

FEATURE

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Though often condemned and suspected by Western policymakers and experts, the company's origins and unique governance system are poorly understood.

The Side of Huawei We Don't Know

China's meteoric rise in the short space of thirty years to become the second-largest economy in the world and a global power has been by far the biggest story of the twenty-first century. It has also unfortunately been accompanied by a great deal of worry by a fearful West, which together with the global mainstream media, has painted an ugly picture of the country's remarkable pace of development.

One of the most visible manifestations of this progress is Huawei, a Chinese company and now the world's largest maker of telecoms gear. Yet the company's growth has been accompanied by fear and mistrust from the West—particularly from the United States, which regards the firm [as a potential threat](#) to U.S. national security.

A great part of Huawei's supposed infamy can be boiled down to two things.

The first is that the company is actually very well-run and extremely innovative—a fact that Westerners, convinced of their own technical superiority and the relationship between technological innovation and a particular set of political/cultural values, find unnerving.

The second is the view that because it is a Chinese tech firm, and its founder was in the military as well as a member of the Chinese Communist Party (CCP), it must be controlled by the Chinese government. This latter view demonstrates how little is understood of modern China, especially the relationship between China's commercial ecosystem and the state.

This lack of knowledge relating to Huawei's origins, methodology, and relationship with the Chinese state makes it a recurring target.

It would behoove Washington to know more about the company and how it came to be first.

Huawei's Origins

For those unaware of the struggles within China after the creation of the People's Republic of China in 1949, it is worth remembering that even in the 1970s and 1980s there were parts of China where famine was not unusual. One such region was Jiangsu province, where people were forced to forage in the forest for berries, nuts, and anything edible they could get hold of to survive. Bear in mind that this was also a time during which neighboring Hong Kong (and Singapore, too) saw fast food like McDonald's and KFC become ubiquitous.

This period of persistent poverty and suffering in China was a result of ongoing internal struggles and ill-considered policies that failed to support the country.

One man who grew up during this period was Ren Zhengfei. His family was so poor that he would forgo some of his meager rations so that his siblings could eat, and would instead mix his meals with rice bran to sustain himself. He used to go into the forest to pick anything edible for the family to survive.

An early life of struggle motivated him as a young man to embark on a most remarkable journey. Ren joined the Chinese military after studying architecture and engineering. He eventually left the army with bigger entrepreneurial plans, driven by a desire to contribute to society. He taught himself the workings of computers and other nascent digital technologies. After several failed forays into business, and in a last roll of the dice in 1987 at age 43, he formed Huawei, meaning "committed to China and making a difference," with the intention of selling program-controlled switches.

The company is now, in many ways, one of the most recognized brands in the world—partly due to its innovations and market capitalization, and partly for being caught in the

geopolitical struggle between the West and China.

Ren's story of deprivation and desperation stands in stark contrast to that of many of the founders of today's tech giants. It should also provide a clue into the resilience of the company, the sense of positivity that it is imbued with, and how it plans to withstand current external pressures.

The launch of a new smartphone, demonstrating that Huawei has managed to overcome U.S. sanctions and can innovate by itself, [has drawn rapt attention](#). Similarly, although it did not make the global headlines, the company also recently announced the introduction of [its own Enterprise Resource Planning software](#), which ends its reliance on Oracle's software.

Many more innovations are expected, proving the old adage that necessity is the mother of invention.

What makes Huawei so innovative? Understanding this requires looking at three aspects of the company and how it is run, which provide insights for observers.

Huawei's Governance and Ownership System

It is often [wrongly assumed](#) that Huawei operates as a commercial extension of the CCP, and is run similarly, where the founder Ren Zhengfei holds absolute authority, closely overseeing a very top-down, hierarchical system.

The reality appears rather differently. The privately-held company is 100 percent, employee-owned with Ren holding 0.7 percent of the company's shares. This governance structure is unique to Huawei and draws from extensive studies of best practices from across the world, customized to suit its needs.

