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From Prosperity to Predicament: The Double-Edged Sword Effect of the Amoeba Management System in COFCO Corporation

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ABSTRACT

This paper analyzes the experiences of COFCO Corporation in implementing the Amoeba Management system. Initially, the system facilitated rapid expansion, but as the market environment shifted and management adjustments were made, the limitations of the model gradually became apparent. Notably, the failure to accurately assess market cycles, coupled with an over-reliance on material incentives, led to internal power struggles and management chaos within the company, ultimately resulting in a decline in performance. This paper argues that the successful implementation of the Amoeba Management system relies not only on an appropriate incentive mechanism but also on its deep integration with the company's culture. In times of market downturns, companies should place greater emphasis on team cohesion, cultural heritage, and flexible strategic adjustments to achieve long-term sustainable development.

KEYWORDS

COFCO Corporation; Amoeba Management; Incentive Mechanism; Corporate Culture

1 Introduction

Amoeba Management, a decentralized management model introduced by Kazuo Inamori, the founder of Kyocera Corporation, aims to stimulate employees' sense of responsibility and creativity by dividing the company into independent, self-accounting units responsible for their own profits and losses. This system is designed to foster sustainable development through increased autonomy and accountability. COFCO Corporation, a Hong Kong-listed company that has emerged as a key player in China's real estate industry, initially experienced significant performance growth after implementing the Amoeba Management model. The company became a leader in its sector. However, over time, the model failed to consistently deliver the expected outcomes and instead exacerbated internal management issues, leading to a decline in performance (Adler & Suzuki 2020)

This shift raises an important question: How adaptable is the Amoeba Management system at different stages of a company's development? While COFCO Corporation achieved success during its initial expansion, can the model maintain its effectiveness as the company grows in scale? This paper will analyze both the successes and failures of COFCO Corporation's implementation of Amoeba Management, exploring the dual-edged sword effect of the model. The goal is to provide valuable insights and lessons for other companies in choosing and adjusting their management strategies.

2 Introduction to COFCO Corporation

COFCO Corporation was established in 1993, initially focusing on real estate development in Wenzhou, Zhejiang Province, China. Under the leadership of its founder Yang Jian, COFCO Corporation gradually evolved from a regional company into a nationally recognized real estate developer. In 2015, COFCO Corporation adopted the Amoeba Management system, which quickly fueled its performance growth. From a sales revenue of 16.8 billion RMB in 2015, the company saw its sales exceed 100 billion RMB by 2018, reaching 152.5 billion RMB in 2019, and successfully listing on the Hong Kong Stock Exchange.

However, with the company's rapid expansion and changes in the external environment of the real estate industry, the original intent of the Amoeba Management model began to diverge from its actual outcomes, revealing potential flaws in the system (Hong et al. 2020). In 2020 and 2021, COFCO Corporation experienced frequent employee turnover and senior management changes, which impacted the stability of its operations. Although the company's contracted sales reached 168.8 billion RMB in 2020 and 171.8 billion RMB in 2021, the group's performance began to sharply decline in 2022. In 2022 and 2023, COFCO Corporation's contracted sales were 66.05 billion RMB and 34.13 billion RMB, representing year-on-year declines of approximately 61.6% and 48.3%, respectively. As of January-November 2024, the group's contracted sales totaled only 16.44 billion RMB. According to the company's financial reports, its gross profit margin has also shown a continuous downward trend, with gross profit margins for 2019 to 2023 recorded at 23.27%, 21.01%, 17.12%, 8.9%, and 4.79%, respectively.

In addition, issues such as debt defaults and customer rights protection gradually emerged in 2022. In July 2022, the company failed to make timely payments on maturing senior notes, resulting in a default. In November 2022, the company announced the suspension of interest payments on certain debts, stating it would be unable to repay the principal and interest of the maturing notes within the grace period. This event further fueled concerns about COFCO Corporation's financial condition. As debt defaults and customer rights disputes became more frequent, COFCO Corporation's market reputation was severely tested, and the company's financial health and management capabilities were widely questioned .

