

# **Corporate Cultures in the Eras of Productivity, Quality, and Innovation: A Perspective from Hong Kong**

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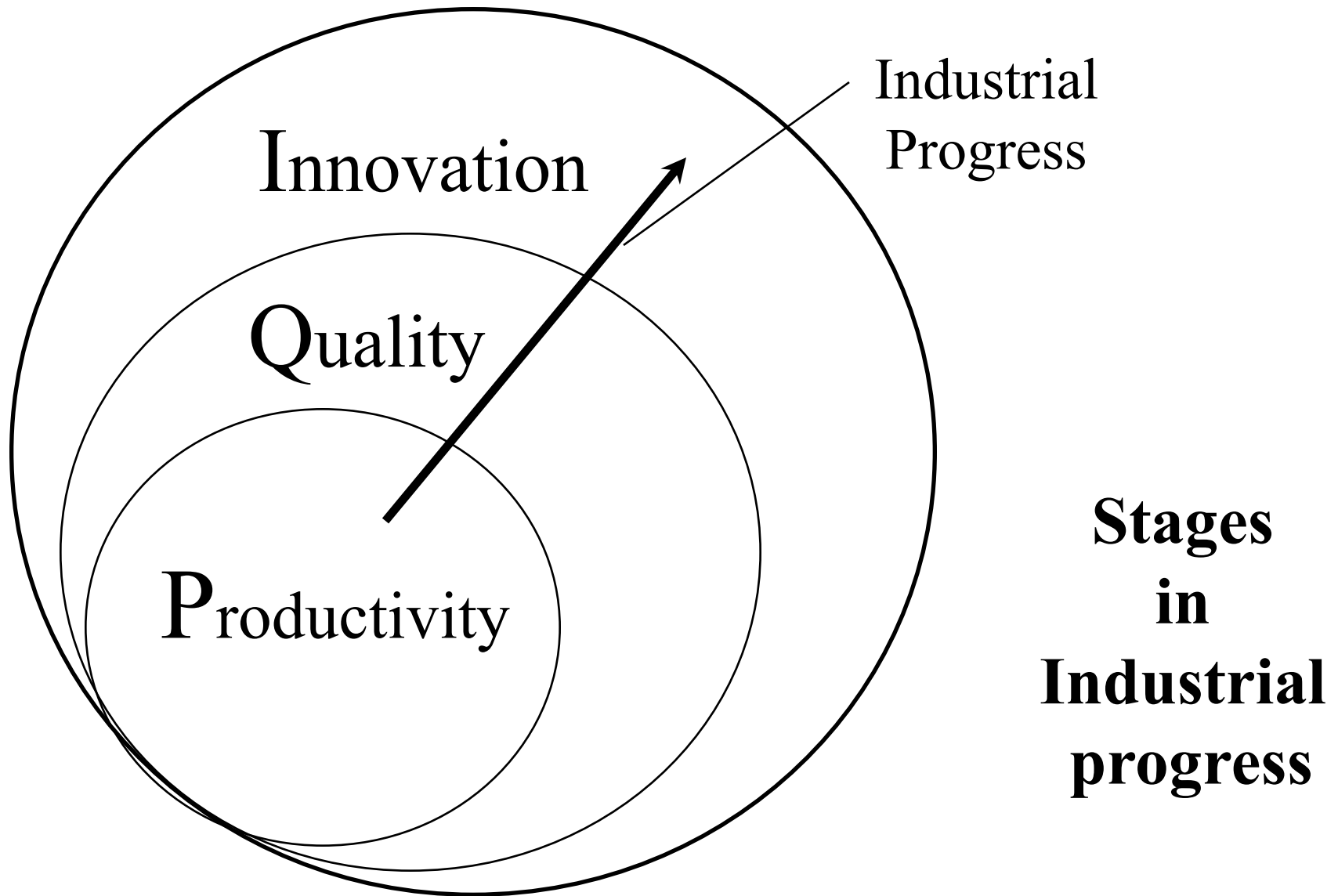
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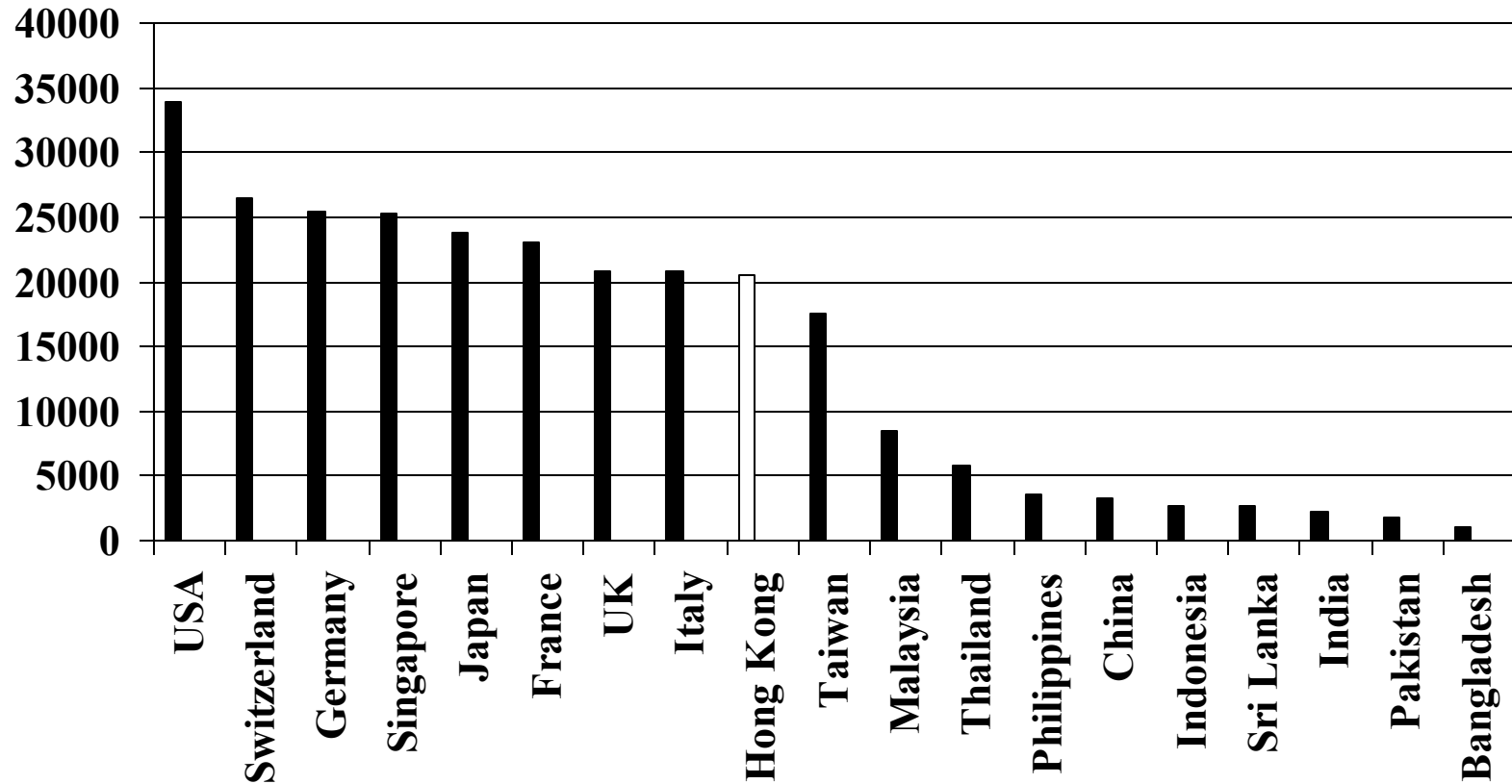