The company operates under a collective leadership model with numerous checks and balances, where shareholder representatives and those sitting in decision making bodies are

democratically elected. The shareholders' meeting, the company's premier decision making forum, decides on the company's major matters such as capital increases, profit distribution, and election of the members of the board of directors and supervisory board.

Employees are represented by the Trade Union Committee, and the Representatives' Commission is the employee vehicle through which the Union fulfills shareholder responsibilities and exercises shareholder rights. The shareholding employees with voting rights elect the Commission on a one-vote-per-share basis, after which the Commission elects the company's board of directors and supervisory board on a one-vote-per-person basis. These events are transparent and even live-streamed to all employees.

As the founder of Huawei, Ren's influence and authority comes from the respect he has gained for his achievements—a particularly Chinese approach towards organizational harmony and order, rooted in a culture of respect for elders and leaders.

While Ren carries veto rights on board decisions, it is a matter of record that he has exercised this right only a few times and typically on technology and business direction, as is common in most privately held firms anywhere in the world. He is depicted internally as one who prefers to share his vision and ideas through company-wide addresses that serve as guidance on direction making.

The main motivation for setting up such a governance structure is to ensure the company's longevity and to enable it to achieve sustainable growth. Being a privately held company has allowed Huawei to design structures and set targets for the long-term, able to focus on its core vision and mission—inclusive of customers and employees.

While recent sanctions [have impacted](#) Huawei's smartphone business and short-term profits (there was a 69 percent year-on-year

decline in net profit in 2022), Huawei has continued to make strategic investments and devoted even more capital to research and development (R&D).

In 2022, they [invested 25 percent](#) of their revenue in R&D, equivalent to 161.5 billion yuan, more than any company in the world outside America in absolute terms, and more than the tech giants as a percentage of revenue. For comparison, Amazon, the world's biggest spender on R&D, and Alphabet invested around 14 percent of their revenue on R&D in the same year.

Despite not being able to launch high-end 5G phones globally, the smartphone business units have not laid off any staff. This is also a cultural difference that is often misunderstood and unappreciated, where the employee is seen as being part of the family. This is such that, when hard times arrive, everyone bears with it and goes into “survival” mode. The [launch of the new](#) Mate 60, Mate 60 Pro, Mate 60 Pro+, and Mate X5 which is a new version of its foldable phones, is a testament to the wisdom of this strategy.

Huawei's governance structure is what allows it to reinvest in the company, its facilities, R&D, and its employees, even during times of business downturn and external pressures.

A Culture of Learning from the World and Global Openness

Huawei's emphasis on hard work, based on the Confucious tradition of collective resilience, has enabled it to attract talent who firmly believe they can overcome obstacles and create solutions that best achieve [the company's official goal](#) of “Staying customer-centric and creating value for customers.” Employees are not driven only by the financial rewards on offer, but also by a sense of purpose and the need to be engaged in finding solutions to problems. The company's appeal has enabled it to attract the best talent China has to offer.

In coming up with the company's current corporate governance model, what is noteworthy

is that Huawei's leadership spent time studying the governance models of successful, long-lasting companies from around the world, including Japanese family-owned companies and corporations from France, Germany, and the United States. They actively considered the merits and weaknesses of different models, learning from lessons of success and failure, taking these ideas and customizing them for Huawei.

The design of Huawei's supervisory board is a good example. It drew inspiration from German corporate governance structures and the governance principles developed by Fredmund Malik. However, Huawei's structure is different from German companies in that the representatives of shareholders sit at the top. In addition, the supervisory board does not only supervise the board of directors but plays an active role in developing the leadership pipeline at different levels of the company and setting regulations for how the company operates.

The participation of employees is also unique. All members of the supervisory board and board of directors are Huawei employees. It is also a requirement that shareholder representatives nominated to the board have contributed to the company and demonstrated the requisite leadership skills.