3 Analysis of the Success Factors of COFCO Corporation's Early Implementation of Amoeba Management

3.1 Organizational Flattening, Extensive Empowerment, and Unique Incentive Mechanisms

Since the introduction of the Amoeba Management system in 2015, COFCO Corporation has focused on creating an ecosystem based on the platform+individual model. The principle of "streamlining the headquarters, strengthening the front line, and fostering small organizations" guided the restructuring of the company into a flat organizational structure, dividing it into the holding group, regional groups, and regional companies. Under this approach, the group's headquarters no longer intervened in the specific operations of the front line, instead decentralizing decision-making authority and management responsibilities to regional companies and smaller units. This allowed these units to operate autonomously within the framework of full empowerment and responsibility for their profits and losses.

On the foundation of extensive empowerment and a highly transparent automatic accounting system, COFCO Corporation established a unique incentive mechanism that included a multi-tiered "equity incentive," "career partnership," "achievement sharing," and "specialized incentives" system.

This system of career partnership mechanisms ensured that leaders at every level within the company adopted the mindset of "being the operator" rather than merely being a manager. Employees transitioned from the mentality of "I am required to do this" to "I am doing this for myself."

Such a transformation enabled the company to adapt flexibly to the demands of different regions and markets, allowing it to effectively respond to market changes. Through this structure, the Amoeba Management system helped foster a sense of ownership, responsibility, and entrepreneurial spirit across various levels of the organization, leading to better performance and growth during the early stages of implementation.

3.2 Independent Accounting and Project Co-Investment

In COFCO Corporation's operational model, independent accounting and project co-investment are complementary core mechanisms. The company implemented an independent accounting system, where each Amoeba unit receives specific numerical data, reports, and performance feedback to quickly gauge the "market temperature." The independent accounting model requires the leaders of each small unit or group to understand finance, legal affairs, and business operations, thereby continually nurturing an entrepreneurial mindset or "owner mentality".

Alongside independent accounting, COFCO Corporation also mandated that mid-to senior-level managers in each Amoeba unit engage in mandatory project co-investment, while frontline employees could voluntarily participate in co-investment. This mechanism aligned the company’s interests with individual incentives. The company implemented a 1:3 leverage ratio for co-investors, meaning that when a project became profitable, the co-investor's returns could be four times their initial investment. Particularly during market upswings, the leverage effect significantly amplified returns, greatly motivating employees to proactively explore market opportunities.

Chen Hongliang, the co-president of COFCO Corporation, stated: "Co-investment in COFCO Corporation is akin to the company’s fundamental national policy. Today, it is difficult to find a better model than the co-investment mechanism. It not only ties closely with multiple key performance indicators in project operations but also allows key decision-makers to share in the profits, aligning them with the company's interests."

By linking the performance of regional frontline staff with the operational performance of projects, COFCO Corporation turned the co-investment mechanism into not just an incentive tool but also an effective risk management strategy. This system ensured that core decision-makers, while enjoying investment returns, also had to bear the corresponding risks. Although certain regional companies might face the challenge of limited projects and thus might adopt more aggressive land acquisition strategies, the co-investment mechanism encouraged decision-makers to exercise caution during investments, effectively avoiding the risk of over-expansion.

3.3 Streamlined Headquarters and Strategic Precision through a Powerful "Brain" System

The success of COFCO Corporation's implementation of the Amoeba Management system is also closely linked to its ability to precisely grasp industry trends. The headquarters, through efficient decision-making processes and strategic foresight, successfully timed its entry into the market, particularly during the boom period of urban renewal in China's third- and fourth-tier cities. The group’s headquarters accurately predicted the market's turning point, seizing the opportunity for large-scale land acquisitions, and achieved efficient expansion during the market’s boom. In terms of investment strategy, the headquarters not only kept pace with market trends but also ensured that each decision aligned with broader industry movements, thereby minimizing risks and enhancing the company's competitive advantage.

To support this precise strategic positioning, COFCO Corporation adopted a highly streamlined management structure. Approximately 80% of its management team came from top 30 real estate companies in the industry, bringing with them extensive experience and a solid industry background. These leaders were responsible for developing the group's rules and standards. The headquarters implemented strict controls on the scale of development in each region, setting a cap of 12 projects and 4 business divisions per region to avoid the risks associated with over-expansion. Key performance indicators (KPIs), such as annual sales scale, profits, and cash collections, were used to assess performance.

