*Reducing taxes encourages invest ment. It is like digging a trench in the ground, which makes it easy for water to flow…Benefits from increased investment can offset loss of revenue from tax cuts for the government.*"

All major business competitors, necessarily imitating one another and using common components under industry standards, provoke tensions over intellectual property. In Huawei's case the charges of theft mostly reflect rivals' shock at Huawei's success in entering a market shaped by standards and inventions from the United States, made by such companies as Cisco, Bell Labs, and 3Com.

Although one would never know it reading American journals, more than 15 years ago the claims of stolen IP were fully ventilated and liti gated. It was an episode that rivals should study today—along with this book—before they disparage Huawei's current constitutional challenge to the U.S. ban of Huawei equipment in U.S. networks.

In January 2003, the American router pioneer Cisco shocked Huawei with a wide-ranging suit for property rights infringement. To prevent any effective response, Cisco unleashed its 70 pages of complaints in a famously patent-friendly venue in a remote District Court in Marshall, Texas. A Cisco executive in Asia was reported to have declared: "This time we need to make Huawei go bankrupt."

To most company leaders, this move would have seemed an insuperable "problem," solvable only by capitulation and retreat to niche markets in China. But in his characteristic inspirational leadership, Zhengfei saw the Cisco suit not as a problem but as a giant opportunity. Declaring that he trusted the fairness of the U.S. court system, he sent Huawei lawyer to Texas to defend his company against all charges. In the end the court vin
dicated Zhengfei's confidence by upholding the Huawei defense on all key points and barring Cisco from raising the issues again in another venue. Huawei is now a leading player and stakeholder in the global system of intellectual property rights and standards organizations. In recent years, Huawei has paid Qualcomm of San Diego more than a billion dollars in royalties. Last year Huawei bought $ billions worth of microprocessors from Intel, which also benefited from $4 billion of additional Chinese business.

Today with some 2.5 thousand patents in the relevant technology, Huawei is the world leader in patents for the new industry standard called 5G and offers the only turnkey system. This new standard, the Fifth Generation of wireless architecture, enables a wide range of future indus
tries, from next generation airport surveillance and security to urban traf fic management to self-driving automobiles and battlefield robotics, from Internet virtual reality and the Internet of Things to smart cities and

intelligent grids. Huawei now has a deep interest in the maintenance of intellectual property rights.

So let’s sum it up.

The U.S. has chosen to attack arguably the most creative and powerful and best-led capitalist company in China. The leading supplier of telecom equipment in the world, it is led by Ren Zhengfei, a charismatic philoso pher king of global industry with a natural eloquence and insight.

The U.S. government regards Huawei as such an immediate threat that it has reached into Canada to put CFO Sabrina Meng, the founder’s ele gant daughter, under house arrest in Vancouver. It is no way to treat a lady, regardless of whether Huawei blurred the murky rules of the interna tional boycott of Iran.

In spite of major royalty payments to US companies, it is being indicted for stealing US intellectual property. It is said to be concealing surveillance devices in its smartphones, worldwide best sellers behind only Samsung. It is said to be hiding chips in its routers and switches that enable them to be controlled from China, jeopardizing our networks and power grids.

Now the US is backpedaling the claims, making the more general argu ment that as a Chinese company Huawei is necessarily under the control of the Chinese government. Chinese law imposes a requirement that busi nesses comply with the needs of national intelligence bodies.

A flagrant example of “problem” paralysis, this U.S. claim is even more dangerous than the specific smears of Huawei. Such a rule would apply to any nation, including the U.S., and would render impossible most inter national trade in technology. It would cripple the international fabric of supply chains and standards that underlies most world economic growth and opportunity.

In a letter to his employees in the midst of the crisis over the arrest of his daughter, Zhengfei outlined how to turn this “problem” into an opportunity. He wrote: “*We must be open, transparent, active and coura geous to reveal problems and actively promote improvements.* Software devel opment is a creative and artistic work that takes full advantage of our ingenuity and potential. *We need to improve and enhance the transparent, traceable and auditable full process management mechanism to enhance soft ware engineering capabilities and practices from initial design and complete build to product lifecycle management from a credible perspective.*”

It is up to telecom companies and other network managers to do their jobs and negotiate open and defensible contracts for sensitive equip ment. If they harbor suspicions, Huawei’s carrier customers can entrust independent third parties to view the software source code and conduct security testing. Firmware programming for network hardware systems should be cryptographically signed, just as no iPhone or Huawei app will boot unless it is cryptographically signed.

If the U.S. can't deal with Huawei without craven bars and bans, it might as well retreat to a fetal curl, sealing off its "infant industries" and illusions in a commercial theme park. But let's take inspiration from Peter Drucker. Huawei is not a problem for American technology; it is a huge customer and huge opportunity. It offers a chance to revitalize the U.S. economy and infrastructure with a new competitive challenge and innovative resource.

Tyringham, MA, USA George Gilder

> Looking back on the path from whence we come, we see only the verdant green shimmering in the majestic setting sun. – Huawei CFO Sabrina Meng's 2017 New Year Greeting

At year-end, our Finance Department generally falls into a flurry of activ ity. There is an enormous amount of data to review, and it all has to be calculated, tracked, analyzed, verified, and measured. Beginning in October each year, Finance will face a period where overtime becomes the norm. Annual accounting and auditing work begins at the company's sub sidiaries around the world. The next year's budget preparation and review also happen during this period. All our finance organizations are generally up to their eyeballs with work relating to these two tasks, sometimes almost drowning in an endless sea of numbers.

As the old Chinese poem goes, "Looking back on the path from whence we come, we see only the verdant green shimmering in the majestic setting sun." As we wave goodbye to the past year, we are filled with unforgetta ble memories and fruitful results. Especially when we look at where we were a year ago, we will be aware of how much progress we have made over the past year. I am sure that many of our teams and colleagues now have a strong sense of pride.

Looking back at the challenges we have overcome and the peaks we have climbed, it is hard not to feel proud of our hard work. Thinking back on the twists and turns of the past year, how could we not feel inspired by our own perseverance? Of course, our present position only marks the beginning of our next journey.

As we open up boundaries at work, we are there to take up responsibility

Projects are at the core of the company's business operations. The proj ect finance team is now in its third year of development. This year, each region supplied us with many skilled people to engage in work related to project finance. In terms of its "form", our project finance staffing is almost completed. In terms of its “spirit”, we still have a long way to go if we are to meet the expectations of corporate management. Even though we are only half way in terms of overall capabilities of project finance, we have come a long way from our humble beginnings over the past three years, and we should be enlivened by our progress. Globally, 1500 project finance staff members are tirelessly handling contracts and projects. Their unremitting effort and perseverance are shedding light on all corners of the globe.

In one representative office I’ll call “S”, the project finance team’s work has been practical and down-to-earth. They have won the recognition of their field office and proven their own value. They braved the scorching sun to reach sites 120 kilometers into the desert. Each month they went out to inspect road repair works, and thus reduced project costs by 3.5 million US dollars. They drove into a valley 2 kilometers deep to survey site locations with site engineers and contractors, and proposed a feasible plan to reduce delivery costs for 10 sites in the valley. They basically lived at the sites, spending time discussing concerns with local villagers, and providing patient explanations. They found ways to use local village power sources instead of consuming diesel fuel, which saved a total of 388,000 US dollars, equivalent to 10 months of fuel for 31 sites.

In 2016, when facing major exchange rate fluctuations in country N, the representative office project finance team volunteered to help out. Before negotiating contracts with customers, they collected information and carried out detailed calculations to get a good idea of the possible foreign exchange losses that the company could face during the period of future contract fulfillment. During contract negotiations, the finance team participated in talks relating to the terms for sharing the exchange rate losses. Even during tough periods in the negotiations, they stayed positive and courteous, and did their best to protect the company’s interests. After contracts were signed, they didn’t waste any time to follow up on payment collection, delivery plans, and customer payment plans. They proactively coordinated the work and progress on both sides, and played an effective role in fending off potential foreign exchange risks.

As the old Chinese poem goes, “I see the petals falling out in the court yard, and gaze out at the swirling clouds in the sky.” Even though our project finance team achieved some progress, everyone was aware that this was just one step of many on our long journey, and that we shouldn’t balk at the road ahead.

We are a tireless and dedicated team. We are confident. We are willing. And more importantly, we are capable. In another two to three years, we will be a project finance team that is viewed as indispensable by field offices in their delivery.

For the finance team, we have to make sure that we are living up to our roles, as this is our compulsory task. Management opportunities that are not in our job descriptions are our optional tasks. The finance team has always worked hard on our compulsory task to demonstrate the best prac
tices in the ICT industry. At the same time, we are working hard on our optional tasks to become the most preferred and most trusted partner of business departments.

As we open up boundaries in management, we are there to seize opportunities

We are still honing our expertise on project finance management. Over the next few years, we will grow through exploration and make changes through adaptation. After many years of hard work, another transforma tion project related to finance – the development of our internal control system – has found its way through the fog and into the light.

In 2007, internal controls management was kicked off as a sub-project of Integrated Financial Services (IFS), embarking on the road toward transformation. Rome wasn't built in a day, and after 10 years of hard work, we have embedded internal control awareness, mechanisms, and capabilities into all our business activities. Internal controls can be found wherever we do business, forming a global internal control management system based on "process ownership and organizational responsibility".

In the early days of promotion of internal controls, finance was viewed in opposition to business. The goal of internal controls seemed to be to hinder the rapid handling of business. Amidst the confusion, we gradually found our footing and proposed the management goal of "demonstrating the value of internal controls in the improvement of operational results". With this objective in mind, we softened our approach and broke the work down into smaller parts. We went to each region and each organization to talk to them about what we wanted to achieve. We gradually clarified our role and explained the objectives of internal controls for each domain and

each organization. Once we had goals, we made commitments. Once we made commitments, we honored them. Internal controls gradually took root and blossomed in operational activities. Field teams also gradually accepted the concepts of internal controls, and became more willing to carry out their work according to management requirements for inter
nal controls.

Aiming to improve the quality of work in the Opportunity to Cash (OTC) process, the internal control team at a representative office I'll call "M" rolled out a system of automated acceptance, billing, and cost offset ting. This shortened billing time from 80 minutes down to 10 minutes, and the incidence of bill refusals by customers dropped by 98%.

The internal control team in representative office "L" likewise focused on OTC process improvements. Focusing on actual pain points in business, they chose to automate the link of Purchase Orders (POs) to customers. Once the project was implemented, the current year discrepancy in accounts receivable was reduced by 32 million US dollars, and losses caused by returned goods were reduced by 11 million US dollars.

These are all examples of how internal controls "imperceptibly" bring about operational returns during the course of their execution. When an enormous machine is operating, internal controls act as the lubricant as well as the brakes. When we improve operations and optimize work, we are the lubricant. When we are ensuring there are checks and balances and that data is visible, we are the brakes. Effective internal controls provide systematic assurances for the "active delegation and effective exercise of authority". Organizations that are closest to customers need to boldly and actively exercise authority. Organizations that have a bigger picture in mind have to appropriately delegate authority and effectively exercise con

trols. This is the sort of management and control system that we want. The true beneficiaries of internal control mechanisms are the various orga nizations at the company. They receive more authority and more respon sibilities, and boundaries are clearer. Each organization is able to shine within their respective scopes of authority and responsibility, making life better for everyone.

As we open up organizational boundaries, we are where tal ent is found

Within a dissipative structure, an organization must bravely stretch out its branches and actively absorb new energy in order to obtain new drive for ongoing growth. This is like the process of photosynthesis. A seedling needs light to grow into a towering tree.

Over the past two years, finance has been working hard at opening up organizational boundaries and absorbing fresh energy, welcoming in out standing talent from around the world. In November 2014, our finance team trialed a finance-focused job fair in the UK for the first time. This was the first step toward expanding our pool of overseas talent. Huawei's finance team now has several hundred graduates from Oxford, Cambridge, Harvard, Yale, and other renowned universities. They are gradually becoming a new driving force for us. Overseas recruitment of finance tal ent is gradually becoming systematic. From employer brand building to campus talks, from hands-on activities during the summer break to finance contests, we are gradually building our reputation at leading institutions of higher learning. In 2016, we hired nearly 340 international students to fill finance roles, accounting for 38% of this year's campus recruitment headcount.

These students who fill our finance positions have strong aspirations to change the world and to realize their own personal value. They have enthusiasm, drive, strong ability to learn, and extremely open minds. They were admitted to world-class universities as a result of their tangible achievements and outstanding characters. They have lived independently abroad, and have strived to expand their scope of knowledge. Today, they have joined our teams, and they are widely recognized for not being afraid of hard work, cherishing opportunities, having effective time management skills, and easily integrating into teams. The dedication that they exhibit fits very well with Huawei's core values. We hope that these young people will be able to rapidly develop and grow, and bloom in all their brilliance.

At the same time, we build organizations and centers of expertise in places where there is talent.

In 2015, our teams involved in tax planning and connected transactions were relocated as a group to London. More than a year since then, we have found that these two types of high-end talent are noticeably easier to find, and they are more easily integrated into our teams. Highly influential experts are propelling our professional tax capabilities to the next level. Everyone is proud to work alongside such senior experts. Working with them is one of the most valuable non-monetary incentives for our young staff who yearn to learn and grow.

We are opening organizational boundaries and introducing "colleagues without a Huawei badge" into the team. Whether you are an employee or a consultant, and whether you are working full-time or part-time for Huawei, we will work very openly with you. Success is our sole objective.