# Path to Progress in 20th Century

1. Consolidation and modernization of agriculture
  - ☎ Growth of domestic manufacturing followed by gradual integration into global manufacturing
  - ☎ Growth of the service sector.
2. Relentless penetration of technology into every aspect of industry.
3. More and more customer-oriented world markets.



## Per Capita GDP (Purchasing-Power Parity), US\$ [Asiaweek, October 6, 2000]



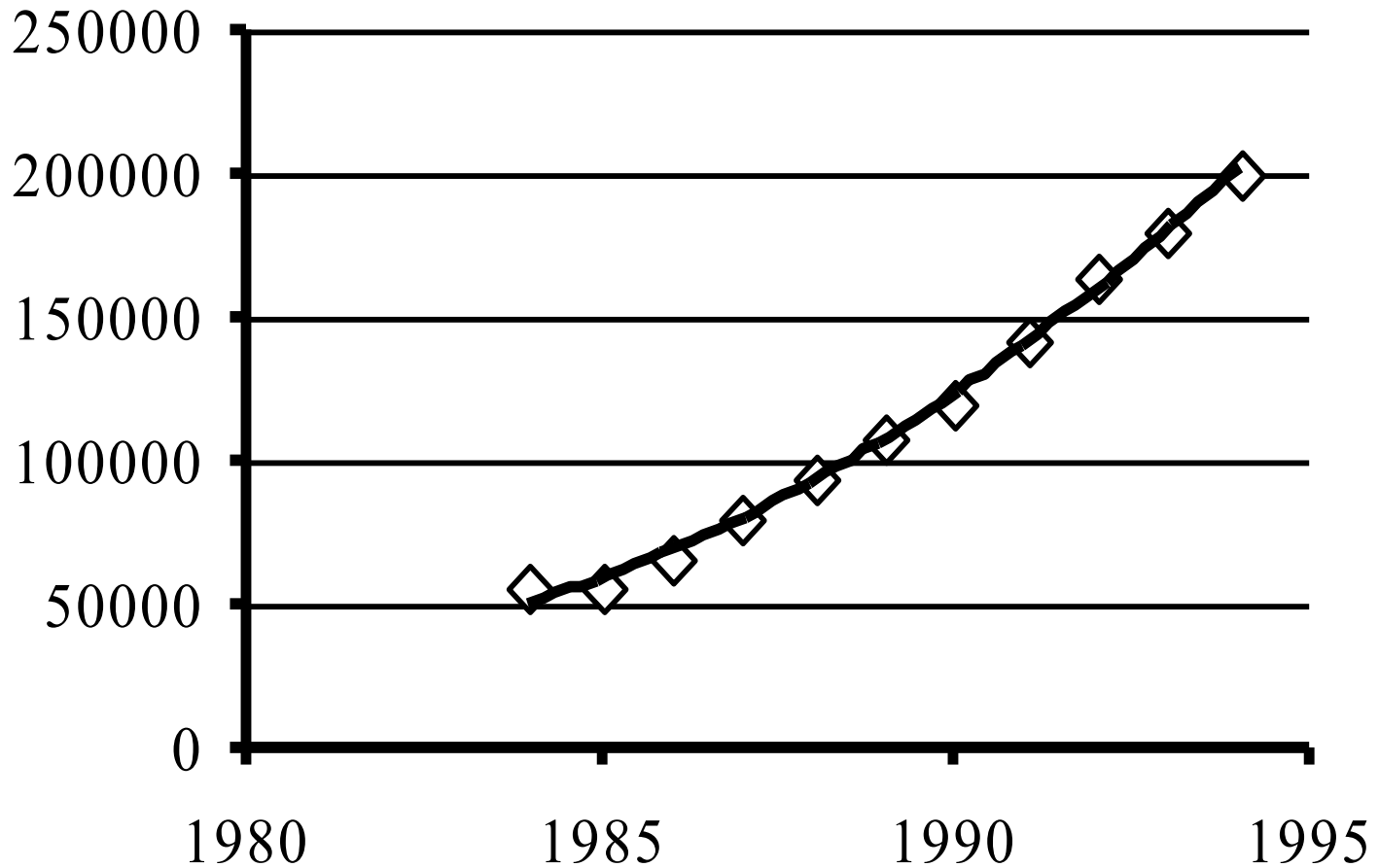
# Economic Growth of Hong Kong

- 19th century: small-scale agriculture, fishing, trading
- 1898: Cession-cum-lease to UK
- Mid-20th century: Large scale immigration from mainland-china
- Next 50 years: Growth in service and manufacturing sectors.
- Service sector: Tourism, Shipping, International Finance, Trade,,,
- Silk Flowers, Textiles, Garments, Plastic Products, Watches, Electrical Appliances, Electronics,,,