A similar mindset of learning from different models was applied to succession planning and the establishment of its rotating co-chair system five years ago. Huawei places an emphasis on developing leaders within the company. To achieve the system it wanted, it studied different leadership structures from established companies with similar approaches, including family-founded companies.

By retaining top talent, the company believes it can overcome the limitations of any one individual and provide checks and balances. Huawei presently has three rotating co-chairs. When co-chairs are off duty, they visit other countries, meet employees, learn about the

business, and, importantly, have space and time to think, which is given a lot of emphasis.

Huawei's open worldview and its appreciation for other cultures are most dramatically reflected in its R&D campus in the city of [Dongguan, nicknamed the "European city,"](#) where 30,000 staff work in twelve different "villages" modeled after nine different European countries.

Manicured gardens surround life-size replicas of the most famous cities and architecture in Europe, including the Palace of Versailles, Heidelberg Castle, Amsterdam, and Verona. Dotted across the villages are numerous restaurants and cafes, a reflection of Ren's advocacy of coffee culture. There is also an electric train service so that no one needs to drive within the campus.

The concept for the campus was conceived as part of a design competition and was selected for its uniqueness, setting it apart from the usual tech company or Chinese-inspired designs.

The organization and its employees clearly continue to have an appreciation for promoting global culture exchanges and learning from non-Chinese models of success. Prominent observers [have taken notice of this.](#)

A Commitment to Social Obligations and Making a Difference

Many might be surprised to learn that Huawei considers sustainability to be an integral part of its business priorities. It has four sustainability strategies, all of which are aligned with its vision and mission: Digital Inclusion, Security and Trustworthiness, Environmental Protection, and Healthy and Harmonious Ecosystem. Each of these strategies is integrated with the company's business and product development. For example, Huawei's products and solutions are increasingly designed to help the business and their clients reduce energy consumption and CO2 emissions.

While the company does release annual sustainability reports, these do not adhere to the typical Western ESG (environmental, social, and corporate governance) or CSR (corporate social responsibility) reporting.

Similarly, the company does not place too much of an emphasis on philanthropy and has not set up a foundation or philanthropic arm. Instead, it invests in developing cost-effective and sustainable solutions using its technology and working with local and multilateral partners to achieve its objectives in countries where the needs are most critical.

Consider TECH4ALL, the company's long-term digital inclusion initiative, dedicated to producing innovative technologies and solutions that enable an inclusive and sustainable world. [They have applied](#) AI and cloud to learn the sound of endangered animals, rainforests, and wetlands, to remotely monitor and prevent illegal hunting and logging. This application [has been used in many countries](#) in Latin America and Europe and has the potential to be deployed in other fields.

Another example is [RuralStar](#).

As part of its commitment to rural development and bridging the digital divide to boost development in remote areas, Huawei invested in innovating simpler and smaller technology for data transmission.

The RuralStar solution allows a base station to be constructed on a simple pole instead of a dedicated tower, with low-power features that can be powered using six solar panels.

RuralStar is [widely recognized](#) as one of the greenest and most cost-effective solutions available for remote and rural communities.

Notably, the business decision to service rural areas comes at an estimated 30 percent reduction in profit margins compared with the traditional focus on high-density urban areas only. Globally, this technology services small villages of several thousand residents at a 70

percent cost reduction compared to traditional solutions.

Following its first pilot in Ghana in 2017, over sixty countries have implemented RuralStar and over 50 million people in rural areas have benefited. As an example of how such projects are funded, in 2020 in Ghana, the Ministry of Communications and the Ghana Investment for Electronic Communications [signed a financing agreement](#) with Export-Import Bank of China for Huawei to deploy more than 2,000 RuralStar sites for Ghana to provide voice and data services for over 3.4 million people.