"Nike Papa", former manager of global connected transactions from British pharmaceutical company GSK, is highly respected. He previously led the handling of the world's largest legal case involving connected transactions. After he became involved in our tax transformation project as a consultant, we resolved to hand him the role of Chief Technical Officer. This decision turned out to be correct, and he delivered a framework tech
nical plan for connected transactions, which was undoubtedly at the fore front of the industry.

As we open up boundaries in thought, we are where methodolo gies are found

Of all the boundaries out there, the hardest to break down are invisible boundaries of thought. To keep up with this ever-changing era, we have to shake free from the shackles of our thinking and actively experiment with new methods and new tools. We have to break down boundaries in how we do our work, striving to experiment with new perspectives and new stances. We have long since moved beyond the scope of basic financial services. Our teams are equipped with advanced tools and methods from the ICT industry, making limitless vitality possible.

In the field of accounting, we are actively piloting automation and use of AI, handing over the accounting in standard scenarios to machines. Currently, we handle an annual average of approximately 1.2 million expense reimbursements from employees. Employees handle reimburse
ment processes themselves, and machines directly generate accounting vouchers based on pre-set rules. There are 746 accounts in 98 countries that are now interconnected, with payment orders able to be transmitted to any given bank around the world within 2 minutes. Our payment accu
racy is more than 100 times higher than that of banks. In four business scenarios in the accounts payable (AP) field, we have launched automated processing. Pilots have run for half a year, and parallel validations are being done manually. The results have thus far demonstrated an accuracy rate of 100%.

Our global program of radio frequency identification (RFID) asset management through the Internet of Things (IoT) is now implemented across 140,000 fixed assets at 2382 sites in 52 countries. RFID tags are attached to fixed assets that need to be managed. Every 5 minutes, the RFID tags automatically report a location signal, and once per day we update the usage load (or idle) data for the fixed assets. After deploying RFID, the time required to carry out fixed asset inventory work was reduced from a scale of months down to only a few minutes. For each

year's asset inventory work and asset inspections, we saved upwards of 9000 person-days of workload. The timely update and sharing of asset location information and asset idle data really got us on track in our asset management.

We have seen impressive innovation from the four big data projects involved in treasury planning. We have now officially launched big data projects for "operating cash flow forecasting" and "cash flow forecasting by currency". Using big data modeling, computers carry out upwards of ten thousand data calculations and model iterations, with 12-month fixed length rolling forecasting now possible for operating cash flow. From the perspective of matches with historical data, the smallest variance is only 8 million US dollars. For a company with an annual cash settlement volume of approximately 400 billion US dollars, annual revenue of about 80 billion US dollars, and business presence in 170 countries, a variance of 8 million US dollars in rolling forecasts of cash flows is an extremely ideal result.

Working with machines can be that wonderful! Machines thrive when you give them numbers.

As we open up boundaries in capabilities, we are where the arti sans are found

There are countless stories to be told of the journeys of growth and development in the finance team. There are tales of perseverance, dedica tion, craftsmanship, and excellence, supporting the organization as it moves forward in business.

The implementation of consistency of inventory accounts and goods (CIAG) has made inventories visible, identifiable, and manageable for the first time in the company's nearly 30-year history. Site CIAG rose from 76% in 2014 to 98.62% in 2016. We were able to re-use off-book materials worth 88 million US dollars in global central warehouses, and we cleared 75 million US dollars' worth of overdue inventory. We significantly improved the material storage periods at central warehouses and sites. Inventory Turnover (ITO) was improved by 44 days over the prior year. Each of these tangible achievements has proven that we are a team that does what it says it will do. In 2014, we made a commitment to the com
pany that within three years we would achieve CIAG globally. We vowed to walk the talk. And we have lived up to that commitment. We now have a 24/7 cyclical account settlement system for our account ing on a global scale. We have made full use of the advantages of time differences at our Shared Services Centers (SSCs). On the same data platform and using the same account settlement rules, the SSCs work

together to handle settlement work, which has significantly reduced the number of calendar days required for account settlement. The system works around the clock to automatically dispatch account settlement data on a rolling basis. Over 170 systems are seamlessly connected, with 40 million lines of data processed every hour. As we like to say, "the sun never sets on the SSCs" as they cyclically handle account settlement, providing support at the fastest possible speed to more than 130 representative offices so that they have timely access to operating data.

The company's 259 subsidiaries around the world each have to follow local accounting rules, Chinese accounting rules, as well as international accounting rules, and issue three financial reports that meet the require ments of these rules respectively. In addition, our SSCs also have to release operating reports by product, region, BG, and customer group. These reports can all be produced with high quality within five days.

One tax expert named Maria Carlos Paula in Brazil found that the National Social Security Institute (INSS) rules made the company eligible to apply for a rebate on paid social insurance taxes. Therefore, she sacri ficed her spare time, spending over two months collecting more than 150 tax refund proofs from the mountain of paperwork in the warehouse. The hard work and perseverance of Maria won back 30 million US dollars from the Brazilian tax authorities in overpaid taxes by the company.

During peak periods, one of our payment specialists named Ma A'li has to stamp 3000 documents every single day. That is equivalent to stamping one document every 15 seconds. She is so busy during those times that she continues stamping the documents while eating her lunch. Despite facing such an intense and high-pressure job, Ma A'li has never made a mistake in over 10 years at the company, with hundreds of millions of US dollars having passed across her desk. What incredible effort and what an impressive contribution this is to the company!

Traditional finance services have long since fallen to the wayside as the primary target of our work. Gone are the days where a finance worker would be a bespectacled old fellow with a bent back hunched over a desk, a cup of tea beside him as he crunched the numbers.

Finance is now a part of all business activities. Finance moves along with the company as it grows, from contract estimation to project payment col lection, from product planning to market analysis, from business travel applications to expense reimbursement, from asset management to inven tory management, from sales financing negotiations to implementation of financing planning, and from tax planning to the design of pricing. Finance

organizations have developed from a state of "utter backwardness" to being "somewhat backward", and on to the present day where we can confidently say that we are "somewhat advanced". Confucius once asked his disciples about their aspirations. One of them, whose name was Yan Yuan, said: "It is best to refrain from self-praise, and to avoid professing one's own accomplishments." Even though we have a low-key culture, the continued effort and ongoing achievements of the finance team are still things to be proud of. Today, our professional financial capabilities are at the forefront of the industry across the board, with some sectors even leading the industry.

Just like Shu Ting describes in her poem "To the Oak Tree", finance and business organizations are two independent and mutually comple mentary entities, like the oak tree and the ceiba tree.

As we welcome in the new year, I will borrow from the words of Shu Ting to conclude this new year message. I dedicate this to finance colleagues all around the world, and thank you for your unswerving effort and dedication. I am confident that we will not be a “clinging vine” hang ing on the great oak’s branches, nor an “infatuated bird” singing endless praise. We are a proud and self-sufficient ceiba tree in our own right!

…
I must be a ceiba tree beside you,
Be the image of a tree standing together with you,
Our roots, entwined underground,
Our leaves, touching in the clouds,
…
You have your copper branches and iron trunk,
Like knives, like swords,
Like halberds, too,
I’ll have my crimson flowers,
Like heavy sighs,
And valiant torches,
We’ll share cold spells, storms, and thunder,
We’ll share mists, hazes, and rainbows...
…

In the coming year, let’s continue to work hard, and continue to be proud about what we will be accomplishing!

Shenzhen, China Sabrina Meng

Contents

PART I

Expansion and Control

To achieve sustainable and profitable growth, we need to consider financial indicators in the short term; in the medium term, we need to look at capa bility improvement; in the long term, we need to focus on the industry landscape, the health of the business ecosystem, and the sustainability of the industry. Business success will always be an issue of concern throughout our company's lifecycle. Management is about weighing the present against the future, balancing the short term and the long term. – Ren Zhengfei

Huawei's Business Goal

A company must first have a clear business goal. Huawei's business goal is to make itself more competitive, build trust among its customers, and survive market competition. These are actually the most basic goals of any enterprise. Without any of the three, an enterprise will find it hard to sur
vive. An enterprise should first ensure that its most basic goals are continu ously achieved, rather than seeking to meet a certain target or maximize the interests of a certain group. In reality, any attempt to maximize inter ests will yield the opposite result.

Huawei pursues sustainable and profitable growth, rather than maxi mizing the interests of its shareholders or employees. Huawei only exists to serve its customers. Financially speaking, this refers to the value created for the company. For Huawei, a non-public company, value is not the same as capital market valuation. Rather, it relates to the deeper essence of value, reflecting the company's current and potential capabilities to make profits.

At Huawei, sustainable and profitable growth first means that business performance is robust, with profitable revenue, healthy cash flow, and light assets. Second, sustainable and profitable growth means the company is constantly enhancing its core competencies. Third, it means building a healthy and friendly business ecosystem. Business performance must be steady and balanced if it aims to support the company's long-term survival and development. Huawei's business model is one that maintains a long
term state of hunger for the company and doesn't seek to make big money.

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Huawei does not overly focus on profits. Rather, it adopts a long-term perspective for company development and pursues rapid growth at a rea sonable profit rate. Growth is fundamental to any enterprise. In the infor mation and communications industry, you either take the lead or get wiped out. There are no other paths.

All cooperation between people is actually about value sharing. Huawei stresses that every factor of production should be rewarded according to the value it creates for the company. If a certain factor of production is not rewarded, it will become a factor that constrains value creation. Value sharing that is based on the capital and labor invested is what drives Huawei's ongoing growth over the years. Today, this value sharing mechanism is gradually extended to also include its customers and suppliers. This has propelled the entire ecosystem into a positive cycle.

How can everyone at a company, from the founder to each ordinary employee, feel the pressure of market competition, think what customers think, and address what customers are most concerned about? This might be the biggest challenge for enterprise management. That's why an enterprise needs to transfer market pressure to every employee to keep the entire organization vibrant. This is Huawei's management philosophy – placing itself in a desperate position in order to survive.

This chapter thoroughly describes the major ways that Huawei adopts to achieve sustainable and profitable growth.

1.1 Pursuing Sustainable and Profitable Growth

1.1.1 Seeking to Survive as a Legal Entity Beyond Life-Span Constraints of Natural Persons

We are currently considering how we can develop the company compre hensively. At present, we rely heavily on technology, capital, and individual employees. As we move forward, we need to reduce this reliance in order to shift from the realm of necessity to the realm of freedom. *(Ren Zhengfei: Victory Is Inspiring Us, 1994)*

The purpose of drafting *The Huawei Charter* is to help establish rules and regulations, ultimately ensuring the company's sustainable develop ment. This means that the company's development doesn't rely on any

one individual; this is the only way for Huawei to have a future. *(Ren Zhengfei: Minutes of the CEO's Staff Team*[1] *Meeting, 1997)* Our company must continue to survive, yet the law of nature indicates that all men eventually die. Even if it is not constrained by the law of nature, a legal entity is still constrained by social norms. Even if a person is not successful, he or she may still live a long life. An enterprise, however, cannot survive for even a week if it lacks key capabilities. If an enterprise can adapt to both the law of nature and social norms, it may survive for centuries. *(Ren Zhengfei: Survival Is Fundamental to an Enterprise, 2000)* The survival of an enterprise depends on the enterprise itself. If it does not survive, it is not because others do not allow it to – it is because it can not find a way to carry on. Survival doesn't mean dragging out an ordi nary existence or simply existing for the sake of existing. To survive is not easy and to thrive is even more difficult. This is because we face a con stantly changing environment and a highly competitive market. This is further complicated by interpersonal relationships within our company. An enterprise can survive only if it is constantly improving. *(Ren Zhengfei: Survival Is Fundamental to an Enterprise, 2000)*

The goal of any enterprise is to make itself more competitive, build trust among its customers, and survive market competition. *(Ren Zhengfei: Deepening Our Understanding of the Corporate Culture of Staying Customer-centric and Inspiring Dedication, 2008)*

Achieving sustainable growth is the biggest challenge that all compa nies face. To overcome this challenge, we need to identify the major driv ing forces behind Huawei's development, and figure out how to sustain and improve these forces. Now, people are beginning to understand that a company's core values are what power the joint efforts of all employees. We need to ensure that our successors embrace our core values, and take the initiative to grow by reflection. We need to mold our successors through our core values. This is necessary to ensure the sustainable growth of our company. *(Ren Zhengfei: Managers Should Live and Pass on Huawei's Core Values—Speech at the First Workshop on Human Resource Management Outline, Huawei Executive Office Speech No. [2010] 009)*

[1] Staff Team, or ST for short, is a daily business coordination and decision-making team which operates with the CEO being responsible for the decisions made through collective discussions. Currently, there are STs in business departments and functional departments of the company.

