

## **Survey on the Business and Management Strategies of CMA Members (Executive Summary)**

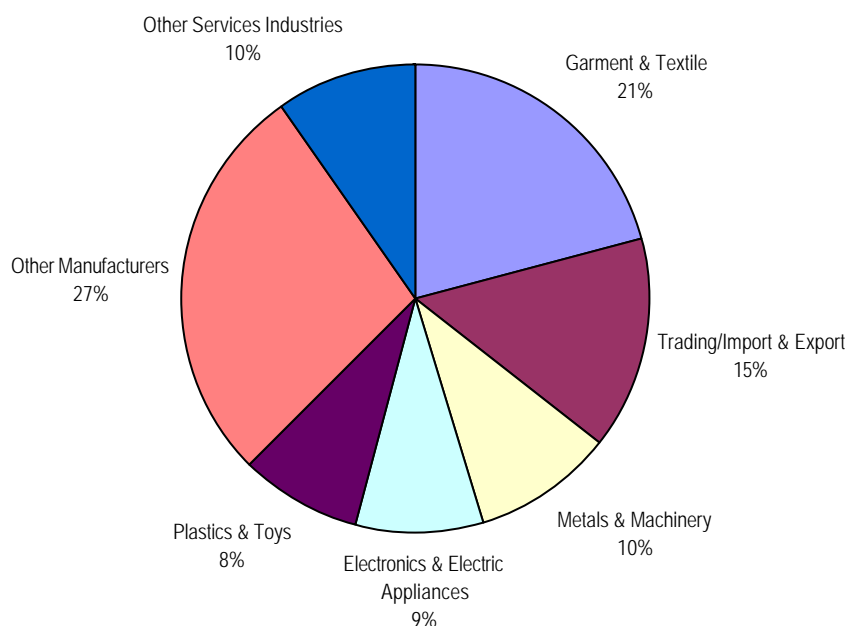
*- Joint Project of the CMA and IHRM*

Management is the soul of an enterprise, the lifeblood of its operation and engine for growth. At a time of economic difficulty, management has taken on increasing importance, as Hong Kong companies are keener to step up efficiency through enhancing revenue generation, cost reduction, and amelioration of corporate resource allocation. On the other hand, since many Hong Kong manufacturers have relocated their production base to Mainland China or other low-cost countries since the mid-1980s, both their *module operandi* and managerial thinking have been undergoing subtle changes with the rise of cross-border operations.

In order to better understand the business strategies and managerial styles of Hong Kong companies, the Chinese Manufacturers' Association of Hong Kong and the Hong Kong Institute of Human Resource Management jointly conducted a questionnaire survey during June to August 2002, drawing on CMA's membership. This study, unprecedented in terms of its scale, has touched upon the managerial dimension of Hong Kong companies, examining their strengths and weaknesses from an empirical point of view. It adopts a self-completion approach and has received 197 valid replies.

Companies responding to the Survey come from over 20 industries, including garment & textile, metals & machinery, electronics & electric appliances, plastics & toys, import & export (I/E), trading, and etc (*Figure 1*). Most responding companies have extended their operations outside Hong Kong, with 75% of them having staff in Mainland China and 15% having employees in other countries. As a reflection of Hong Kong's sizable offshore industry, the average employee number of respondents' overseas operations, either in the Mainland or in other countries, stands at over 700 persons, in contrast to less than 100 in their Hong Kong headquarters (*Table 1*). Moreover, companies with overseas employment tend to hire no fewer employees in Hong Kong than those without staff outside the territory. To some extent, this may point to a dynamic rather than sheer substitutive relationship between outbound investment and local employment.

