Determinants of manufacturing strategy formulation: a longitudinal study in Hong Kong

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Abstract

Recent developments of the World Trade Organisation and other international trade agreements have forced industries worldwide to face a new era of intense global competition. Manufacturers will have to compete effectively not only in the local context, but in wider regional and global marketplaces. Global competition has offered numerous opportunities and problems for the manufacturing industry. This paper investigates the determinants of strategy formulation (SF) in manufacturing enterprises and consolidates the empirical findings of a longitudinal study from 1994–2001 in Hong Kong. It also discusses the experiences from some leading Hong Kong manufacturers in managing the competitive pressures and gaining sustainable competitive advantages. The paper attempts to complement the literature base of SF practices with empirical evidence. The findings presented address the identification of success factors and problematic areas that provide manufacturers with guidance and references for formulating viable strategies to meet their business and operations needs.

Keywords: Manufacturing strategy formulation

1. Introduction

The rapid and sustained economic growth experienced throughout the Asia Pacific region over the last few decades has led many economists to label the 21st century as the Asia Pacific century (Australia National University, 1995; OECD, 1997). Hong Kong, being a newly industrialised economy in the Asia Pacific region, has grown fast but erratically. It has a unique environment with many opportunities but also challenges for the future (Burn, 1997; Enright et al., 1997). Hong Kong has a Chinese-majority population, a long-standing British colonial heritage, and was briefly occupied by the Japanese during the Second World War. Despite a scarcity of natural resources, it initially emerged as a significant trading port but became a low-cost, export-oriented manufacturing center by the 1960s. Over the past four decades, Hong Kong has transformed its industry from labour-intensive practices to capital- and technology-based developments, and has moved from a low-cost manufacturing base to a high value-added, design- and service-oriented manufacturing centre (HKID, 1996a; Berger and Lester (1997); Enright et al. (1997); Martinsons (1998). Based on the 1984 Sino–British Joint Declaration, the People’s Republic of China (PRC) assumed political control of Hong Kong in July 1997. It has promised to maintain the existing economic, legal, and social systems until 2047 under the principle of “one country, two systems.” Hong Kong became a Special Administrative Region (SAR) of the PRC. The unique environment of Hong Kong has brought manufacturing enterprises both opportunities and problems. For instance, Martinsons (1998) argues that free trade and information flows, efficient telecommunications, property rights protection, and the technology management expertise are intended as critical factors if Hong Kong
is to remain an attractive conduit for and recipient of technology transfer, and if its businesses are to sustain their fast-follower and focus strategies, synergise technological innovations from China and the West, and capitalise on the vast new domestic market.

In order to sustain a competitive advantage, Hong Kong enterprises must identify their core competencies and success factors and integrate them to formulate viable strategies (Pun et al., 2000a; Sethi and King, 1998). The strategy formulation (SF) process provides a fundamental framework through which an organisation can simultaneously assert its vital continuity and facilitate its adoption to the changing environments (Hax and Majluf, 1996). This paper incorporates the empirical evidence from a longitudinal study on strategy formulation practices that was conducted in Hong Kong from 1994–2001, and discusses the changes of strategic thinking of manufacturing enterprises in responding to the opportunities and problems encountered in industries. Assorted secondary data from literature and private firms have been collected and synthesised. Insights and opinions from managerial personnel responsible for formulating and implementing strategies in their organisations have also been gathered. The success factors, problematic areas and the priority of strategy choices are discussed.

2. Need for strategy formulation

Competition in industry has been complicated with the number and distribution of buyers and sellers, product differentiation, entry barriers, vertical integration, diversification and cost structures. Business success would rely significantly on the formulation and implementation of viable strategies (Pun et al., 2000a). Mintzberg (1994) defines a strategy as “a plan, or something equivalent—a direction, a guide or course of action into the future, a path to get from here to there”, and also as “a pattern, that is, consistency in behaviour over time.” The strategy should match the organisation’s resources (e.g., financial, manufacturing, marketing, technological and workforce) to its changing environment, and in particular its markets and customers in the pursuit of its goals and objectives (Johnson and Scholes, 1997; Porter, 1998). Hax and Majluf (1996) argue that a strategy becomes a fundamental framework through which an organisation can simultaneously assert its vital continuity and facilitate its adaptation to a changing environment. According to Mills et al. (1995), a strategy consists of “process, content and context”. Process refers to how strategy is made and addresses issues of competitive priorities, which includes cost, quality, delivery speed and dependability, flexibility and innovation aspects. Process is a pattern or procedure in which strategy is developed and implemented (Dangayach and Deshmukh, 2001). The context includes both internal factors (e.g., the enterpris...
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