Although a company's survival depends on many different factors, I think that maintaining sustainable and profitable growth and providing quality services are the most important. *(Ren Zhengfei: Speech and Comments at the Carrier Network BG's Strategy Retreat in Huizhou, Huawei Executive Office Speech No. [2012] 010)*

Whether or not Huawei is an Internet company is not important. Whether or not the Huawei spirit can be called an "Internet spirit" is not important, either. What matters most is whether the Huawei spirit can help us survive. The tortoise as described in the fable titled *A Tortoise and a Hare* is determined to move forward, doesn't hesitate, and doesn't rely on others. Similarly, we must have a firm belief in our own values, and adhere to development at a reasonable rate. We must not envy others for their rapid success. *(Ren Zhengfei: Applying the Spirit of the Tortoise to Catch up with the Dragon Spacecraft—Speech at Huawei Annual Management Conference 2013, Huawei Executive Office Speech No. [2013] 255)*

In the future, we will adopt a business model that allows us to maintain our own advantages, strengthen openness and collaboration, and ensure sustainable profitability. Survival is the ultimate victory. Our business model should ensure that we continuously make profits. This doesn't nec
essarily mean that we earn more than others. Our ultimate goal is to sur vive. We will firmly hold onto our advantages and continue to move forward. This is what BMW is doing. In addition, we pay sufficient atten tion to Tesla and learn about its competitive advantages. We should have a positive view of the changes that are taking place worldwide. As long as a strategic opportunity emerges, we will throw sufficient resources to seize it. *(Ren Zhengfei: Speech and Comments at the Carrier BG's 2013 Strategy Retreat, Huawei Executive Office Speech No. [2014] 016)*

The war-torn days of Genghis Khan are long gone. Modern society is not completely free from chaos, but it will eventually find peace. Survival is the ultimate victory. *(Ren Zhengfei: Avoiding Opportunism in the Era of Big Opportunities—Speech at the Luncheon with the Administrative Team of the Consumer BG, Huawei Executive Office Speech No. [2014] 025)*

1.1.2 Huawei Only Exists to Serve Its Customers

Huawei is not solely focused on profits. We aim for long-term develop ment. We always act with integrity in regards to our customer engage ment, operations, and corporate development. It is integrity that helps us

earn customer satisfaction, trust, and loyalty. By not overly focusing on profits, we can spend more of our energy on diligently pursuing long-term development, rather than on hype or speculation. Admittedly, if we act with integrity and avoid hype, certain customers may not think highly of us, but they will eventually see the value we bring. *(Ren Zhengfei: Huawei's Opportunities and Challenges, 2000)*

There is only one way to satisfy customers and maintain good customer relationships. That is to provide premium services. This is the basis for Huawei's survival. What does premium service mean? It means customers will continue to praise us even after they have paid us. *(Ren Zhengfei: Enlarging Teams to Prepare for a Big Battle, 2000)*

Huawei doesn't aim to maximize the interests of its shareholders or employees. Huawei only exists to serve its customers. This is why Huawei has and will continue to succeed. *(Ren Zhengfei: Minutes of a Briefing on Marketing Goals, 2002)*

Only after customers fully understand us will they realize how we are different from our competitors and see the type of future we can help them create. Then they will buy our products and help us to survive. *(Ren Zhengfei: Being Future-oriented, Focusing on Customers' Pain Points, and Displaying Huawei from a Global Perspective, Huawei Executive Office Speech No. [2012] 046)*

Huawei's Board of Directors has made it clear that its goal is not to maximize the interests of shareholders or stakeholders (including employ ees, governments, and suppliers). Rather, it embraces the company's core values of staying customer-centric and inspiring dedication. This is the basis on which Huawei survives. *(Ren Zhengfei: Clarifying the Rotating CEO System Under the Leadership of the Board of Directors, 2012)*

To provide quality services, we need to allocate high-quality resources to valued customers. This means that after we earn money from a cus tomer, we will invest some of the money back in the customer. How can we do this? By improving our services. *(Ren Zhengfei: Remarks at a Briefing by Southeast Africa Multi-country Management Department, Huawei Executive Office Speech No. [2013] 003)*

1.1.3 Inspiring Passion Across the Company Through Steady Growth

If Huawei had ceased to develop two years ago, we would be cleaning up a mess today and be preparing for bankruptcy. If we cease to develop

today, we will face the same situation in two years' time. Our competitors are too strong, so we have no choice but to press forward. *(Ren Zhengfei: There's No Guarantee for Success, But Boldness Makes a Difference, 1996)*

By maintaining growth at a reasonable rate, Huawei provides its employees with opportunities for personal development. Our increasing profits enable us to compensate employees generously and attract global talent. This is how we achieve optimal resource allocation. So, in this sense, a reasonable growth rate is necessary to inspire passion across the company. *(Ren Zhengfei: How Long Can Huawei Survive?, 1998)*

Huawei must maintain steady growth. So how can we grow faster?

The answer lies in management and services. Without effective management, we would not be able to gain traction, and without high-quality services, we would be lost. *(Ren Zhengfei: Do Not Be a Temporary Hero, 1998)*

As long as we constantly improve upon our core competencies, our market share will increase and we will rise above the rest. Then we can push even further, get even better, and continue to grow. And before you know it, we will have surpassed the competition. *(Ren Zhengfei: Focusing on a Down-to-earth Approach to Seize Opportunities for Development, 2000)*

Our goal is very clear: We need to develop further. If we don't, we will collapse. *(Ren Zhengfei: Human Resources Must Facilitate Business Development and Refrain from Being Rigid, 2008)*

1.1.4 Being an Industry Leader and Leading Industry Development

We must find our strategic direction amid chaos. Huawei will definitely approach the edge of a cliff one day. What do I mean by this? I mean that we will be ahead of our global peers. No one will then be able to tell us clearly what our future will be and we will have to rely on ourselves to shape the future. It is impossible for us not to approach the edge of the cliff. Nothing good will come out of trying to avoid this situation. *(Ren Zhengfei: Remarks at a Meeting at the Shijing Mountain Park in Zhuhai, 1997)*

In the information and communications industry, you either take the lead or get wiped out. There are no other paths. *(Source: The Huawei Charter, 1998)*

What do we strive for? We strive to become a global leader and provide quality services to our customers. You might think it sounds funny. How could Huawei have put forward such an ambitious slogan, especially in its

early years when it was still a small company? However, this goal has enabled us to become what we are today. If we hadn't set this goal, we would have been unable to build customer trust and develop a grand goal while keeping our staff down-to-earth. What people have been and will continue to be concerned about is whether electronic and network prod
ucts can be upgraded in the future, whether new technology will emerge and develop, and whether the networks they have invested in will be phased out because of technological progress. If Huawei doesn't want

to collapse, we must strive to be a global leader. *(Ren Zhengfei: How Long Can Huawei Survive?, 1998)*

In the future, the global market will be shared by several dominant telecom equipment providers. Huawei's overall strategy is to both com pete and cooperate with strong competitors in an ordered and controlled manner to gain a favorable position and firmly counter competitors who aggressively move against us. This is how we can establish a landscape of two or three major players in each segment of the market, namely, regions, products, and customer groups, within the next two years. *(Source: Guidelines on Sales Priorities, EMT Meeting Minutes No. [2008] 014)*

The First Emperor of the Qin dynasty was able to unify the country after 600 years of chaos because the state finally reached a consensus on their goals and interests. Guan Zhong[2] said that if all people of a state received income from the same source, that state would stand unrivalled. We must be fully aware of our goals and responsibilities, be resolute in achieving these goals and fulfilling these responsibilities, and at the same time periodically re-examine these goals and responsibilities. We have gathered a team of exceptional talent from each nation. However, in this great era, we have done something that requires great efforts but is not very profitable. Over two decades of hard work, we have established a platform that has tremendous potential value. We must not destroy it because of corruption or lack of resolve. We must hold tight to our oath in the EMT declaration, and at least those 2000 to 3000 people at the core must be strictly self-disciplined. We must remain dedicated and work together towards the same goal and receive income from the same source. *(Ren Zhengfei: EMT Meeting Minutes No. [2012] 002)*

At best, Huawei can become one of the world's top three players. There is no way we will become the sole global leader. *(Ren Zhengfei: Speech and*

[2]Guan Zhong (c. 720–645 BCE) was a chancellor and reformer of the State of Qi during the Spring and Autumn period of Chinese history.

Comments at the Carrier Network BG's Strategy Retreat in Huizhou, Huawei Executive Office Speech No. [2012] 010)

There are four requirements for being an industry leader. First, a leader needs to be able to envision the future, including the direction, trends, and changes of the industry. But this is not enough. A leader should also be able to shape the future, guiding the entire industry and always playing a leading role. Second, a leader should adopt a value sharing mechanism that covers the entire value chain. If industry players have the opportunity to earn more profits while facing fewer risks, they will be more willing to follow that leader. Why does Apple have so many followers? The company does a huge volume of business. This gives its partners access to a huge market space and a

bright future. Apple's high profits mean it can be gen
erous to its suppliers and partners, who are able to earn a lot of money with limited risk. Third, a leader must make trade-offs between what it will and won't do, and remain committed to its choices. Why didn't Ericsson develop WiMAX[3]? Because if it had, its followers might not know what it, as a leader, was going to do. If it changes its mind often, its followers may lose confidence in it. Fourth, a leader needs to build an environment that promotes competition and ensures profitability of the entire industry. If a leader snatches up all of the market shares by setting extremely low prices, there will be no room left for other players. *(Ren Zhengfei: Speech and Comments at the Carrier Network BG's Strategy Retreat in Huizhou, Huawei Executive Office Speech No. [2012] 010)*

To develop our business in the future, we need to lead industry devel opment and serve as an advisor for our customers. *(Ren Zhengfei: Speech and Comments at the Carrier BG's 2013 Strategy Retreat, Huawei Executive Office Speech No. [2014] 016)*

We must focus on a "needle-tip" strategy for our pipe business, achieve sustainable and profitable growth, and become an ICT leader through peaceful means. *(Ren Zhengfei: Speech at the Briefing on HR Work, Huawei Executive Office Speech No. [2014] 057)*

To be an industry leader, we must not be so narrow-minded as to throw stones on highways to stop others and develop our own unique strengths. This will harm other market players and impede global progress. This is not what we want to achieve. Our aim is to become an industry leader and

[3]WiMAX, worldwide interoperability for microwave access, also known as "802.16 Wireless Metropolitan Area Network" or "802.16", is an emerging mobile broadband access technology that provides fast Internet connections.

contribute to the world. Then what makes a leader? Being a leader means making the world a better place, contributing to the broader architecture of global information networks, and sharing benefits with others. Huawei is a large, responsible company. How could we block network information flow? Even if we could, people would still find other ways to reach their destination, and we will be marginalized in the end. *(Ren Zhengfei: Speech at a Meeting with Employees of the Legal Affairs Department, Secretariat Office of the Board of Directors, and Wireless Network Product Line, Huawei Executive Office Speech No. [2015] 015)*

1.2 The Meaning of Sustainable and Profitable Growth

1.2.1 Pursuing Profitable Growth, Healthy Cash Flow, and Light-Asset Operations

Without economies of scale, it will be increasingly difficult to develop the company

We are in an information age where, thanks to the widespread exchange of information, human intelligence is enhanced and unleashed on an unprecedented scale. As a result, we can produce more new products and technologies to serve the world. As information networks continue to expand at greater speeds, the lifecycle of new products and technologies will become shorter and shorter. If we can’t grasp these fleeting windows of opportunity and achieve economies of scale, we will find it increasingly difficult to develop the company. Without a massive global service net work, and a management system to support that network, we won’t be able to generate enough profit to survive and maintain rapid development. For Huawei, letting opportunities like this slip can only be attributed to issues with our services and management. This is a strategic inflection point for Huawei. *(Ren Zhengfei: Do Not Be a Temporary Hero, 1998)*

Due to advances and rapid changes in the information industry, we must achieve economies of scale to shorten the time invested in new prod ucts. Scale is an advantage. This advantage is based on effective manage ment. A company that downsizes will become less competitive while a company that scales up but is unable to effectively manage itself will face bankruptcy. Management is an internal factor and can be improved. However, external factors are beyond our control. Small companies, when

exposed to these factors, will find themselves very vulnerable. To survive, we must continuously improve our management and services. These are the strategic starting points for Huawei to increase scale and inspire pas sion. *(Ren Zhengfei: What Can We Learn from the American People?, Improvement Issue No. 63, 1998)*

If we can stay ahead of our competitors and control our costs after we seize a large market share, we might be able to maintain that share of the market. The costs I am talking about are not just the costs for technolo gies and products. If we can’t control costs or hold on to our market share, our competitors will easily catch up even if we are achieving techno logical breakthroughs. Like the “mile-a-minute weed”[4], whoever can lock up this space will lock in this industry. *(Ren Zhengfei: Speech at the 2008 Mid-year Report by Regions to the EMT, EMT Meeting Minutes No. [2008] 028)*

Centering our business operations on profits, but not pursuing maximum profits

For many years, Huawei's growth has been oriented towards sales. In a bubble economy, this growth model is understandable. This is what hap pens in the real estate market. When prices are very high, whoever controls more land will earn more. In Huawei's early years, our net profit reached 23%. At that time, as long as we won a contract, we would turn a profit. This is why we have developed a sales-focused culture. However, this cul ture hasn't changed with the times. We must change now. During this historic period, selling more is no longer enough. We need to increase our operating efficiency and project management capabilities. We need to shift our focus towards three things: sales revenue, contribution gross profits, and cash flow. These are necessary for us to maintain a balance in the long run. *(Ren Zhengfei: Adapting the Manager Appraisal System to Challenges Facing the Transforming Industry, Huawei Executive Office Speech No. [2006] 036)*

In our first two decades as a company, the market was huge and profits were high. At that time, we focused on scale because it guaranteed profits. But things are changing. Now, when we assess the performance of each representative office, region, and product line, we focus more on positive cash flow, positive profit margins, and improvements in per capita effi
ciency. I believe significant changes will take place over the next three

[4] "Mile-a-minute weed" is an extremely vigorous plant that can survive and grow quickly even in harsh conditions.

years. If we continue to focus on scale, the company will spin out of con trol. *(Ren Zhengfei: Remarks at a Meeting with Senior Managers at a Project Management Summit, Huawei Executive Office Speech No. [2009] 007)*

The paramount goal of a company is to serve its customers and earn profits. After 20 years of development, we are finally able to say that our business operations are centered on profits. However, there are short term, mid-term, and long-term profits. There is no rule for when profits need to be gained. Profits gained this year are profits, and profits that take 10 years to gain are still profits. Being profit-centered is an important aspect of our management transformation. The entire organization and the people responsible may experience significant changes because of our emphasis on profits. So why am I so confident? I think the ultimate result we want from the transformation is that Huawei will be able to perform a little bit better than it did the day before. This slight difference in perfor mance is what will enable us to survive. Sometimes, the difference between life and death might be only a second or two. *(Ren Zhengfei: Speech at the Regular Meeting of the Reserve Pool, 2009)*