**Figure 1: Distribution of Responding Companies: By Business Sector**

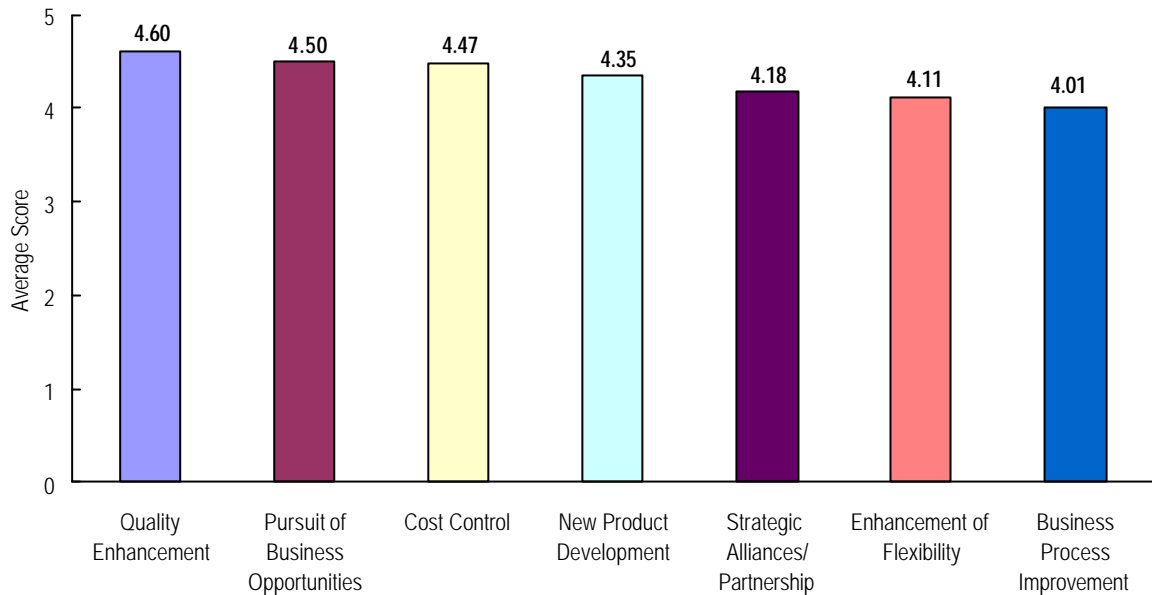


**Table 1: No. of Employees in Various Locations of Responding Companies**

	Hong Kong	Mainland China	Overseas	Total
Total No. of employees	10,045	111,544	22,750	144,339
Average no. of employees	51	764	734	733
Median no. of employees	16	300	20	200
No. of companies	197	146	31	197

Rising to the challenges from a rapidly changing business environment, most responding companies have resorted to multiple strategies for sharpening competitive edges. Among these are upgrading products/services quality, exploring new business opportunities, developing new products, increasing the flexibility in pricing and production planning, enhancing partnership with suppliers and customers, as well as streamlining operational process (*Figure 2*). In other words, these “mainstream strategies” can be condensed into so-called “5P elements” - Product, Price, Place (marketplace), Process and Partner, which are five critical arenas for Hong Kong companies to hone their strengths.

**Figure 2: The Most Popular Business Strategies**



*Remarks: Average Scores reflect the extent to which the responding companies as a whole agree with/adopt the respective strategies; "5" denotes "strongly agree", "1" denotes "strongly disagree."*

When responding companies are classified in terms of their strategic orientation, over one-half (53.3%) of them can be subsumed under the “aggressive type,” while another 35.5% exhibit the attributes of “defensive type.” By definition, “aggressive” companies are more likely to take initiative in exploring new business areas or innovative strategies, while “defensive” companies would focus more on raising the satisfaction of existing clients or securing bigger cost-effectiveness. It is interesting to note that a respondent’s strategic orientation is significantly correlated with its total employment size as well as the industry that it is engaged in. For instance, services companies are more “aggressive” than manufacturers, and garment & textile as well as toy & plastics companies are more probably fall into the “defensive type” (Table 2). Also, in comparison to companies with medium-sized employees, small and big-scale companies have a stronger propensity to follow “aggressive” strategies (Table 3).