# Hong Kong's Domestic Manufacturing Peaks in the Period 1975 to 1985

Peak % of Mfg in HK's GDP: 24%

Peak % of Mfg in HK's Employment:  
48%



Value-added per Person (US\$)  
in HK's Manufacturing Sector

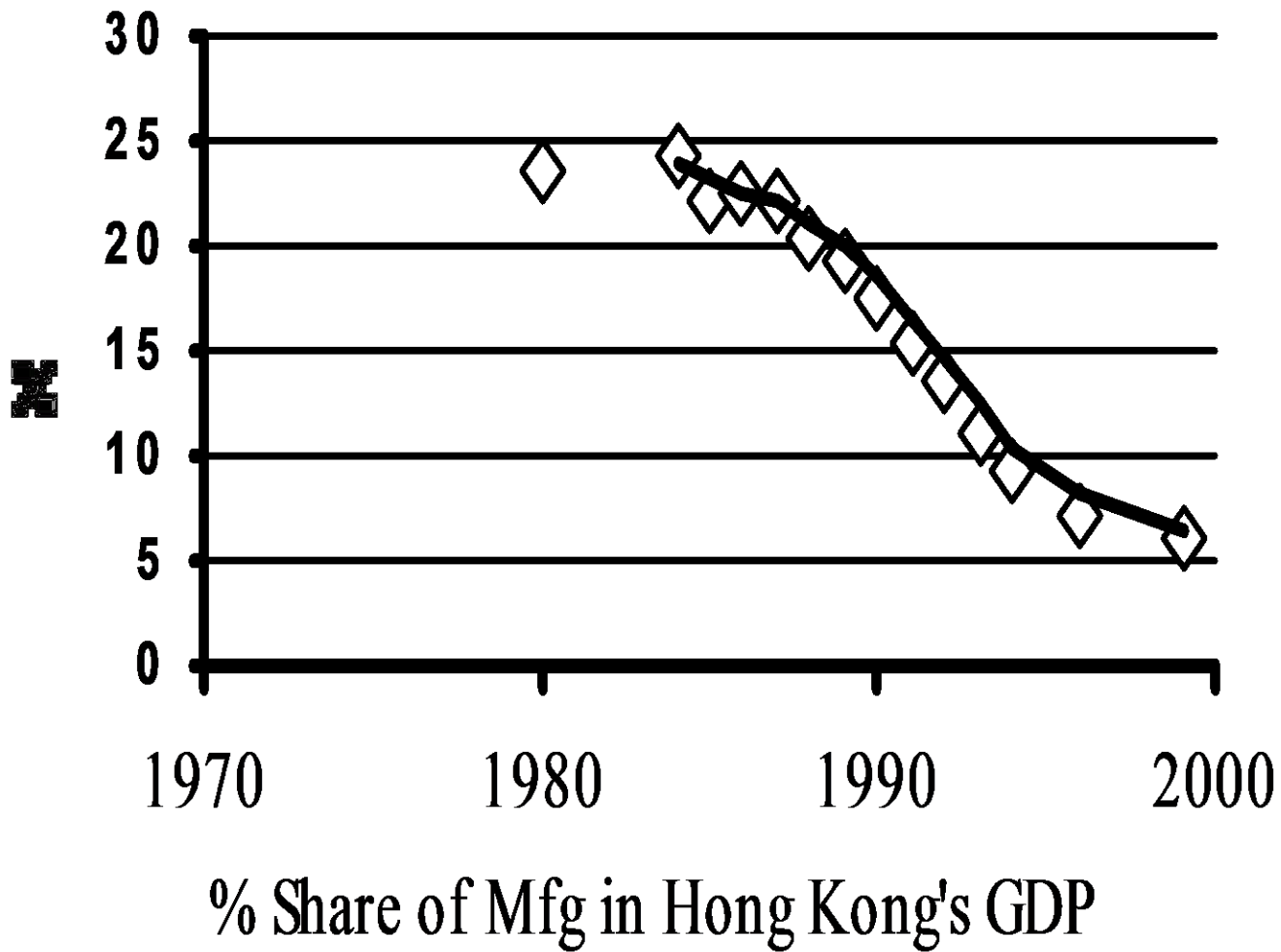
# Q-Era in HK: 1980 onwards

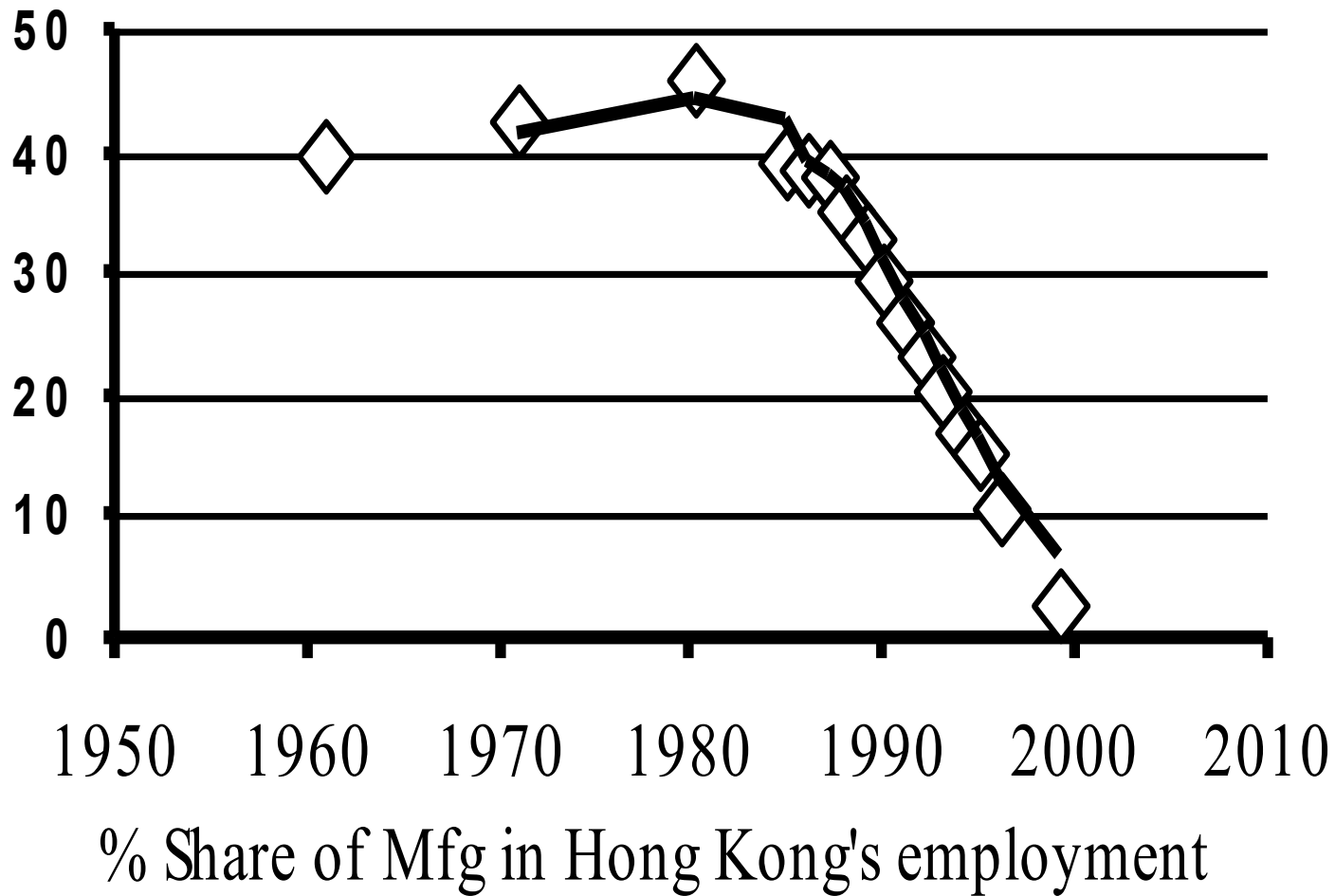
- ISO 9000
- JIT
- Kaizen
- Zero-defects
- Taguchi experiments
- Total Quality Management (TQM)