Within its goal to drive digitalization, Huawei has also been consistently investing in green transformation. Beyond a significant increase in the [use of renewable energy within their own operations](#) (a 42.3 percent increase from 2020), an increased energy efficiency of their products is also an important metric in their innovation process. A company reports a 1.9 times increase in energy efficiency in their main products since 2019, which in turn helps their customers and industry partners reduce their carbon footprint.

More broadly, Huawei's digital power technology is being deployed and used in many solar farms globally. The idea is to manage watts with bits to help better produce clean energy and cut emissions.

[By the end of 2021](#), Huawei Digital Power had helped customers generate 482.9 billion kWh of green power and save about 14.2 billion kWh of electricity. These efforts [have resulted in a reduction](#) of nearly 230 million tons in CO2 emissions, equivalent to planting 320 million trees.

The ability to choose to meet its social commitments and to take concrete steps towards realizing its corporate vision beyond the mission statements is relatively unique to Huawei. At a time when companies are striving to meet ESG goals and overcome the fundamental tension between short-term priorities and investments for

sustainable growth, Huawei works to overcome such challenges by seeing its products and services as key enablers of sustainable development. It is committed to developing information and communications technologies for reducing carbon emissions, promoting renewable energy, and contributing to the circular economy.

Huawei strives to promote energy conservation and emission reduction in its own operations and to use more renewable energy. This is possible to achieve due to internal consensus across the leadership team to make strategic choices aligned with their sustainability agenda, the desire to invest in long-term ambitions, and the capacity to innovate new products that allow them to achieve their sustainability goals.

A Company That Isn't Going Away

Huawei's success on the global stage, based upon excellence in delivering new innovations, demonstrates that China has much to teach the rest of the world. Yet this success came about via a strategy of openness and a willingness to learn from others. The company's critics, scrambling to respond to recent developments, ought to take note.

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For over almost three decades, *The National Interest*, founded in 1985 by Irving Kristol and Owen Harries, has displayed a remarkable consistency in its approach to foreign policy. It is not, as the inaugural statement declared, about world affairs. It is about American interests. It is guided by the belief that nothing will enhance those interests as effectively as the approach to foreign affairs commonly known as realism—a school of thought traditionally associated with such thinkers and statesmen as Disraeli, Bismarck, and Henry Kissinger. Though the shape of international politics has changed considerably in the past few decades, the magazine's fundamental tenets have not. Instead, they have proven enduring and, indeed, appear to be enjoying something of a popular renaissance.

Until recently, however, liberal hawks and neoconservatives have successfully attempted to stifle debate by arguing that prudence about the use of American power abroad was imprudent—by, in short, disparaging realism as a moribund doctrine that is wholly inimical to American idealism. This has been disastrous. After the Bush administration's failure to discover weapons of mass destruction in Iraq, it became abundantly clear that the lack of a debate in Washington was part and parcel of a larger foreign policy failing, which was the refusal to ponder the larger implications and consequences of the promiscuous use of American power abroad. A reflexive substitution of military might for diplomacy, of bellicose rhetoric for attainable aspirations, dramatically weakened rather than strengthened America's standing around the globe. But today, as China, Russia, and other nations assess and act upon their own perceived national interests, Washington must attempt to understand those nations as they understand themselves.

This is why a return to realism has seldom been more imperative. It is notions of interdependence, the end of sovereignty, and the inutility of power that have all proven wanting in the past decade. International relations was not reinvented in 1989. While it may be an old foreign policy concept, the notion of national interest is not an antiquarian one. On the contrary, it has never possessed more relevance than now.

What actually constitutes true realism is, of course, an appropriate source of controversy. And so, on both its website and in its print edition, *The National Interest* seeks to promote,

as far as possible, a fresh debate about the course of American foreign policy by featuring a variety of leading authors from government, journalism, and academia, many of whom may at times disagree with each other. But it is only out of such disagreements that dogmas can be dispelled and clarity about America's proper aims achieved. By contributing a vital stimulus towards fashioning a new foreign policy consensus based on civil and enlightened contention, *The National Interest* seeks to serve this country's wider national interest.

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