Maximum profits are not what we pursue. In fact, maximizing profits will bleed the future dry, which in turn will harm our strategic position. *(Ren Zhengfei: Speech at the EMT ST Meeting, 2010)*

When Huawei was still a small company, we saw profits each year despite our goal to become a big company. If we didn't have money to distribute, the company would have collapsed long ago. Every one of you wants to grow our company into those like Cisco and Apple, and every one of you speaks louder the richer you become. It would have been fine if we just focused on what we had and made breakthroughs. But we insisted on becoming a large world-class company. That is why we have unfolded all of our businesses. However, we failed to do a good job in some key areas. We must not continue to expand to areas where we can't create value. We must focus on creating value. *(Ren Zhengfei: Speech at the EMT ST Meeting, 2012)*

Cash flow is the lifeline of a company

I once took our senior executives for a visit to the Hakka fortified houses. How were the Hakka people able to safeguard their fortified houses? Why were these big houses able to survive? The key lies in the fact that every big house had a well that functioned effectively. This is like cash flow. Our senior managers must be fully aware of the importance of cash flow. There is no sign of collapse for Huawei even today. This is because

we've always had cash flow. We can store materials like food. However, without water, we won't be able to survive. The biggest characteristic of fortified houses is that each of them has a well. Castles outside of China all needed water supply, as it was crucial to both war and life. At Huawei, this well is the cash flow in our financial management. *(Ren Zhengfei: Speech at the Third Quarter Meeting Regarding Marketing in China, 2004)*

The biggest danger in the future will lie in cash flow. We must pay great attention to this. If we encounter a big problem in the future, that will be a drain on cash. This is a bottleneck for any company's survival, and many companies in the industry have collapsed because of this problem. What happened to the company D'LONG International Strategic Investment? It went bankrupt because a soft landing was impossible for many of its projects due to a drain on cash. All the banks asked the company to pay back their loans, which disrupted the company's chain of operations. This is why we say "cash is king". Therefore, if we collapse, it will probably be caused by a drain on cash. We won't collapse because of lack of profits. Without profits, we can sell our buildings or land. That will sustain us for several years. But without cash, we will quickly go bankrupt. *(Ren Zhengfei: Strengthening Payment Collection and Improving Cash Flow—Speech at the EMT ST*

Meeting on February 28, 2006, Huawei Executive Office Speech No. [2006] 007)

Only robust and balanced financial results will be able to support the company's long-term survival and development

We should not overemphasize any single indicator in our appraisals, because doing so will not guarantee our company's sustainable develop ment. If we only focus on sales revenue, some regional offices and product lines will do whatever they can to get strategic subsidies and price cuts from the company. We usually see this behavior in incompetent sales peo ple and managers who can only sell products at low prices. Using this approach, the more we sell, the sooner we will perish. *(Ren Zhengfei: Speech at the Mid-year Market Conference, Huawei Executive Office Speech No. [2006] 036)*

We must continue to base our performance appraisals on factors such as sustainable and profitable growth, profits, cash flow, and per capita effi ciency improvements. (In areas where operations are mature, we can use total compensation packages as the basis of this accounting.) In cases where departments fail to exceed the average score for corporate-level per capita efficiency improvements, the heads of areas, regions, representative offices, product lines, and other departments will be held accountable.

Departments that exceed the average score must be ranked by positive profits, positive cash flow, and strategic goal attainment; senior managers that rank the lowest will be removed from their positions. This is different from our past practice of not penalizing senior managers and will allow us to assign people with successful field experience to our HQ. *(Ren Zhengfei: Who Calls for Artillery and How Do We Provide Timely Artillery Support?— Speech at the Awards Ceremony of Sales & Services, Huawei Executive Office Speech No. [2009] 001)*

The purpose of sales is not merely to sign contracts. Any exciting opportunity has to generate revenue, and all revenue has to bring profit and cash. Otherwise, temporary success will lead to the company's demise. *(Ren Zhengfei: Guidelines on the Analysis of the Business Environment and Key Business Strategies, Corp. Doc. No. [2012] 081)*

Huawei is an asset-light company, and doesn't have the capacity or experience to manage assets. If we own heavy assets, our fluidity will become increasingly poor. Then we will face the problem of demise, not profitable and sustainable growth. *(Ren Zhengfei: Comments at a Meeting with Sales Financing Experts, Huawei Executive Office Speech No. [2012] 025)*

"With survival as our bottom line, we aim to achieve profitable growth and healthy cash flow, and avoid asset-heavy operations.” This goal should be made clear and we need to focus on achieving this goal over the next two to three years. *(Source: Minutes of the Report on the 2016 Work of the Finance Committee, Board of Directors Meeting Minutes No. [2017] 006)*

1.2.2 Continuously Improving Huawei’s Core Competencies

Increasing forward-looking, strategic investments to build the com pany’s future technological advantages and lead industry development Business operations and management should center on our core com petencies, not on short-term interests. Huawei will never do anything that is not conducive to enhancing our core competencies. When faced with opportunities outside the scope of our core competencies, we can resist the temptation. Some might say that we’ve let so many opportunities slip through our fingers in an attempt to maintain a strong hold on our core competencies. But I would argue that, without our core competencies, we would lose the opportunity to develop entirely. Sure, we have a lot of opportunities right within our grasp, but only by approaching them with caution can we achieve something that no one else could possibly achieve.

We only have one standard for ourselves: Continue to improve upon our core competencies. With them, we can do many, many things. Without them, we can’t achieve anything. This is why we’re constantly trying to cut down on superfluous activities. *(Ren Zhengfei: Huawei’s Opportunities and Challenges, 2000)*

We must invest more in strategic goals. Our investments today can only produce effects in two years’ time. If we reduce investment today, we will lack the seeds and fertilizer we will need when spring comes. *(Ren Zhengfei: Speech at the CEO’s Staff Team Meeting, 2001)*

We will increase forward-looking, strategic investments, and build up our technological advantages for the future to lead industry develop ment. We must increase our technology-centric strategic investments to maintain a leading position in the industry. After all the talk about cus tomer centricity, it is possible that we go from one extreme to the other and ignore our forward-looking technology-centric strategy. In the future, our concept of technology centricity will be intertwined with our concept of customer centricity. We will be customer-centric when devel oping products, and technology-centric when developing next-genera tion architectural platforms. *(Ren Zhengfei: Guidelines on the Analysis of the Business Environment and Key Business Strategies, Corp. Doc. No. [2012] 081)*

Moving forward on two wheels – technological innovation and management transformation – to drive the ongoing improvement of the company’s core competencies

Short-term improvements to management should be guided by the long-term goal of enhancing the company's core competencies. With this in mind, we will not get lost in the midst of short-term management improvements, and our short-term and long-term goals will not contra dict each other. As a result, our core competencies will improve, and we will discover what we need to survive and what value our survival brings. *(Ren Zhengfei: Survival Is Fundamental to an Enterprise, 2000)*

What can help us to survive a "hard winter"? The answer is high qual ity and low costs. Whoever delivers the highest quality at the most affordable price and is the most responsive to customer needs will be able to survive the winter. Therefore, the top priority for managers in charge of R&D is to improve quality and reduce costs. Only when they have achieved these two things can they start to explore the direction of technological innovation. The three pillars that support technological

innovation are: quality, cost, and time. Technological innovation that does not satisfy these conditions is worthless. We should never innovate for the sake of innovation. We must be both bold and cautious when doing research. We must also be bold enough to spend money yet cau tious about quality and technological validation. *(Ren Zhengfei: Speech at a Meeting with the R&D Managers of Huawei Technologies and Avansys, 2001)*

How can we succeed in our globalization and maintain our competitive advantages? Huawei's core values have told us what our goals, strategies, and approaches are. We have survived through dedication and technologi cal innovation. Isn't there an end to technological innovation? Will Moore's law carry on forever? Can we win in all markets with the same approach? In my opinion, when wired and wireless broadband access reaches a certain bandwidth, and have a certain degree of coverage, inno vation in network technology will slow down. At that time, companies that have a very large market presence will be managed effectively and that can provide low-cost high-quality services will be able to survive. Huawei has to become such a company before a decline. In the past ten years, we have strived to change ourselves, modestly learn from Western companies, improve efficiency, develop an exceptional human resource management mechanism, and motivate all our staff to remain dedicated. This is the only way for us to survive. As long as we are not complacent, we will surely become a winner over the long term. *(Ren Zhengfei: The Market Economy Is Best for Competition; Economic*

Globalization Is Inevitable—Speech at the Commendation Meeting of Finance, Huawei Executive Office Speech No. [2009] 005)

We have two principles for innovation. First, we must emphasize value. We must not innovate for innovation's sake; rather, we must innovate to create value. Second, we must be more tolerant of failures in innovation. *(Ren Zhengfei: Speech at the Meeting with Staff from the 2012 Laboratories, Huawei Executive Office Speech No. [2012] 035)*

What is the downside of engineers being managers? Engineers-turned managers tend to neglect management and emphasize technological inno vation so much that they end up making products that no customer wants. We should not always prioritize technology. We must also emphasize man agement and shift our focus from technology to business. A project man ager must be a business leader, not a technical expert. *(Ren Zhengfei: Speech at the EMT ST Meeting, 2012)*

1.2.3 Building a Healthy and Friendly Business Ecosystem

We need to possess strategic thinking when building a busi ness ecosystem

As Huawei continues to grow, it may be impossible to always have friends around us; we do have foes, as we may have caused the collapse of many smaller companies. We need to change this situation; we need to achieve a win-win scenario through open collaboration. We have turned some friends into foes during the past 20 years; in the next two decades we will strive to turn foes into friends. When we have numerous friends across the value chain, we will surely achieve even greater success. *(Ren Zhengfei: Customer Centricity, Increased Platform Investments, and Open Collaboration for Shared Success—Speech at the 2010 PSST Managers' Meeting, Huawei Executive Office Speech No. [2010] 010)*

Any strong man is balanced. Can we survive when we become extremely strong, but have no friends around us? No. Why should we force out other players in order to dominate the market? Many people throughout history wanted to conquer the whole world, but in the end they perished before their goals were achieved. Huawei will surely fail if we have the same men
tality. Why shouldn't we work with our partners, especially strong ones? We must not be so narrow-minded as to force out other players. Rather, we should cooperate with our peers while competing alongside them, as long as such cooperation is in the interest of both parties. *(Ren Zhengfei: Customer Centricity, Increased Platform Investments, and Open Collaboration for Shared Success—Speech at the 2010 PSST Managers' Meeting, Huawei Executive Office Speech No. [2010] 010)*

As our business continues to grow and change, the business environ ment will become increasingly tough. We must have measures in place to help us handle tough situations. Although we are already very strong, there are still many problems within our organization. We must be strong internally and soft externally and learn to make concessions. In addition, we must avoid being arrogant and learn to appropriately handle internal and external relationships. What looks strong on the surface is not always strong throughout. *(Ren Zhengfei: Success Is Not a Reliable Guide to Future Development—Speech at the Huawei Market Conference on January 17, 2011, Huawei Executive Office Speech No. [2011] 004)*

Huawei's future success relies on two factors: One is organizational capabilities and vitality; the other is a favorable business ecosystem. Will

we have the capacity to run a company with revenue of US$100 billion? Will we have the vitality to cope with future challenges? Will the business ecosystem be tolerant of us and allow us to become big and strong? What measures will we take to improve the business ecosystem? *(Ren Zhengfei: Do Not Expand Blindly and Do Not Assume That We Are Already Strong Enough, Huawei Executive Office Speech No. [2012] 006)*

In this era of heroes, we must dare to lead on a global scale; but once we establish our advantages, we cannot afford to make enemies. We must instead cooperate with others. Someone asked me, "What is your business philosophy?" I replied, "We do not have a business philosophy. We simply serve our customers." *(Ren Zhengfei: Speech at the Corporate Strategy Retreat, 2015)*

Exchanging land for peace

Managers at Huawei do not have to cater to the needs of employees, but should adopt appropriate methods to achieve company goals. Temporarily, we may need to sacrifice our short-term interests, but in the long run, our company will grow. *(Ren Zhengfei: Huawei's Hard Winter, 2001)*

When we were cooperating with a world-class company, which was also one of our all-around competitors, I told them I was a disciple of Yitzhak Rabin, and that we should be interdependent and seek the help of each other to coexist. I mentioned my respect for Rabin to illustrate our long term strategic relationship with competitors. *(Ren Zhengfei: Huawei's Hard Winter, 2001)*

About seven or eight years ago, we began to implement a "land for peace" strategy, seeking to cooperate with competitors at the cost of our market share. This cooperation complements our strengths and creates greater value for customers. Also, we have become more recog nized, and our competitors have begun to treat Huawei as their friend. While we vie with competitors for the opportunities to provide cus tomers with superior services, we collaborate with competitors to drive down product development costs. This change in the paradigm has added fuel to our growth momentum and will significantly reshape our future development. *(Ren Zhengfei: Seeing the Situation Clearly and Accelerating Organizational Building and Reserve Pool Development to Embrace Huawei's New Development—Speech at a Meeting for HR Directors, 2005)*

1.2.4 Pursuing Huawei's Long-Term Value

Value reflects an enterprise's current and potential capabilities to make profits