# Migration of HK.s Manufacturing

- 1980: ‘ Open Door Policy’, and ‘Four Modernizations’ in mainland China
- 1982: Agreement between China and Britain to return HK to China in 1997
- Cheaper land and labor in the mainland
- Shop-level manufacturing migrates to the mainland (4-5 million workers)
- Migration is continuing, but domestic manufacturing is turning to ODM and higher technology





- By 1995: Worries regarding the “hollowing out” of HK
- Isn’t manufacturing essential for HK’s stability?
- Exclusive reliance on service sector starts being questioned
- In the case of a financial crisis, service sector capital could leave HK thus causing stagnation.
- 1997 Asian Financial Crisis
- HK is hardest hit

## Report by the Commission for Innovation and Technology set up by HKSAR's Chief Executive

“[t]here is strong competition [to HKSAR] from neighboring economies for Hong Kong's regional role in trade, finance, transportation and communications. With respect to manufacturing, Hong Kong must strive to support and further develop high-value activities. Hong Kong is also facing stiff competition from low-cost economies. A fundamental challenge is how Hong Kong should position itself in the knowledge-based, global economy of the 21st century.”

- The report included several recommendations aimed at strengthening technological innovation within Hong Kong.
- These developments point to the likelihood of HKSAR being in a state of transition from the era of quality to the era of innovation.

# Million \$ question: Can HK successfully transit to I-era?

- Pessimists say: HK has limited land, labor, and natural resources to compete on the basis of innovation.
- Optimists rely on Schumpeterian sentiments which recognizes the value of entrepreneurship and ‘technovation’ which can overshadow those of land and natural resources.
- Who will turn out to be correct?

## **Confucian Principles:** [Hofstede 1980, 1997]

1. *“The stability of a society is based on unequal relationships between people. The *wu lan*, or five basic relationships are ruler-subject, father-son, older brother-younger brother, husband-wife, and senior friend-junior friend. These relationships are based on mutual and complementary obligations. The junior partner owes the senior respect and obedience. The senior owes the junior partner protection and consideration.”*

On your worksheet, give a score of 1 to 10 indicating the degree to which the people in your place of work behaves in conformity with this principle.



2. “*The family is the prototype of all social organizations. A person is not primarily an individual; rather, he or she is a member of a family. Harmony is found in the maintenance of everybody’s face in the sense of dignity, self-respect, and prestige. Social relations should be conducted in such a way that everybody’s face is maintained. Paying respect to someone is called ‘giving face’.*” (Score 1 to 10)

3. *“Virtuous behavior towards others consists of not treating others as one would not like to be treated oneself (The Chinese Golden Rule is negatively phrased!). There is a basic human benevolence towards others, but it does not go as far as the Christian injunction to love one’s enemies. Confucius is supposed to have said that if one should love one’s enemies, what would remain for one’s friends?”* (Score 1 to 10)

# Some Pertinent Questions

Principle 1: Stability is clearly important when economic growth is driven by the pursuit of productivity and quality. In contrast, innovation means instability (many authors have referred to innovation as “creative destruction”). Will preference for stability impede innovation?

Principle 2: There is evidence to suggest that a large proportion of Hong Kong's manufacturing enterprises are controlled closely by family members of the proprietors or, even, dominant shareholders. Will this affect how professionally the corporations are run? Isn't professionalism a prerequisite to innovation in the area of high technology?

Principle 3: Doesn't this principle actually enable one to compete more aggressively?

Principle 4: Aren't such values actually assets in the context of innovation?

# Corporate Cultures

[Donk and Sanders 1993]

- process-oriented *versus* results-oriented
- employee-oriented *versus* job-oriented
- parochial *versus* professional
- open system *versus* closed system
- loose control *versus* tight control
- pragmatic *versus* normative