**Table 2: Relationship between Business Sector and Business Strategy**

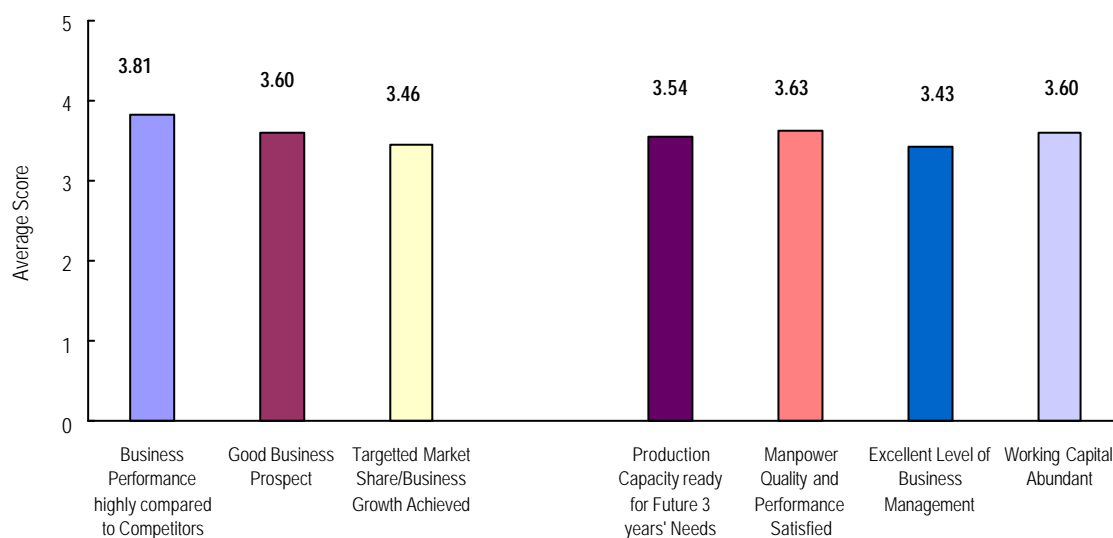
No. of companies	Aggressive	Defensive	Mixed	Total
<b>Manufacturing</b>	73	60	16	<b>149</b>
<b>Services</b>	32	11	5	<b>48</b>
<b>Total</b>	<b>105</b>	<b>71</b>	<b>21</b>	<b>197</b>

**Table 3: Relationship between Size of Company and Business Strategy**

No. of employees	Aggressive	Defensive	Mixed	Total
1 – 50 employees	41	15	4	60
51 – 200 employees	16	18	5	39
201 – 500 employees	16	21	3	40
501 employees or above	32	17	9	58
<b>Total no. of companies</b>	<b>105</b>	<b>71</b>	<b>21</b>	<b>197</b>

Respondents to the survey are generally satisfied with their own performance, as is indicated by the three reference indices developed in the questionnaire - the “horizontal comparison index” (self-evaluation on performance vis-à-vis the peer), “vertical comparison index” (views on the business prospects) and “absolute index” (satisfaction regarding market share and growth rate). Relatively speaking, respondents expressed a higher degree of complacency about the first two “relative indices” than the “absolute index.” It seems that many companies are still afflicted with the pinch of economic adversity, which has deterred them from fully exploiting their capability (*Figure 3*).

**Figure 3: Various Indices for Business Performance**



*Remarks: Average Scores reflect the extent to which responding companies as a whole agree with the respective propositions on business performance; “5” denotes “strongly agree”, “1” denotes “strongly disagree.”*

According to many responding companies, upgrading equipment (Machine) and managerial skills (Management) should take precedence over improving human capital

(Man) and financing (Money) (*Figure 3*). Moreover, among the 51 companies that felt the most confident of their performance, small and large-sized companies are in the majority. Also, 64.7% of these “best-performing” companies belong to “aggressive type,” as far as the strategic orientation is concerned. Further statistic tests have affirmed that both company employment size and strategic orientation have significant impacts on the performance: Companies adopting “aggressive” strategies have a higher likelihood to be good performers (*Table 4*), while large companies tend to outperform small and medium players (*Table 5*).