The company also implemented a "last-in, first-out" elimination system, where underperforming regional Amoeba units were merged or restructured. This approach ensured the optimal allocation of resources across the group and facilitated efficient operations.

In this manner, COFCO Corporation's centralized strategic planning, coupled with its decentralized operational execution, allowed for both flexibility and control, ensuring that the company's growth was not only rapid but also sustainable and well-managed.

4 Analysis of the Reasons for COFCO Corporation's Failure in Implementing the Amoeba Management Model in the Later Stages

4.1 Significant Misjudgment of the Subsequent Market Cycle

Under the leadership of Chairman Yang Jian, COFCO Corporation once experienced a period of rapid expansion. In 2019, the company achieved sales of 150 billion yuan, setting an ambitious sales target of 300 billion yuan for 2021. However, this overly aggressive target failed to adequately consider the fluctuations of the market cycle, leading to a significant misjudgment of industry trends.

Chairman Yang Jian overlooked the potential cyclical downturn that the real estate industry might face in 2021 and beyond. This oversight directly impacted COFCO Corporation's strategic decisions, resulting in deviations in target setting from the headquarters down to the regional offices. In pursuit of the overly ambitious sales target, the chairman not only carried out large-scale internal restructuring but also reassigned key executives who had played a crucial role in the company's previous successes. The departure of these experienced leaders led to a leadership vacuum and severely weakened the cohesion of the management team.

Subsequently, COFCO Corporation began to bring in a new team of members from other companies in the industry. While these new recruits possessed rich backgrounds and experience, their lack of a deep understanding of COFCO Corporation's internal culture and strategy resulted in underperformance.

4.2 Cultural Conflict and Over-reliance on Material Incentives Leading to Internal Divisi

The Amoeba Management model, originating in Japan, emphasizes spiritual encouragement and team culture. In Japan, a deep sense of honor and shame is ingrained in the culture. Team members develop a strong sense of responsibility and shame in the pursuit of common goals, forming a self-motivating mechanism. However, the implementation of this model in Chinese companies, including COFCO Corporation, faced significant challenges in terms of cultural adaptation.

Unlike the Japanese emphasis on honor and shame, COFCO Corporation was more inclined to drive employee motivation through material incentives. Material rewards yield immediate results, particularly during periods of industry prosperity when most employees benefit, temporarily masking any underlying conflicts. However, once the market cycle turned downward and only a few individuals could still benefit from the rewards, tensions quickly surfaced. Power struggles and internal competition among team members intensified, and the once harmonious organizational culture began to unravel. This led to managerial chaos and ultimately put the company's operations into a state of crisis.

Moreover, in implementing the Amoeba Management model, COFCO Corporation overlooked the importance of instilling the core value of "respect for heaven and love for people." While Amoeba Management requires each unit to be responsible for its own profits and losses, it also emphasizes building a sense of responsibility and loyalty to the company throughout this process. However, driven by material incentives, employees tended to focus solely on maximizing their personal interests, lacking alignment with the company's overall mission and culture. This was particularly evident when the market environment deteriorated, and employees saw their benefits shrink. The company's core values failed to be effectively embodied, leading to a fragmented organizational environment where individuals acted in their own interests, and internal conflicts escalated.

In summary, the implementation of the Amoeba Management model at COFCO Corporation, due to cultural differences and an overemphasis on material incentives, resulted in significant cultural conflicts. When market conditions worsened, the Amoeba management system, which originally relied on team spirit and cultural cohesion, was unable to exert its intended effect. Instead, it exacerbated internal instability within the company (Ishida,1994).

5 Conclusion and Implications

The lessons learned from COFCO Corporation's experience highlight that the successful implementation of the Amoeba Management model must be grounded in an accurate understanding of market cycles. Overly aggressive sales targets and an excessive reliance on material incentives can lead to managerial chaos and team imbalance during industry downturns. While the Amoeba Management model has the potential to motivate teams, neglecting the development of a strong cultural foundation and the embodiment of core values such as "respect for heaven and love for people" can result in a lack of cohesion and effective internal collaboration during difficult times.

Successful implementation of the Amoeba Management model requires not only an effective incentive system but also a deep integration of corporate culture. This ensures that the team remains united and resilient, capable of overcoming challenges together, even in times of adversity.

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