Although a product may not be profitable at first, it can still become profitable in the future. We must adopt a long-term profitable strategy for products that are not yet producing profit in the short-term. The key is to set up a point of marginal cost so that once we exceed that point, we will become profitable. *(Ren Zhengfei: Speech at a Briefing on Developing the IP Microwave Business, 2009)*

During our current restructuring, we should prioritize market oppor tunities first, and then per capita efficiency. If we only emphasize per capita efficiency, based on our business performance this year, per capita effi ciency will increase as long as we don't increase the size of our workforce. But we won't have achieved sufficient growth. To truly increase per capita efficiency, we need to first guarantee sustainable and profitable growth – a mechanism centered on self-coordination. We can't focus single-mindedly on per capita efficiency, or we will definitely fail. We need to have a strate gic mindset – focus our attention on growth, as well as the total amount of profit we generate – and then we can assess per capita efficiency. Otherwise, we're doomed to failure. *(Ren Zhengfei: Speech at the Regular Meeting of the Reserve Pool, March 25, 2009)*

We must focus on our core business. Value – not technology – must be at the center of everything we do. *(Ren Zhengfei: Speech at a Work Report of the Network Energy Product Line, Huawei Executive Office Speech No. [2012] 043)*

Huawei's business model: always staying hungry, not seeking to earn big money

In this era, it doesn't matter if we cannot influence market demand. Rather, we must be able to adapt to changes. Many of our existing assets are a legacy of the voice era. Our success over the past two decades will not ensure our future success. We need to put our past success behind us and move forward. I don't think we should consider technology to be a thresh old, because competitors will catch up with us sooner or later. Customers might not remain loyal to us all the time, because we might not treat them the same as time goes by. What actually matters, in my opinion, is the busi ness model. Why do I insist on earning small money, instead of big money? It's because of our business model. We have managed to catch up with other vendors because many of them decreased their investment in areas that generated lower profits. If we continue to earn small money after we

become the industry leader, it will be impossible for other players to earn big money in the industry. Will they remain dedicated if they can only earn small money? If not, we will remain the industry leader. If we always stay hungry and do not seek to earn big money, we will keep earning small money and survive. If we give employees decent pay, they will stay and we can keep the company running. If we only focus on short-term interests and seek to earn big money, we will be digging our own grave. Although a company's survival depends on many different factors, I think that main
taining sustainable and profitable growth and providing quality services are the most important. *(Ren Zhengfei: Speech and Comments at the Carrier BG's 2013 Strategy Retreat, Huawei Executive Office Speech No. [2014] 016)*

Huawei has been swayed many times in the past. I think that to suc ceed, one has to focus on the things that one is good at. Just now, a col league said making chips doesn't make much money. Those who make semi-conductors earn a lot of money. But those who earn big money won't be able to sustain it, because people will become jealous of the prof its and want to get in the game. What about earning modest profits? We work hard, but our profit margins are lower than those of real estate com panies. It would be unfair if we perished first. When I talked to the vice president of the EU, he asked me how Huawei could develop when the global economy is in such bad shape. My answer was that, first of all, we are dealing with small amount transactions, which are not particularly influenced by economic crises. For example, if you owe me money, I still have to make a call to ask you to pay me back. That telephone call costs a small amount of money. Secondly, our profit rate is lower than restaurants or real estate companies. Since we can survive with such a low profit mar gin, we won't collapse that easily. While the whole world is anxious, the management team of Huawei is not. We are going on with the transforma tion. Although the overall economy is not good, we have still managed to offer our employees pay raises over the past few years. How have we man aged to remain stable? The answer is that we insist on earning small money. *(Ren Zhengfei: Speech at the Meeting with Staff from the 2012 Laboratories, 2012)*

1.2.5 Sharing Gains Based on the Capital and Labor Invested

Cooperation between people is actually based on interest distribution. If our initial aim were to get rich alone, we would have fewer partners, our organization would be less effective, and our profits would be lower. In

that case, we would have a higher distributable percentage out of a smaller sum. When these two factors are multiplied, the outcome would be small. Our aim is to make the overall pie bigger and decrease our own slice of the pie. This adheres to the principle of interest sharing. *(Ren Zhengfei: Speech Regarding Corporate Organizational Goals and System Blueprints for the Future, 1994)*

Resources can be exhausted; only culture endures. Huawei does not have any natural resources to depend upon. What we do have is the brain power of our employees. This is our oil, our forests, and our coal. Human ingenuity is the creator of all wealth. *(Source: The Huawei Charter, 1998)*

We must establish a value distribution system where the income of each employee is linked to the company's overall performance. When the com pany performs well, we must dare to expand and share risks together. When the company experience difficulty, we need to get through the hard times together. In this way, we can share the pressure among all employees across the company. *(Ren Zhengfei: Key Points for Management, 1999)*

To achieve growth, an enterprise must create results for its customers, capital providers, and employees. Therefore, it is essential to satisfy cus tomer needs, and cultivate employees who are passionate and work hard to meet these needs. We should base salaries on employees' real contribu tions and potential to continually contribute, and base bonuses on short term contributions. We should also emphasize individual contributions to capital. Any increase in headcount should be accompanied by added value. An enterprise must satisfy its customers, as this is the basis for its survival. It must also satisfy its shareholders, as this is the purpose of their invest ment. The enterprise must satisfy its value contributors, and value the contributions of dedicated employees, as they are the driving force behind sustainable growth. *(Ren Zhengfei: Guidelines for Human Resources Management Transformation, 2005)*

Who will Huawei recognize, dedicated employees or shareholders? People outside Huawei say that Huawei shares are valuable because Huawei employees are dedicated. If no one works hard, these shares will become valueless. Your efforts are saving the company and ensuring the interests of financial investors. Financial investors should be rewarded adequately, but dedicated employees should receive higher rewards. This is a reasonable value distribution mechanism. *(Ren Zhengfei: Remarks at a Meeting with Members of the Project & Financial Management Enablement Program for High Potentials, Huawei Executive Office Speech No. [2014] 054)*

One employee posted an article from an external critic on our *Xinsheng Community*, saying, "If Huawei fails to make profits continuously, a bub ble will emerge in its Restricted Phantom Shares, which will burst sooner or later." This article speaks the truth. Therefore, Huawei must work hard to improve itself, focus on strategy, simplify management, reduce redun dancy, and dismiss underperformers. This is the only way for us to inspire passion across the company. Similarly, public companies will collapse if they don't make profits. Without profit, private companies won't grow either. We don't have a different fate. What we can do is work hard. *(Ren Zhengfei: Comments to Staff of the Enterprise BG, Huawei Executive Office Speech No. [2014] 006)*

Our Restricted Phantom Shares plan was approved by the Chinese gov ernment and is therefore legal. Several top government officials have asked about this plan and wondered whether it can promote industry develop ment. Even though we are abiding by the law, any investment has risks. We bundle our risks with employee dedication. If employees are confident in their own dedication, then they voluntarily buy company shares. Of course, they can choose not to buy. If they are worried, any of them can withdraw from the plan completely, during the period of the company's steady development. However, once they withdraw, they will not be allowed to buy back their shares. If they want to buy shares later, they have to follow the share distribution plan, which is based on contributions, and this has ceilings. *(Ren Zhengfei: Comments to Staff of the Enterprise BG, Huawei Executive Office Speech No. [2014] 006)*

Huawei has been successful over the past 20 years because it has imple mented a value sharing mechanism based on the capital and labor employ ees invest. This mechanism should be extended to also include our suppliers and customers. The ultimate result is that we share the world market. *(Ren Zhengfei: Remarks at the Strategic Reserve's Oath-taking and Awards Ceremony, Huawei Executive Office Speech No. [2015] 083)*

Yang Lin: Just now you mentioned Huawei's mechanisms. There are many discussions in China about Huawei's mechanisms and corporate cul ture. May I hear your own perspectives on this? Ren Zhengfei: Our cul ture is very simple: staying customer-centric and inspiring dedication. In this world, our customers treat us best, so we need to devote ourselves to serving them. As we want to earn money from our customers, we must treat our customers well, and make them willing to give us their money. In this way, we establish good relationships with them. How can we serve our customers well? By working hard despite all the hardships we might

encounter. We need to motivate our dedicated employees and set a rea sonable ratio between gains from capital and labor. *(Source: A Chat in the Garden with Huawei Founder Ren Zhengfei, Huawei Executive Office Speech No. [2015] 098)*

Yang Lin: Huawei has achieved great success, especially in Europe. How has Huawei emerged from a small unknown Chinese company to a top player in the European market? How has Huawei eaten away the mar ket share of its competitors, including established companies like Nokia and Ericsson? Ren Zhengfei: Actually, you’re wrong. You should say how we have worked together with these companies to contribute to the world. The information society is developing faster than our own capabilities. If this weren’t the case, we could be playing golf and relaxing in cafés. During this period, our global peers have also grown, and the apple has become too big to peel. Our strategy is to collaborate and grow to meet social needs. Our value sharing mechanism has allowed us to share our gains from capital and labor with our employees, which is now gradually extend ing to sharing success with our customers and suppliers. In addition, we are cooperating with world-leading companies to formulate standards and set roadmaps. Together, we can make a greater contribution to society. We are not so insular as to want to wipe others out. The reason that some companies burn money is to dominate the market when their competitors have no money to burn. We don’t intend to dominate the market. We haven’t eaten away at our competitors. Neither have we ever intended to do so. Instead, we have tried our utmost to help them become strong. For example, we are very happy to learn that Nokia will merge with Alcatel Lucent. I think Nokia’s spirit of dedication is stronger than any other company. That’s why it is able to return to the world stage. We will enhance cooperation with these companies to serve society. *(Source: A Chat in the Garden with Huawei Founder Ren Zhengfei, Huawei Executive Office Speech No. [2015] 098)*

We have only one core value at Huawei, which is contributing more to earn more. The Contribute and Share system applies to all dedicated employees, no matter what positions they hold. Driven by benefits, the company will move forward. Due to a lack of attention, the compensation of staff in our visa handling department used to be very low. In the future, we will raise the compensation level so that we are able to attract more outstanding people to help us deploy more of our staff in field offices.

Monetizing visa processing will motivate staff to work harder. *(Ren Zhengfei: Speech at the Annual Meeting of the Employee Relationship Dept, Huawei Executive Office Speech No. [2016] 058)*

I view core values like this: Each element that contributes to value cre ation should be rewarded accordingly. "Freedom, equality, and fraternity" are all very good ideas. However, it is unclear who will actually make the "cake". Without a cake, how can you ensure "freedom, equality, and fra ternity"? Many people say that network equipment will become white boxes, and will be very cheap. However, who will cook the "free lunch"? And who will maintain these white boxes? Can white boxes be of high quality and with good maintenance services? If an element contributes to value creation but is not rewarded, it will not be sustainable. A free lunch does not comply with the rules for the market economy. If people cannot make money in one domain, they will leave and go somewhere else. This kind of innovation concerns business model innovation, whereas the US tends to focus on technological innovation. *(Ren Zhengfei: Remarks at Meetings with Huawei Fellows, Huawei Executive Office Speech No. [2016] 069)*

Capital may play a role in creating our world, but labor still plays the biggest role. We have benefited from reading communications standards in the past 20-plus years and have instilled them into the brains of our employees. We "weighed" each brain and distributed company shares accordingly. This helped us develop a new mechanism. Those who read these standards are very capable. Even if several people left, our standards system still remains. If our company collapses one day, we will no longer have the same standards as before even if we gather everyone together again. This is because standards can sustain only when they have life. Because our management and standards systems are lifeless, without sup port from people, these systems would be useless. So, we must not allow Huawei to collapse. Otherwise, the management system we have spent more than ten billion dollars developing over the last few decades will be useless, and our understanding of technical standards will also be of no use. *(Ren Zhengfei: Remarks at Meetings with Huawei Fellows, Huawei Executive Office Speech No. [2016] 069)*

Over the past 28 years, we have adhered to working together towards the same goal and receiving income from the same source, and investing long-term to make strategic breakthroughs. We have also adopted a value sharing mechanism for capital and labor, and collective dedication is our unique competitive advantage. *(Ren Zhengfei: There Will Not Always Be Flowers Along the Road Ahead—Speech at the H1*

Huawei Market Conference, Huawei Executive Office Speech No. [2016] 079)

There are rumors circulating online that Huawei employees retire at the age of 34. If this is the case, I wonder who will pay for their pensions.