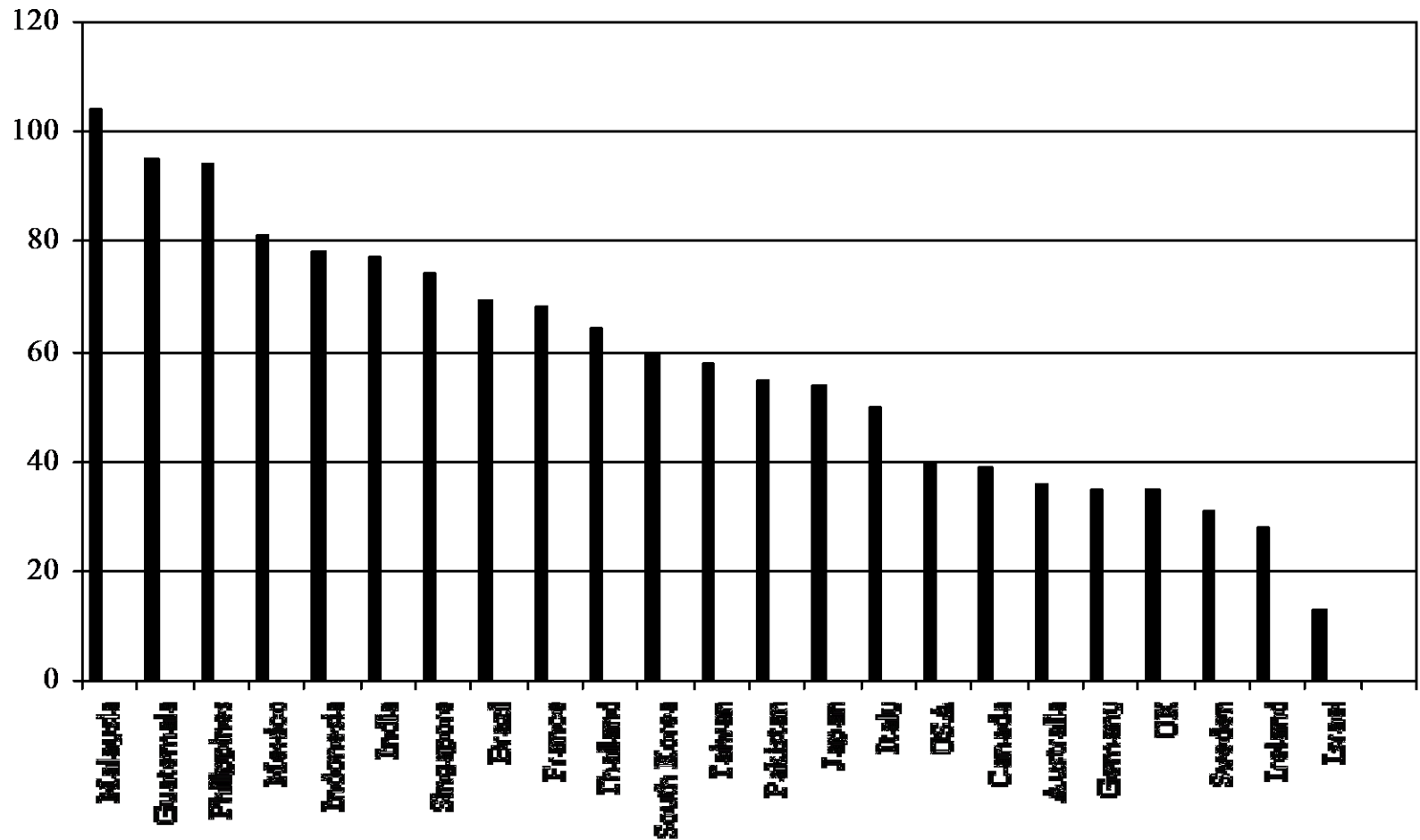
# Hofstede 1980, 1997

- He compared the corporate cultures in IBM units located in several countries.
- A substantial questionnaire-based survey
- Performed a cluster analysis of responses
- Arrived at 4 basic indices of culture.

# 1. Power Distance Index (PDI)

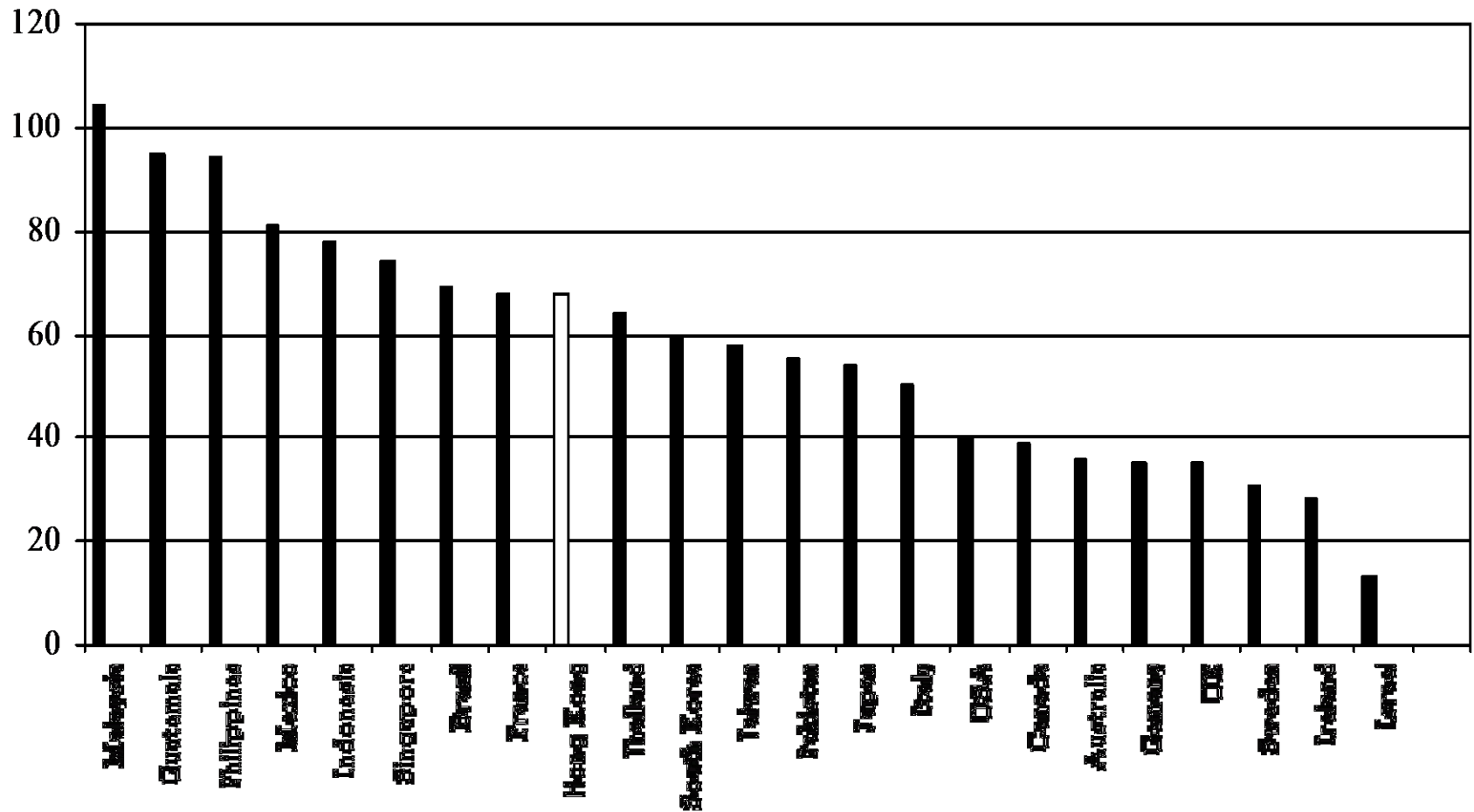
The extent to which a society accepts the fact that power in corporations is distributed unequally and tells about the dependency relationships in the region.

