

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.

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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 signifi-

cant 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

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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 enterpri-

se’s structural, cultural and political facets) and external factors (e.g., sectoral, economic, social, political, and competitive environments). Even if the strategy is undocumented, informal, or unplanned and even if the business is unaware of, unconscious of, or flatly denies it, a strategy exists. For instance, location, premises, facilities, technology, employees, product lines, target markets, supply and distribution channels, reputation, standards and procedures are chosen, created and adhered to for various lengths of time. When defined and adopted consciously, a formal strategy can become a set of guidelines for future activities.

Strategy formulation is concerned with the definition of company mission and objectives, the assessment of internal and external environments, and the determination of strategic choices (Pearce and Robinson, 1998). It integrates the planning elements and the implementation parameters, and allows management to measure the progress and evaluate the results (Segal-Horn, 1998). The SF process employs a variety of critical variables and suggests possible cause-and-effect relationships that determine the operational and business performance of a firm. Strickland and Thompson (1998) argue that the SF function has a strongly entrepreneurial character, in the sense that managers have to choose among alternative strategies and pursue approaches that entail adventure and risk-taking. With respect to the dynamic business environments, many researchers and practitioners have proposed different planning models, frameworks and methodologies for strategy formulation. Examples include Porter’s (1980) competitive forces model, McFarlan and McKenney’s (1983) strategic grid, Benjamin et al.’s (1984) strategic opportunities framework, Porter and Millar’s (1985) competitive advantages framework, Wiseman’s (1988) strategic option generator, Earl’s (1989) impact model, Venkatraman’s (1991) IT-induced reconfiguration model, Henderson and Venkatraman’s (1992) strategic alignment model, Mills et al.’s (1995) contingency framework, and Pun et al.’s (2000a) strategy configuration model. These planning models, frameworks and methodologies have distinct features, with each contributing important ingredients and attributes for holistic, maximally useful strategy formulation. They provide some references and guidance for firms to identify opportunities, affirm positioning and formulate viable strategies.

Nevertheless, there is no one strategy that is optimal for all companies. Individual organisations have to determine what makes the most sense in light of their positions in the industry and a thorough, integrated analysis of the external environment and assessment of the organisation’s internal competencies (Pun et al., 2000b). Linking strategy formulation to implementation is a challenge that manufacturing businesses face today, but the rewards for those who succeed will be handsome. In this regard, Hong Kong manufacturing enterprises, like those

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