Huawei doesn't have a pension fund. The company purchases social insur ance, health insurance, and accidental injury insurance for employees. Concerning retirement, you have to comply with national policies. Even if you leave the company, you still have to pay the premiums; otherwise, your insurance will be cut off. You won't receive your pensions if you don't comply with national policies. Of course, you could try to ask the heroic and dedicated employees working in Tibet or Bolivia, or in regions subject to war and disease, if they are willing to pay for your retirement. After all, employees working in such regions have higher bonuses. They struggle through rain and ice, and endure bitter hardship. Will they give you some money for your retirement? Huawei doesn't have much money. The company will collapse if we do not remain dedicated. We won't pay anything to people who are not dedicated. Do you really think it is realistic that at thirty-something years old, in the prime of your life, you don't have to work hard, and can just lie on your bed counting money? *(Ren Zhengfei: Speech at Meetings in Thailand with Regional Supervisors and in Nepal with Staff, Huawei Executive Office Speech No. [2017] 026)*

We need to gradually increase our efficiency, and ensure that our spend ing on people grows more slowly than sales revenue and profits. We expect three people to do the work of five and earn the income of four. We need to enhance the Contribute and Share system, and develop a team with col lective interests and common beliefs despite having diverse cultural back grounds. *(Ren Zhengfei: Huawei's Success Is Also the Success of Our HR Policies—Speech at a Dinner with Some CHR Staff, Huawei Executive Office Speech No. [2017] 037)*

1.2.6 Passing Market Pressure Down Through Each Layer of the Company to Make Sure Our Internal Response System Remains Active

Core values can be passed down only after they are turned into a benefit-driven mechanism

All enterprises are benefit-driven. This requires a fair value distribution system preceded by objective value assessments, which in turn need to be underpinned by a positive corporate culture. This is necessary to ensure that outstanding people who have made contributions to the company will be paid fairly. *(Ren Zhengfei: Seizing Opportunities, Adjusting Management Systems, and Meeting Challenges, 1997)*

"Staying customer-centric, inspiring dedication, and persevering" is a benefit-driven mechanism. To sustain our culture of inspiring dedication, we must reward our dedicated employees. We will not forget those who have a sense of mission and proactively contribute. That might be our corporate culture. We cannot build our culture and make it sustainable with empty talk. Instead, we must incorporate this culture into our appraisal system. *(Ren Zhengfei: From "Philosophy" to Practice—Speech at Huawei Annual Management Conference 2011, Huawei Executive Office Speech No. [2011] 016)*

Other companies may be people-centered, but our company focuses on dedicated employees. We are increasing our market share through hard work, not through a monopoly. Therefore, we distribute value to our ded icated employees. We are opening our doors to all kinds of talent. We can increase the size of the pie only by uniting as many people as possible. As long as you work hard, the slice of the pie you get will only increase. Don't be afraid that it will be snatched away by a newcomer who's been here only two months. If we are open-minded like this, we will grow even stronger. *(Ren Zhengfei: Speech at a Meeting with Elite Teams at the Training Camp on July 23, 2013, Huawei Executive Office Speech No. [2013] 174)*

We must widen the gaps in employee compensation based on the value that each employee contributes. We must fully fuel the engines in the organization so that they can drive the train to run faster and deliver more. To truly live out our core values, we must have a group of people who set the example. Employees' compensation is not based on their scope of management; it has to be based first and foremost on contributions, results, and responsibilities, and second on the spirit of dedication. *(Ren Zhengfei: Applying the Spirit of the Tortoise to Catch up with the Dragon Spacecraft—Speech at the Huawei Annual Management Conference, Huawei Executive Office Speech No. [2013] 255)*

Huawei protects the interests of its dedicated employees. If you are tired and want to retire, we are there for you. We must not say that previ ous dedicated employees are no longer entitled to company benefits. If we do, who will be willing to fight in the battlefield? But who will be willing to work hard if we give more to retired employees and less to dedicated employees? I will also retire in the future, so I should be among those who support the policy of giving more to the retired employees and ask you to do more work, so that I can get more money. But wouldn't you be a fool

to accept that? So, our core values won't change much. Those who circu lated this rumor must be underperformers. *(Ren Zhengfei:*

Remarks at a Meeting with Members of the Project & Financial Management Enablement Program for High Potentials, Huawei Executive Office Speech No. [2014] 054)

Our assessment system should focus on results and responsibilities, and we should motivate heroes in a timely manner. We should dare to fast track outstanding employees and widen the income gap between high performers and low performers. First, our incentives for heroes should be offered promptly. This means that we should focus on goal fulfillment and must not appraise employees based on the leadership model. Those who have achieved success in a project should be given an incentive. As to whether they should become managers, we need to measure them against the leadership model. Currently, there is a tendency of using key perfor

mance indicators for every type of assessment. What does success have to do with these indicators? Those who achieve success are heroes. We should reward them for their contributions, and should not consider irrelevant shortcomings. But we will take their shortcomings into account when we consider promoting them to managerial positions or raising their personal grades. Second, we should dare to widen the income gap between high performers and low performers, and dare to fast track employees who have made outstanding contributions. Outstanding employees should be rewarded more and fast tracked. If we don't widen the income gap, out

standing seeds will not be able to grow. If these employees are suppressed and not promoted, there will be backlash and the morale of their teams will be low. Strong teams are made in battles. Once a team achieves suc cess, promotions should quickly follow so that morale will be boosted and the team will become even stronger. We need to select several outstanding employees as role models, to motivate others to fight in the battlefield and outperform the role models. This will boost morale. Those who don't make progress, fall behind, or perform poorly will gradually be removed. *(Ren Zhengfei: Speech at a Meeting with Employees of the Central Asia & Caucasia Region, Huawei Executive Office Speech No. [2016] 063)*

Transferring market pressure to every process and every employee to inspire passion across the organization

At its current stage of development, the problems Huawei faces will only continue to grow. We will either stagnate and die off, or work harder, achieve more, and stand shoulder-to-shoulder with other great companies of the world. Managing a company is like rowing upstream: If we don't advance, we will be driven backwards. We need to instill a sense of urgency into every single Huawei employee. *(Ren Zhengfei: Toasting Those Who Succeed and Offering a Helping Hand to Those Who Fail, 1997)*

There's no way back; we have to burn our boats. We need to transfer a sense of urgency and pressure to every employee. We need to pass market pressure down through each layer of the company to make sure our inter nal response system remains active. *(Ren Zhengfei: How Long Can Huawei Survive?, 1998)*

Outside China, we were often offered opportunities to participate in telecom privatization projects, but we didn't. Because of this, we may encounter greater difficulty in selling equipment in the future. This has forced us to develop products that are of the best quality, with the best performance and service, but at the lowest costs. If we fail to do this, we will find it hard to sell them. Poor performance in any segment will be subject to criticism from other segments. Through this transfer of market pressure, we can ensure our internal operations are always vigorous and activated. Placing ourselves in a desperate position can force us to become a world-class equipment provider. *(Ren Zhengfei: How Long Can Huawei Survive?, 1998)*

Junior and middle managers should have a sense of urgency. What does it mean by this? It means 10% of managers will be removed from their positions each year. As a manager, you have been given trust and opportu nities. If you fail to put these to good use, the company will have no choice but to remove you from your position. We must resolutely remove unqual ified managers. Only in this way can we rank and screen managers, drive them to remain passionate under pressure, and help our teams maintain their effectiveness. *(Ren Zhengfei: Staying Customer-centric, Inspiring Dedication, and Persevering Are Key to Our Success—Speech at the 2010 Huawei Market Conference, Huawei Executive Office Speech No. [2010] 002)*

Our future value assessment system must be oriented towards business success. Managers who create long-term losses for the company must be removed from their positions, along with personal grade decrease and pay cuts, to deter others from following in their footsteps. Even if they are outstanding seeds, why not demote them and place them in the Strategic Reserve as ordinary employees? They can rise again after further contributions are made. First, their pay needs to be lowered and posi
tions adjusted. After they do a good job, they can rise again. Therefore,

managers with poor business performance need to be replaced. If manag ers are weak, the entire team will be weak. Managers who fail to make strategic contributions must not be promoted. *(Ren Zhengfei: Growing from a Soldier to a*

General Within Three Years, Huawei Executive Office Speech No. [2014] 031)

CHAPTER 2

Huawei's Competition Strategy: A Financial Perspective

Huawei creates value primarily through its business operations. The pri mary task of its financial management department is to support and over see business departments in creating value. Financially, what are the key points that Huawei focuses on as it creates value?

First, Huawei looks at business from an investment perspective and views opportunities strategically. The window of strategic opportunity is usually very short. To seize strategic opportunities, Huawei has the cour age to win, is willing to make massive investments, and is skilled at achiev ing success.

Second, Huawei directs all its efforts towards the same goal and is selec tive about what it does and what it doesn't do. Focusing on its core busi ness and keeping a sharp focus are the principles that Huawei has always followed in resource allocation. These principles are the key to Huawei's success and also guide Huawei as it allocates financial resources.

Third, Huawei refuses to be opportunistic in the face of big opportuni ties. The company is not distracted by short-term interests and tempta tions and does not dwell on sunk costs that may be incurred.

When there are conflicts between opportunities and costs, which is more important? Huawei's answer is opportunities. The company believes that, in the tech industry, the value opportunities bring is higher than their costs. If a strategic opportunity is seized, the company will succeed no matter how much money it spends. However, if it misses a strategic oppor
tunity, it will fail even if it doesn't spend a penny. Being frugal will lead

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Huawei nowhere. Therefore, in financial management, Huawei places more emphasis on value creation than on cost savings.

The concept of “Digging In and Widening Out” developed by Li Bing for water management is the key to the longevity of the Dujiangyan Irrigation System in Sichuan Province, China. The wisdom it contains can be applied to far more than just irrigation. Huawei views this concept as a vivid illustration of its business model, and believes that it is also applicable to Huawei if the company wants to survive and thrive in the long run. Huawei’s approach is to keep a reasonable profit margin, invest more in the future, and share more value with its customers, suppliers, and partners.

Openness, competition, and collaboration are the basic principles Huawei adopts to enhance its core competencies and build a favorable business ecosystem. An enterprise supply chain is actually a business eco system that ties together customers, partners, suppliers, and manufactur ers. An enterprise can survive over the long term only when it strengthens cooperation with others, focuses on the interests of its customers and part ners, and pursues success for all. Only when Huawei helps its customers create value can it find its position in the value chain.

Economic globalization is the end state of a market economy. This is an unstoppable historical trend. Huawei’s development has been a process from going international to going global. In its first 20 years, Huawei was involved in a process of international expansion from China. In its second 20 years and beyond, Huawei operates on a global scale by bringing in talent from around the world and setting up its strategic centers of exper
tise (COEs) in places rich with strategic resources.

The above key points form the general strategy that guides Huawei’s business and financial operations. This chapter elaborates further on these key points.

2.1 Continuing to Invest Boldly to Seize Strategic Opportunities

2.1.1 Seizing Strategic Opportunities Ensures Success While Missing Them Leads to Failure

We must consider the company’s current development from a strategic perspective. Development requires investment, which incurs costs. Hiring new people may impact business results and salary growth. But we must look into the future to gain new perspectives. We must seize the right opportunities to develop rapidly. *(Ren Zhengfei: Speech at the Mobilization and Training Meeting Regarding Recruitment of New Graduates of 2001, 2000)*

The overall goal of our operations is to expand more rapidly. We are facing an unprecedented opportunity. We witnessed a similar opportunity about seven or eight years ago. However, back then we were still small and didn't have the ability to seize it. Now that we're capable of seizing the current opportunity, we must have the courage to win – this is necessary for us to achieve success. *(Ren Zhengfei: Eight Points Made After Receiving the "2008 Business Plan and Budget" Report at the EMT ST Meeting on January 31, EMT Meeting Minutes No. [2008] 009)*

We are bound to encounter some difficulties because of the lag effect of heavy investments. But this is not a problem as long as we are able to sur vive. If we could not even survive, no matter how large we are, we still have a problem. *(Ren Zhengfei: Working Together Towards the Same Goal, Concentrating Advantageous Resources on Our Core Business, and Having the Courage to Seek Greater Opportunities and Further Widen the Gap— Minutes of the Work Report on the Wireless Business, Huawei Executive Office Speech No. [2011] 039)*

The amount of data traffic may grow faster than we can imagine. As long as there is data traffic, we will have opportunities. Huawei is tasked with transmitting data traffic, and we need to build bigger, wider, and faster data pipes. This is the biggest opportunity we have and it is the core of our business. The platform that we have built over the past 25 years outperforms any of those built by other companies. We can no longer make data pipes wider just by stacking a dozen smaller ones. A bigger platform is now needed for the future. This is a strategic opportunity for us, as smaller companies do not have the capacity to create a big platform. *(Ren Zhengfei: Speech and Comments at the Carrier BG's 2013 Strategy Retreat, Huawei Executive Office Speech No. [2014] 016)*

When we spot a strategic opportunity, we can pour in huge amounts of resources to bring ourselves up to speed. We must boldly try different methods of investment, not just by adding people. This is different from the way small companies approach innovation. *(Ren Zhengfei: Applying the Spirit of the Tortoise to Catch up with the Dragon Spacecraft— Speech at Huawei Annual Management Conference 2013, Huawei Executive Office Speech No. [2013] 255)*

We now need to make heavy, focused investment in our strategic areas. Once we seize the strategic high ground, we can sell our products at higher prices and generate more profits, which can then be invested in advanced research. *(Ren Zhengfei: Comments to Staff of the Enterprise BG, Huawei Executive Office Speech No. [2014] 006)*

We must be willing to make investments and use modern technologies to develop modern products to seize the strategic high ground. Today, we need to rely on tools to win in the market. In the past, we didn't have money, so we emphasized self-reliance. We did our best to achieve success on our first try, and independently develop testing tools. This is now an outdated approach. We should be willing to invest and use the most advanced tools available to produce the most advanced products. This is the only way for us to increase our share in the market and earn more money. We have to spend money on the tools that we need to secure the strategic high ground. Once we gain control, the valuable resources all around will be ours. We need to be willing to invest and prepare for the future. *(Ren Zhengfei: The Best Defense Is a Good Offense—Remarks at a Briefing on the Wireless Network Business, Huawei Executive Office Speech No. [2013] 232)*

2.1.2 Increasing Future-Oriented Investment When the Market Is Experiencing a Cyclical Downturn

We should have a good understanding of the fluctuations in industry cycles and increase our investment in future opportunities. R&D doesn't have to be fully aligned with marketing and sales. There should be a two year gap between R&D and marketing and sales. If we don't increase investment now, what will we sow when spring comes, and how will we create new opportunities? We must increase R&D investment when the market declines so that we can develop when the market recovers. To make that happen, we must be resolute in investing heavily in R&D. *(Ren Zhengfei: Speech at the Work Report of the Product Line Management Office, 2000)*