- A large PDI: Considerable dependence (or counterdependence) of subordinates on bosses. Subordinates either accept or reject bosses totally (polarization).
- A small PDI: Preference for consultation, i.e. interdependence, between subordinates and bosses. Subordinates quite readily approach and contradict bosses.



Power Distance Index Values  
(You guess for Hong Kong)





Power Distance Index Values  
(You guess for India)

## 2. Individualism Index (II)

High II indicates preference for

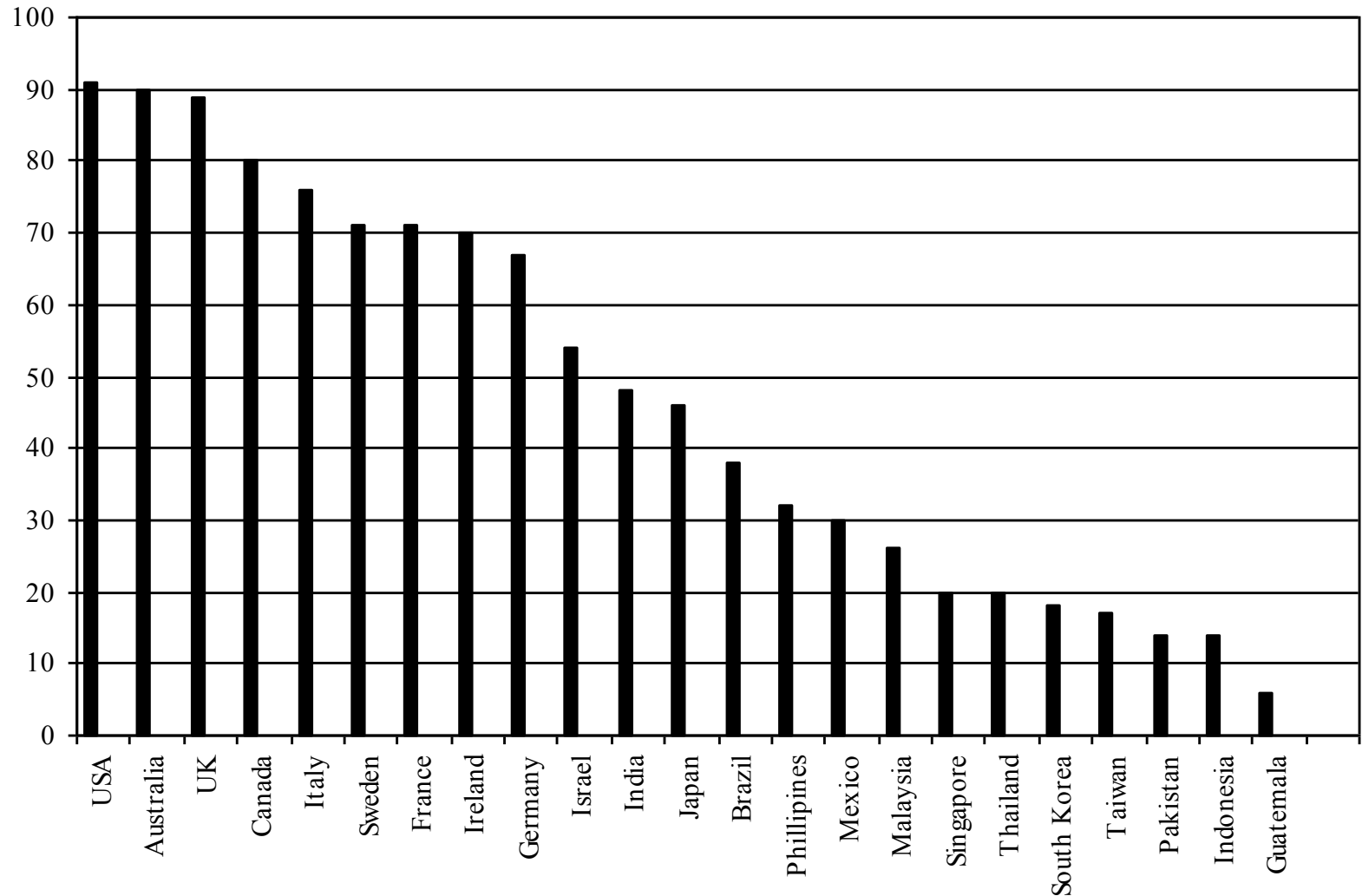
- personal time (e.g., having a job that leaves sufficient time for one's personal or family life)
- freedom (e.g., having considerable freedom to adopt one's approach to the job)
- challenge (e.g., having challenging work from which one can achieve a personal sense of achievement).