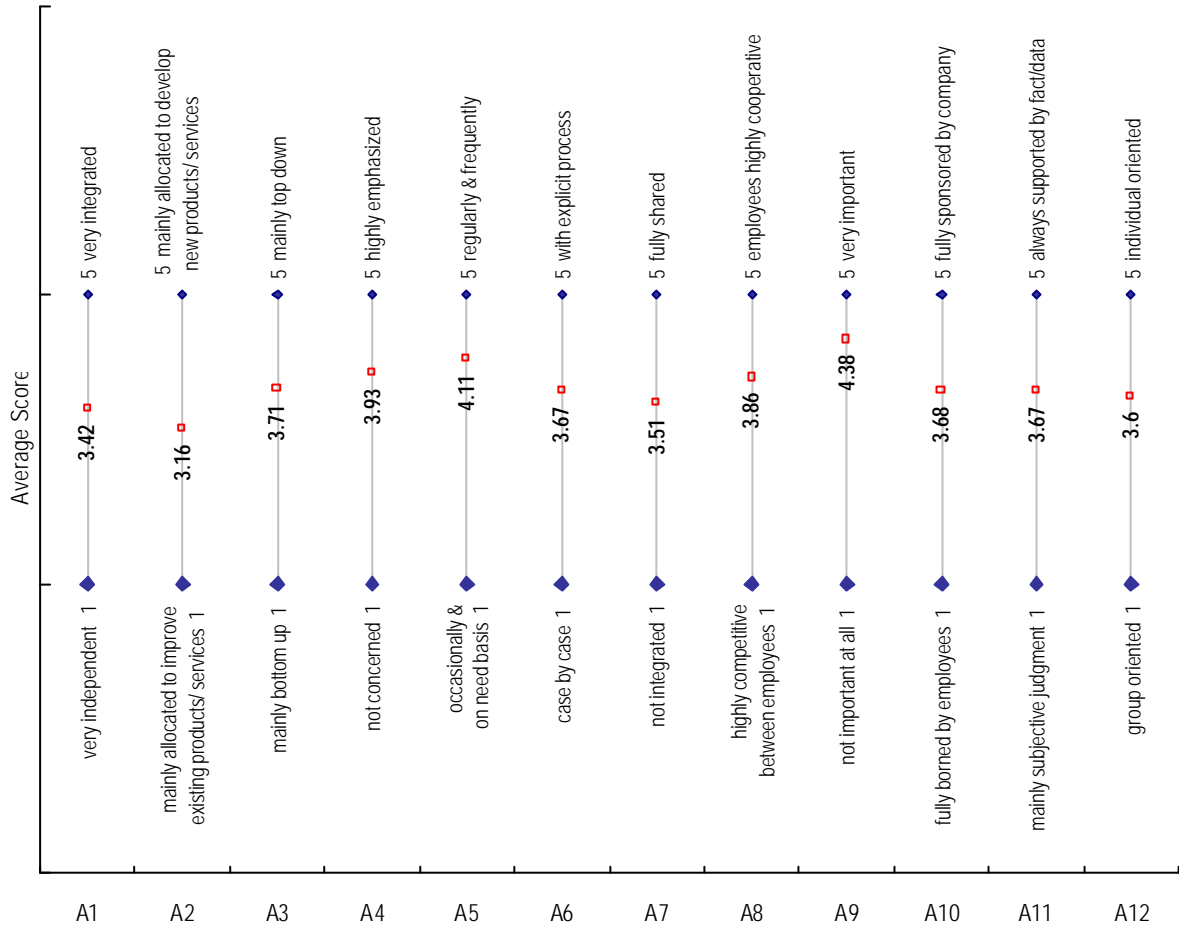
**Table 4: Business Strategies: Best-performing vs. Non-best-performing Companies**

Business Strategy	Best-performers	Non-best-performers	Total no. of cos
Aggressive	36 (65.5%)	69 (48.6%)	105 (53.3%)
Defensive	15 (27.3%)	56 (39.4%)	71 (36.0%)
Mixed	4 (7.3%)	17 (12.0%)	21 (16.7%)
Total no. of cos	55 (100%)	142 (100%)	197 (100%)

**Table 5: Employment Size: Best-Performing vs. Non-best-performing Companies**

Size of Company (No. of employees)	Best-performers	Non-best-performers	Total no. of cos
1 – 50	15 (27.3%)	45 (31.7%)	60 (30.5%)
51 – 200	8 (14.5%)	31 (21.8%)	39 (19.8%)
201 – 500	5 (9.1%)	35 (24.6%)	40 (20.3%)
501 or above	27 (49.1%)	31 (21.8%)	58 (29.4%)
Total no. of cos	55 (100%)	142 (100%)	197 (100%)

**Figure 4: Management Approaches**



Remarks:

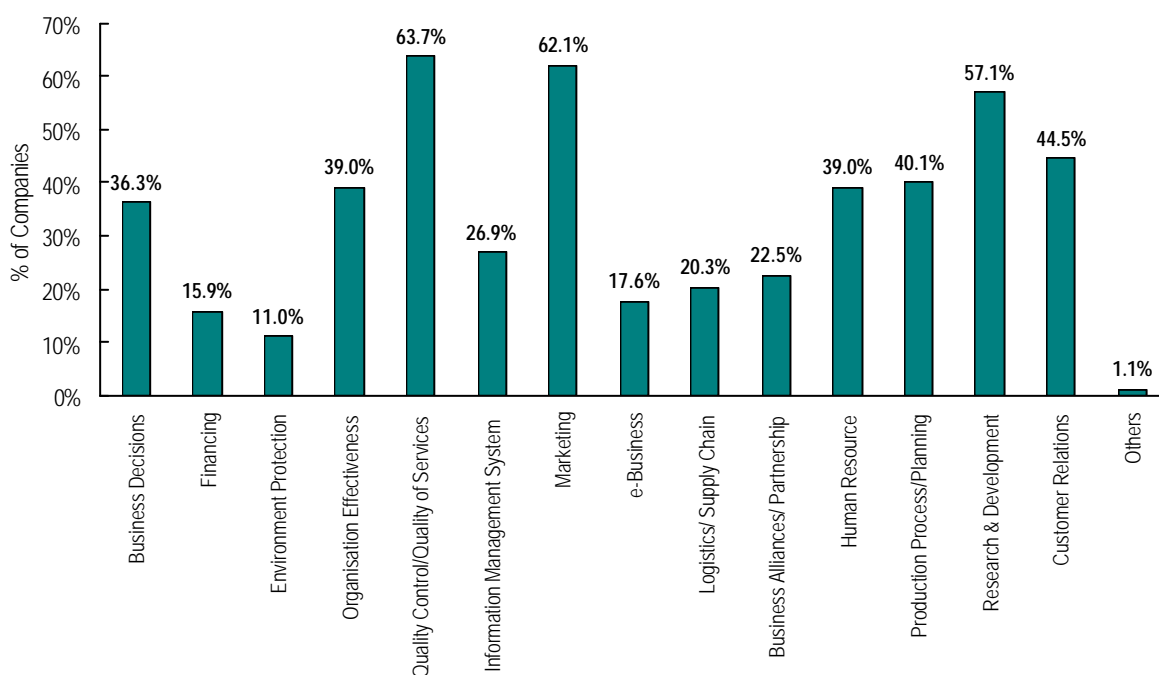
- A1: How independent various departments and work groups perform their functions
- A2: How company's resources being allocated to
- A3: The flow of new ideas on improvement in business development
- A4: To what extent business strategies being communicated to every employee is emphasized
- A5: To what extent senior management/ relevant departments are informed about consumers' feedback
- A6: To what extent customer complaints are resolved through an explicit management process
- A7: To what extent business information is managed by a centralized information management system
- A8: The working relationship between employees
- A9: How human capital is compared with capital and technology
- A10: Who pays for employees' training and education
- A11: How the performance of employees (excluding sales team) is measured
- A12: How is your reward and recognition policy designed

As far as management approaches are concerned (*Figure 4*), the responding companies would, more often than not, pursue a balanced R&D policy on Research, whereby to allocate resources evenly between new product development and improvement on existing products. They incline toward a “top-down” approach in making decision and attach much importance to internal communications, so as to ensure that decisions can be effectively conveyed to staff at different levels on one hand, and the feedbacks from clients be precisely transmitted to the management on the other.

Teamwork is always a key factor of respondents’ corporate culture, but individual-oriented reward policies are more oft-seen than group-oriented ones. Much impressively, most of responding companies believe that human resource is of equal importance to capital or technology, and the majority of them would provide educational subsidies for employees, to a more or lesser extent. Moreover, only a relatively small number of respondents have built up fully-integrated information system that allows information to flow freely and be shared mutually among various working units in the company.

Looking ahead, almost all the respondents admitted that further efforts should be made to strengthen corporate management. Especially, they are looking to improvements in the field of quality control, marketing, R&D, customer relationship, process restructuring, organizational efficiency and HR management (*Figure 5*).

**Figure 5: Areas for Improvement in the Next 2 Years**



As the Survey revealed, small and medium-size respondents generally under-perform their big counterparts. It follows that the recent efforts by the HKSAR Government to foster SMEs could be more than timely and necessary. However, to the extent that SMEs are heterogeneous in terms of size, industry and accordingly business strategies, the Government is suggested to conduct a “segmentation study” on SMEs, so as to better understand their characteristics and cater to their specific needs. The Government should also extend its policy focus from finance to management and technology fronts. Among other things, it should assist Hong Kong SMEs to upgrade management in respect of quality control, R&D, marketing and process/workflow restructuring. For Hong Kong companies to ensure continuous success, they are recommended to pump more “aggressive”/innovative elements into traditional business wisdom - Indeed, in an ever-changing economic environment, if cost-effectiveness is a must for survival, then staying enterprising is a must for staying ahead.

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