We've recently adopted a strategy of overtaking our competitors on the inside track. This means we should be bold enough to overtake our competitors when global competition is at an inflection point. When we watch a Formula One race, we rarely see racers overtake others on the straight, because this is almost a "mission impossible". Everyone is

accelerating on the straight. How could you overtake anyone? Our Western peers have decades of experience in management, branding, and building customer trust. If everything goes well for them, and they speed up, they will leave us far behind, making it impossible for us to overtake them. But at a turn, a wrong decision could cause them to fall behind, as people can easily get confused and hesitant at a turn in the road. Nowadays, there is a surplus of electronic products, much like watermelons in autumn. There are just too many of them, so their prices are incredibly low. Nobody knows if the products will ever generate profits again. As long as we maintain our strengths and are bold enough to increase investment at a turn in the road, we are likely to overtake our competitors in some areas. The telecom industry is now at such a turn in the road and is undergoing transformations in technology, networks, business, and business models. *(Ren Zhengfei: Seeing the Situation Clearly and Accelerating Organizational Building and Reserve Pool Development to Embrace Huawei's New Development—Speech at a Meeting for HR Directors, 2005)*

We are now expanding rapidly in spite of a decline in the overall econ omy. For a period after the year 2000, we almost collapsed due to chal lenges both at home and abroad. Logic would have dictated that we should have reduced investments, reshaped our team, and consolidated our markets for future recovery. But we didn't. Instead, we increased investment and grew in the tough environment. When the financial crisis was over, our competitors noticed us. We were still small, but had grown. Following the first round of counter-cyclical growth, we stepped onto the global stage. Now we are experiencing a second round of counter-cyclical growth. I am not sure what we can achieve this time, but at the very least we will have some pricing power. *(Ren Zhengfei: Speech at the PSST[1] Managers' Meeting, 2008)*

When the IT bubble burst, transmission products' sky-high prices col lapsed. Many leading companies in the industry cut investment in this field. But we didn't, even in the face of extreme financial difficulties. This helped us become the world's second largest company in transmission products. *(Ren Zhengfei: Making Youth Shine Out—Speech at the Dedication Conference of the Network Product Line, 2008)*

[1]PSST: Products & Solutions Staff Team.

2.1.3 Avoiding Opportunism and Having Strategic Patience in an Era of Big Opportunities

In an era of big opportunities, we must avoid opportunism and must have strategic patience. *(Ren Zhengfei: Avoiding Opportunism in the Era of Big Opportunities—Speech at the Luncheon with the Administrative Team of the Consumer BG, Huawei Executive Office Speech No. [2014] 025)*

When a window of big opportunity opens before us, what should we do? I hope you will keep improving yourselves. I'm very pleased to see your tremendous progress within such a short period of time. Recently, I told the Consumer BG that in an era of big opportunities, we must avoid opportunism and must have strategic patience. You should keep up the good work, and work towards our common goals. The more the company earns, the more we will invest in the future. This will help us hone our strategic competitive edge. When we become stronger, we will be able to earn more and attract the best people from all over the world, who will help us hone our edge further, and repeat this cycle. *(Ren Zhengfei: Speech at the Japan Research Center's Work Report, Huawei Executive Office Speech No. [2014] 034)*

Huawei must have the spirit of a marathon runner and run steadily to sustain profitability. Massive amounts of standardized, digital content are currently being transmitted more easily than before thanks to the Internet. This has driven the real economy to improve after acquiring and digesting information. Information drives the progress of society, the real economy, and services. The Internet is not just about the use of the Internet itself. As long as our smartphones are of high quality and meet the needs of consumers, we can strive to sell them online. We are different from JD and Alibaba in that we can control the quality of our transactions and we have a broad portfolio of intellectual property to protect us in the global mar
ket. It is risky to simply be a platform for transactions. You need to under stand that cars have to be cars first. The same is true for all things, from finance to tofu. Nothing except Aladdin's magic carpet could ever replace a car. *(Ren Zhengfei: Avoiding Opportunism in the Era of Big Opportunities— Speech at the Luncheon with the Administrative Team of the Consumer BG, Huawei Executive Office Speech No. [2014] 025)*

While we were moving forward slowly like a tortoise, we ignored the flowers everywhere along the road in China. We remained dedicated, up until today. Our Consumer BG has gone through ups and downs with us for many years. It should continue to walk down the right path, with

enough money to be distributed to employees. We need to identify our own problems and weaknesses, understand who we are, and be ourselves in order to succeed and build our own future. If we can continue to sur vive 20 years down the road, we will succeed, because many others will have been left behind. *(Ren Zhengfei: Avoiding Opportunism in the Era of Big Opportunities—Speech at the Luncheon with the Administrative Team of the Consumer BG, Huawei Executive Office Speech No. [2014] 025)*

Some people will say that we are opportunistic. We are actually trying to force you to change in the same way as we did to Consumer BG

CEO Richard Yu several years ago – The Consumer BG managed to change after that. At that time, I told Richard, “I believe that in the next two to three years the Consumer BG will greatly improve its product quality, and will continue to do so in the years ahead. You should focus on things like business models and planning management.” I also made a suggestion to him, “You must be able to grow watermelons on this peach tree of yours; you can’t just grow peaches. One business model is not enough.” The tree’s trunk is the company’s joint support platforms, like service, mainte nance, and finance platforms. Its root system needs to be divided among different customers so that the tree can absorb different kinds of nutrients. You need to try different business models. Many companies know the tricks of the trade. As for how to grow watermelons on a peach tree, this is something you’ll have to figure out for yourself. *(Ren Zhengfei: Heroes Are All Around Us—Speech at the Q4 Regional Presidents’ Meeting, Huawei Executive Office Speech No. [2014] 086)*

We should not rush into commercializing our new technologies. We must have strategic patience and win as a late mover. We are closely watch ing the trends in customer demands, and we are not becoming compla cent. We are poised to move, like a cat ready to pounce, as soon as market conditions are mature enough. We are not a slow mover that will miss big opportunities when they come. We also need to figure out how to protect customer investments as much as possible. We should not always think about disruption and starting anew every time. (*Ren Zhengfei: Remarks at Meetings with the UK R&D Center, Beijing Research Center, and Financial Risk Control Center in London, Huawei Executive Office Speech No. [2015] 075)*

We keep on stressing that strategic patience is key in our consumer business. You must have patience and perseverance. If you rush things, a problem with a single component could cause a malfunction in hundreds of thousands – or even millions – of our phones. This could ruin our

consumer business, making it very hard to recover. So we have to stay realistic, control our ambitions, and develop at a reasonable pace. Too much excitement is always followed by a mistake. We are in a new age of “Warring States”. No matter how fierce the competition becomes, I don’t encourage you to engage in destructive price wars. I want you to keep improving quality, and keep running the hard race. That’s the right way to ultimate victory. Don’t worry if someone else has quickly won a share in a certain market. People switch their phones every two or three years, so just make sure that they buy a Huawei phone next time. That way, in three years’ time, we can rise above the waterline and show our true colors. *(Ren Zhengfei: Pounding the Streets, We Are the Marathoners Who Always Push for More—Speech at the Consumer BG’s Mid-year Conference, Huawei Executive Office Speech No. [2015] 107)*

In an era of big opportunities, we must avoid opportunism and must have strategic patience. Advances in basic science are essential to social development. And the development of basic science requires patience and perseverance. Some great people remained dedicated all through their lives despite the fact that they were not recognized. It also took several hundred years before gene technology really took off. Huawei has over 80,000 R&D employees. Each year, we allocate about 20% to 30% of our R&D spending to research and innovation, and 70% to product develop

ment. We have been investing over 14% of our annual revenue in R&D. Over the next few years, our annual R&D investment will gradually increase to US$10–20 billion. *(Ren Zhengfei: Dedicated to China's Century-old Dream of Revitalizing Science and Technology, Huawei Executive Office Speech No. [2016] 067)*

Huawei is forging ahead into the industry's uncharted territory. In this territory, we have no pilot, no rules, and no one to follow. Huawei will gradually slow down its pace as a "follower", and will assume the respon sibility of creating guiding theory. We cannot just harvest what others have sown or cultivated. And we should thank Western companies for their piloting over the past 30 years. *(Ren Zhengfei: Dedicated to China's Century-old Dream of Revitalizing Science and Technology, Huawei Executive Office Speech No. [2016] 067)*

Why have we always stressed that we must focus on our core business? Because we are confident that our assumptions for the window of big opportunity that will open in the future are correct. We must not lose direction or miss the big opportunities because of our greed for small and short-term interests. *(Ren Zhengfei: There Will Not Always Be Flowers*

Along the Road Ahead—Speech at the H1 Huawei Market Conference, Huawei Executive Office Speech No. [2016] 079)

Because of our 28 years of unremitting effort, we have been able to make breakthroughs and become what we are today. And we will be likely to enter uncharted territory for transmission of massive amounts of data. Therefore, we must establish strategic confidence. We believe that we will be able to seize opportunities in this era of big opportunities. We believe that our team can achieve the goal of generating US$200 billion in reve

nue. Of course, we must not be burdened by the US$150 billion or US$200 billion goal. We must not put on our red dancing shoes. We set this goal to guide our transformation in organizational structures, sys tems, and processes, so as to develop capabilities that will be required in the future. It is not a key performance indicator (KPI). Rather, it is our core competency. Simply stressing this goal is meaningless. *(Ren Zhengfei: There Will Not Always Be Flowers Along the Road Ahead—Speech at the H1 Huawei Market Conference, Huawei Executive Office Speech No. [2016] 079)*

2.2 Working Together Towards the Same Goal and Deciding What Not to Do in Order to Do Something Great

2.2.1 Concentrating High-Quality Resources on Core Business and Strategic Opportunities to Establish and Reinforce Strengths

We must seize the opportunities presented by industry transformation, have the courage to increase investment, and seize strategic opportunities. With sustainable and profitable growth as the ultimate goal, we need to stay strategically focused and seize the strategic high ground, thus laying the foundation for survival and development over the long term. *(Ren Zhengfei: Guidelines on the Analysis of the Business Environment and Key Business Strategies, Corp. Doc. No. [2012] 081)*

We must strengthen internal transformation and focus our efforts on building an advantageous position in our core business and strategic mar kets. We should be cautious about developing in other businesses or mar kets, as it will compromise our ability to develop our core business and strategic markets. With clear strategic goals, we must focus on vertical business integration and do everything we can to increase efficiency. We can strategically reinforce our long-term strengths only by achieving

sustainable and profitable growth and higher profitability. If we don't transform or improve our efficiency, we will not be able to seize the oppor tunities that will pop up over the next several years. *(Ren Zhengfei: Speech at the Self-reflection Session of the Executive Committee of the Board of Directors, 2012)*

What is a *core business*? Everything in the world follows a normal distri bution curve. The most populous portion of this curve is our core busi ness. We won't go after opportunities on either side of the curve, even if they are highly profitable. There's simply not enough demand. We just focus on our core business and follow major trends. As long as there is data traffic, there is an opportunity for us to succeed. *(Ren Zhengfei: Speech and Comments at the Consumer BG's Strategy Retreat in Sanya, 2012)*

We must focus on our core business. Value – not technology – must be placed at the center of everything we do. As an auxiliary product line, our Network Energy Product Line needs to show what you contribute to our core business. *(Ren Zhengfei: Speech at a Work Report of the*

Network Energy Product Line, Huawei Executive Office Speech No. [2012] 043)

Sometimes the happier their customers are, the more difficult things are for carriers and equipment providers. But as long as we stay the course in *big rivers* – that is, our core business – we will eventually reach the ocean. *(Ren Zhengfei: Staying Customer-centric and Communicating Huawei at the Strategic Level—Speech at Huawei's Branding Strategy and Communication Retreat on April 12, 2012)*

If we cannot survive, there won't be any future! Our value assessment system needs to shift its focus from technology to business success. The Consumer BG is now part of the company's core business, where you must create value. However, value is not just about having leading tech
nology. You still have a very long way to go. You should contribute energy to the core business rather than be a drag on it. If the energy of our core business gets dispersed, it will be very difficult to bring it back together to achieve our goals. *(Ren Zhengfei: Avoiding Opportunism in the Era of Big Opportunities—Speech at the Luncheon with the Administrative Team of the Consumer BG, Huawei Executive Office Speech No. [2014] 025)*

Huawei has made it clear that we will stick to our needle-tip strategy and be selective about what we do and what we don't do. We have defined the company's strategic roadmap and will follow it through. We will increase investment in massive data traffic and snap up a market share in areas beyond network products. We need to increase our share of data traffic and help customers monetize their data. The size of their networks

is fixed, but if more traffic flows through their networks than their com petitors', this is also a success. We must not waste our strategic resources on non-strategic opportunities. *(Ren Zhengfei: Speech at a Meeting with Trainees at the First Training Session for the Global Solutions Elite Team, Huawei Executive Office Speech No. [2014] 064)*

We must focus on our core business. Non-strategic areas of business must first be profitable, and we must have the courage to abandon loss bearing projects and seize strategic opportunities. *(Ren Zhengfei: Heroes Are All Around Us—Speech at the Q4 Regional Presidents' Meeting, Huawei Executive Office Speech No. [2014] 086)*

We need to be like the Yangtze River: Keep to our course and flow forward, while generating massive potential along the way. Every product, large or small, should focus on our core business. New sprouts should also take root and grow in our core business. Don't deviate from this path, or our company will be split into two separate management platforms. *(Ren Zhengfei: Innovating to Create Global Value—Speech at the Corporate Strategy Retreat, Huawei Executive Office Speech No. [2015] 006)*

2.2.2 Narrowing Strategic Focus to Become an Industry Leader

Harnessing major trends successfully to truly lead global trends
We must not pursue multiple businesses at the same time, or we will become exhausted. Our focus should be on where our key customers are heading. If they change direction, we need to change with them. *(Ren Zhengfei: Speech at the Meeting with the R&D Managers of Huawei Technologies and Avansys, 2001)*

Our investment and HR management policies must be geared towards the most prominent needs of customers and society – essentially the most populous portion of a normal distribution curve. Sure, Huawei stands out in certain domains, but if we want to lead global trends, we need to suc

cessfully harness the major trends in our own industry. So for the time being, we will invest in our customers' most prominent needs. This approach will keep us aligned with major trends. *(Ren Zhengfei: Still Waters Run Deep—Continuously Improving Ourselves Based on Customer Needs, 2002)*

We need to work together towards the same goal. Greater force can only be generated when we focus our efforts on a very small area. Internally, we're good at limiting ourselves to the same source of income, but we're not so good when it comes to working together towards the same goal.

Our competitors have caught up with us because our R&D efforts are too spread out. At Huawei, every product line and every engineer is hungry for success, so there are far too many small projects going on here and there. This has weakened us. The Wireless Network Product Line must work together towards the same goal and increase investment in our core business to improve our capabilities and set ourselves apart from our com

petitors. *(Ren Zhengfei: Working Together Towards the Same Goal, Concentrating Advantageous Resources on Our Core Business, and Having the Courage to Seek Greater Opportunities and Further Widen the Gap— Minutes of the Work Report on the Wireless Business, Huawei Executive Office Speech No. [2011] 039)*

We must reduce or remove products that are not profitable from our portfolios. I will not invest in non-strategic products unless the investment is made on a rolling basis and can yield high profits. To make break throughs, we need to maintain a sharp focus across the company. A com pany without focus is like a dull knife: We'll never be able to carve out a piece of strategic markets. *(Ren Zhengfei: Speech at a Work Report of the Network Energy Product Line, Huawei Executive Office Speech No. [2012] 043)*

To become an industry leader, we must narrow our strategic focus and concentrate all our resources on seizing the strategic high ground in our core business and strategic markets. *(Ren Zhengfei: Speech and Comments at the Carrier Network BG's Strategy Retreat in Huizhou, Huawei Executive Office Speech No. [2012] 010)*

We must stay ahead of the demand curve. We have no other choice but to stay focused. We should learn from successful US companies. Most of them maintain a laser-like focus, but why? Do they lack the capabilities to engage in other businesses? At the moment, we are not ahead of demand; in fact, we are still trying to catch up. We're at the forefront of the indus
try, but we can't say with confidence that we are able to set its pace going forward. However, as long as we stay focused, odds are we can make our selves irreplaceable. *(Ren Zhengfei: Our Transformation Goals Are to Harvest More Crops and Increase Soil Fertility—Speech at the 2015 Huawei Market Conference, Huawei Executive Office Speech No. [2015] 016)*
For our enterprise business, we should consolidate our position in areas where we have been successful, and further hone our competitive edge vertically before expanding into other areas. Smart cities are emerging. The finance industry is moving its IT to the cloud. Power grids are going digital, and there is an increasing demand from governments and

enterprises for cloud services. These are all strategic opportunities. Our Safe City solutions are key to establishing our market presence in the smart city domain. But we must not expand too widely; otherwise, we will not be able to focus on strategic opportunities. *(Ren Zhengfei: Firm Belief and Strong Focus Lead to Greater Success—Speech at the 2016 Huawei Market Conference, Huawei Executive Office Speech No. [2016] 007)*

Developing a clear strategy by boldly letting go of non-strategic areas of business

Strategy is all about focus, and focus isn't just about what you pay attention to, but what you choose to ignore. This is key to being competi tive. There are plenty of opportunities to choose from, but we need to decide what we won't do in order to do something great. When deciding whether to go for an opportunity, we have only one criterion: Whether it can help us constantly improve our core competencies. *(Ren Zhengfei: Huawei's Opportunities and Challenges, 2000)*

We must have a clear product strategy. We can't do everything our selves, and we need to have the courage to give up certain things. Only by knowing what to give up can we have a clear strategy. We can consider researching and developing products that have large demand, huge poten tial for growth, and mature technology. For other products, we can con sider joint R&D. *(Ren Zhengfei: Building the Competitiveness of Low-end Access Products with High Quality and Low Costs, 2009)*

In order to succeed, we need to learn the art of making strategic trade offs. If we find it difficult to succeed in a certain region despite consistent effort, we could reassign our people to places where it's easier for us to succeed. We only need to build a presence in some parts of the world. If we remain stuck in a region that proves to be challenging, we might miss strategic opportunities in other regions. We will make trade-offs while keeping the big picture in mind. The next three to five years may be the best time for us to seize a share of the global market. We must stay focused during this period and seize the strategic high ground of massive data traf fic. Once we secure this position, it will be difficult for others to reach our level, and we will have a brighter future. *(Ren Zhengfei: Comments to Staff of the Enterprise BG, Huawei Executive Office Speech No. [2014] 006)*

In the future, the Internet of Things, smart manufacturing, and big data will generate massive demand for ICT infrastructure. Our responsi bility is to provide connections – specifically, equipment that enables con nections. The global market is huge, and we won't be able to succeed in every single country. But we'll do what we can, where we can, and it will

be no small feat. *(Source: A Chat in the Garden with Huawei Founder Ren Zhengfei, Huawei Executive Office Speech No. [2015] 098)*

In Chinese, the word for strategy can be broken into two parts. The first part is to "take action" or "take to the field". We won't be able to take action or take to the field in the right place at the right time if we lack strategic direction. Interestingly, the second part means to "omit" or let go of something. If you don't give up something, then your strategy won't be complete. We must dare to give up markets with bleak prospects and stay focused. As long as there are profits, that is fine. *(Ren Zhengfei: Speech at a Meeting with Employees of the Central Asia & Caucasia Region, Huawei Executive Office Speech No. [2016] 063)*

Resisting easy money utside the confines of core competencies Shenzhen has experienced two economic bubbles: one in real estate, and one in the stock market. Huawei didn't get swept up in either. This is not because we're any better than those around us, but because we're seri ous about technology. When these bubbles swelled up, we certainly had opportunities. But we believe that the future world will be built on knowl edge, not on bubbles. So we decided to hold our ground. *(Ren Zhengfei: How Long Can Huawei Survive?, 1998)*

We cannot allow ourselves to be lured away by the tempting opportuni ties all around us. With a gloomy outlook for the global economy, we cannot expand everywhere. Doing so will lead to chaos. We must narrow our strategic focus, and ICT infrastructure will always be our area of focus. This will never change. We can only maintain our strategic high ground by giving up non-strategic areas of business. Our Carrier Network BG, Enterprise BG, and Consumer BG must focus on the core business, har ness the major trends in their own domains, and establish systematic forces instead of betting on winning in non-strategic areas. Everything in the world follows a normal distribution curve. The most populous portion of this curve is our core business. We concentrate our investment on our strategic direction. To prevent our non-strategic areas of business from developing blindly, we require them to produce a profit margin that is higher than that of our core business. *(Ren Zhengfei: Guidelines on the Analysis of the Business Environment and Key Business Strategies, Corp. Doc. No. [2012] 081)*

We can only make breakthroughs and move to the forefront of the world in a very narrow domain. We can't allow ourselves to be lured away from our core business. Straying too far into other domains and over diversification will not help Huawei seize the strategic high ground when

strategic opportunities emerge. We need to shift our operational focus from the blind pursuit of scale to long-term, sustainable growth – profit ability, efficiency, and quality. Product lines and business units in non strategic domains need to set high profitability targets. This is to inhibit their expansion and avoid spreading our human resources too thin. We must gradually learn how to seize the strategic high ground in markets, and adopt a top-down approach, where we start with high-end markets and allow that success to radiate down through the mid- to low-end mar kets. Of course, the precondition is that we have very good products and services. If we cannot offer low-end and mid-range products that are affordable and of high quality, we will be unable to seize the mid- to low end markets and earn much profit. As these businesses grow, our people must grow even faster. *(Ren Zhengfei: Building a Highly Competitive Team—Speech at the Q3 Regional Presidents' Meeting, Huawei Executive Office Speech No. [2013] 093)*

While developing high-end technologies for the future, the 2012

Laboratories should dare to forge ahead in our core business. The more difficult the artificial intelligence technology, the harder we should work on its R&D. We must not make small commodities aimed at earning small amounts of money. We have made a lot of money in the last several years, so we should invest heavily and accelerate our pace of tool development to provide the most advanced tools to our service staff. It takes time for these tools to be ready. We should have strategic patience. *(Ren Zhengfei: Speech at a Meeting with Employees of the Noah's Ark Laboratory, Huawei Executive Office Speech No. [2016] 083)*

2.2.3 Maintaining a Narrow Focus to Make Breakthroughs

Narrowing the scope of focus and making massive investments to achieve key breakthroughs and create positive business cycles
Huawei's policy is one of concentrating resources to the greatest extent possible. By concentrating all of our strengths on a single point, we can achieve major breakthroughs. Why do we need to stick to this approach? Because business success relies on two factors: customer trust and a com pany's capabilities. AT&T has what it takes to make personal computers, but an AT&T branded PC wouldn't appeal to consumers. When we first launched our transmission products, many people might have thought they weren't as good as those produced by the Wuhan Research Institute of Posts and Telecommunications, which was the market leader at the

time. We had to spend a lot of manpower, resources, money, and time before our products earned the trust of our customers. A company can only do well in a few areas at a time. You can't be great at everything. Focusing on our strengths will help our business grow exponentially. *(Ren Zhengfei: Staying Focused to Make Breakthroughs, 1994)*

The telecom market is huge, and we can't afford to invest in every single domain. We need to focus all of our resources – manpower, materi als, and money – on the strategic areas of business where Huawei is capa ble of leading the pack, just like our competitors overseas do. All we need is a small inroad, and we can gain market share. Once we have earned money, we will invest more in the market, which in turn will lead to greater breakthroughs and a larger market share. This will form a positive business cycle. If our products continue to take the lead, and we have a large enough market, we can use a cookie-cutter approach to reduce costs. We can replicate our software and reuse it in other products. This approach will increase profit and give us room to thrive. *(Ren Zhengfei: Maintaining Technological Leadership to Expand into New Areas, 1996)*

As we know, muddy roads can support tanks, but hard floors will shat ter when struck with a needle that has enough concentrated force. In other words, if we don't have much money, we should put all we've got into a single point – and I mean *everything* we've got. This might just help us make breakthroughs. Back in the day, people may have laughed at us for this approach, but focusing all of our resources on a single point is exactly what we have to do. *(Ren Zhengfei: Seizing Opportunities, Adjusting Management Systems, and Meeting Challenges, 1997)*

When it comes to resource allocation, Huawei has a very sharp focus. We allocate more resources than our major competitors to factors that are critical to our success and to strategic areas of growth. If there is no stra tegic value, we won't do it. But when we do decide to do something, we go all in – focusing all of our manpower, materials, and money on achiev ing major breakthroughs. *(Source: The Huawei Charter, 1998)*

From day one, Huawei bound its mission to the R&D of core com munications network technologies. We invested almost all our profits from re-selling the equipment of other vendors in the research of private branch exchanges. By concentrating all our resources on these products, we man aged to make partial breakthroughs, gradually achieved technological leadership, and generated higher profit margins. Our technological leader ship created a window of opportunity for increased profit. We then rein vested the profits in the R&D of the next generation of products. By

repeating this process, we continuously improve and innovate. Although we have become much stronger now, we still maintain this approach. We concentrate all our resources on core network R&D, to develop our core technologies. In this way, Huawei has progressed step by step, steadily growing into a global leader. *(Ren Zhengfei: Innovation Is an Inexhaustible Driving Force Behind Huawei's Growth, 2000)*

Compared with large companies, small companies are more flexible and responsive to market changes. They can identify new markets and oppor tunities more rapidly and earn a certain amount of profit before their com petitors can react. Large companies are unwieldy and less responsive. But once they enter a market, they can leverage their strengths in platform and scale, concentrate their resources to make breakthroughs, and occupy the market with strong capabilities as a late mover. *(Ren Zhengfei: Delegating Authority and Boldly Innovating to Rapidly Respond to Customer Needs, 2001)*

We are a company with limited capabilities. We can only catch up with and surpass US companies if we keep our focus narrow. A broad focus would weaken our position, and if we don't keep our focus narrow, we can't generate the force required to make breakthroughs. My guess is that our Strategy & Development Committee is confident in our profitability over the next few years; they want to invest more in strategic domains. So they want us to give it a try and surpass US companies. We only stand a chance if we narrow our focus down to the size of a needle tip. If our focus expands to the size of a match-head or the end of a stick, there's no way we'll surpass them. *(Ren Zhengfei: Applying the Spirit of the Tortoise to Catch up with the Dragon Spacecraft—Speech at Huawei Annual Management Conference 2013, Huawei Executive Office Speech No. [2013] 255)*

Focusing all strategic resources on cracking big markets We emphasize details too much in our company, and we lack strategists. Our goal is to enter a strategic market. I don't care how much force this takes. We need to break through, secure our presence, and reap the rewards. I am not saying that we should not cut costs or improve quality. But we should also look at strategic opportunities and determine which is more important. We must focus our resources on making breakthroughs in our core business and strategic markets. *(Ren Zhengfei: Working Together Towards the Same Goal, Concentrating Advantageous Resources on Our Core Business, and Having the Courage to Seek Greater Opportunities and Further Widen the Gap—Minutes of the Work Report on the Wireless Business, Huawei Executive Office Speech No. [2011] 039)*