A small II (high collectivism) indicates preference for

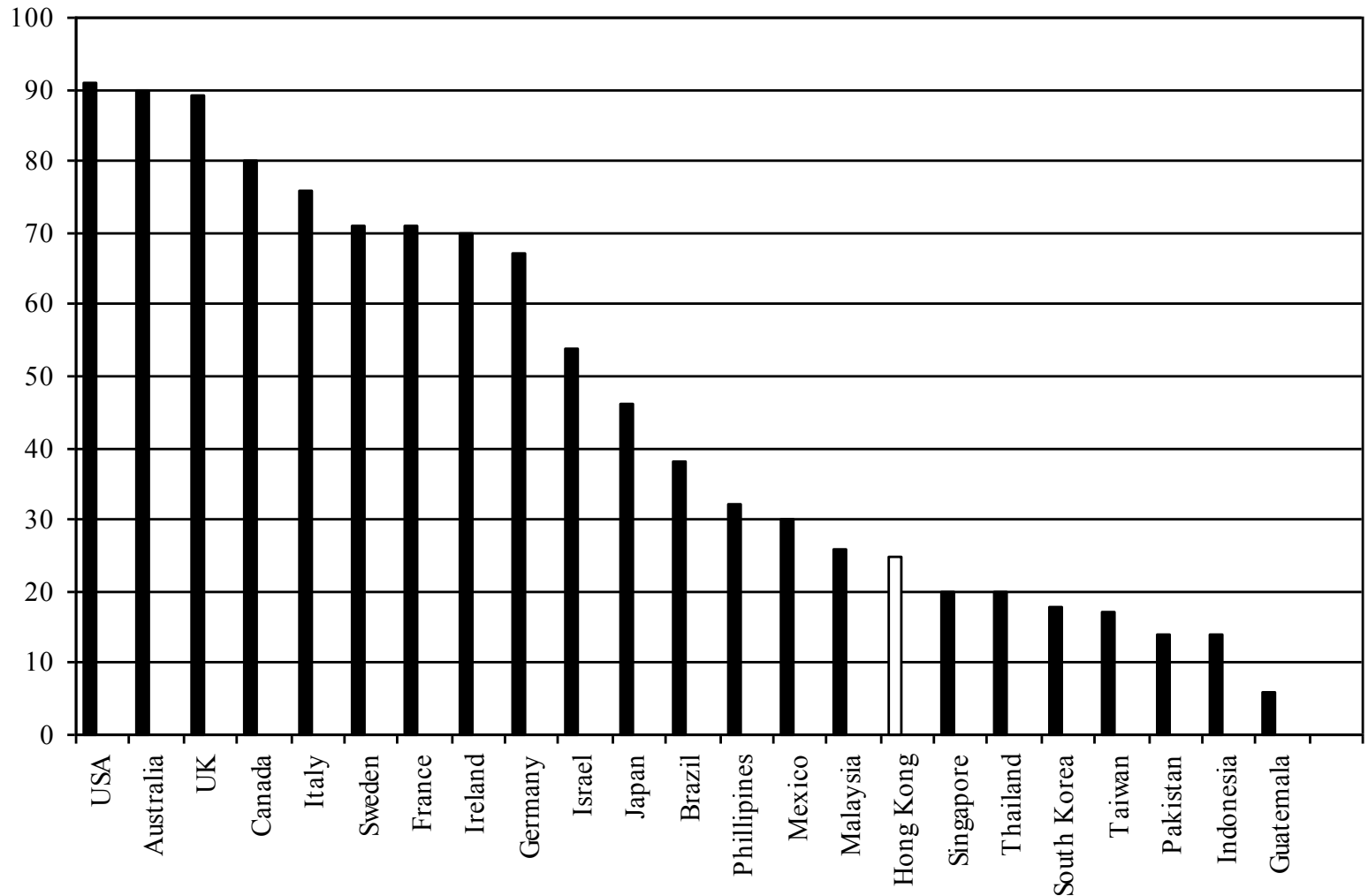
- having training opportunities to improve one's skills or learn new skills
- having good physical working conditions (good ventilation and lighting, adequate work space, etc.)
- use of skills (e.g., being able to fully use one's skills and abilities on the job)

(Note your score)

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**Individualism Index Values (You guess for Hong Kong)**

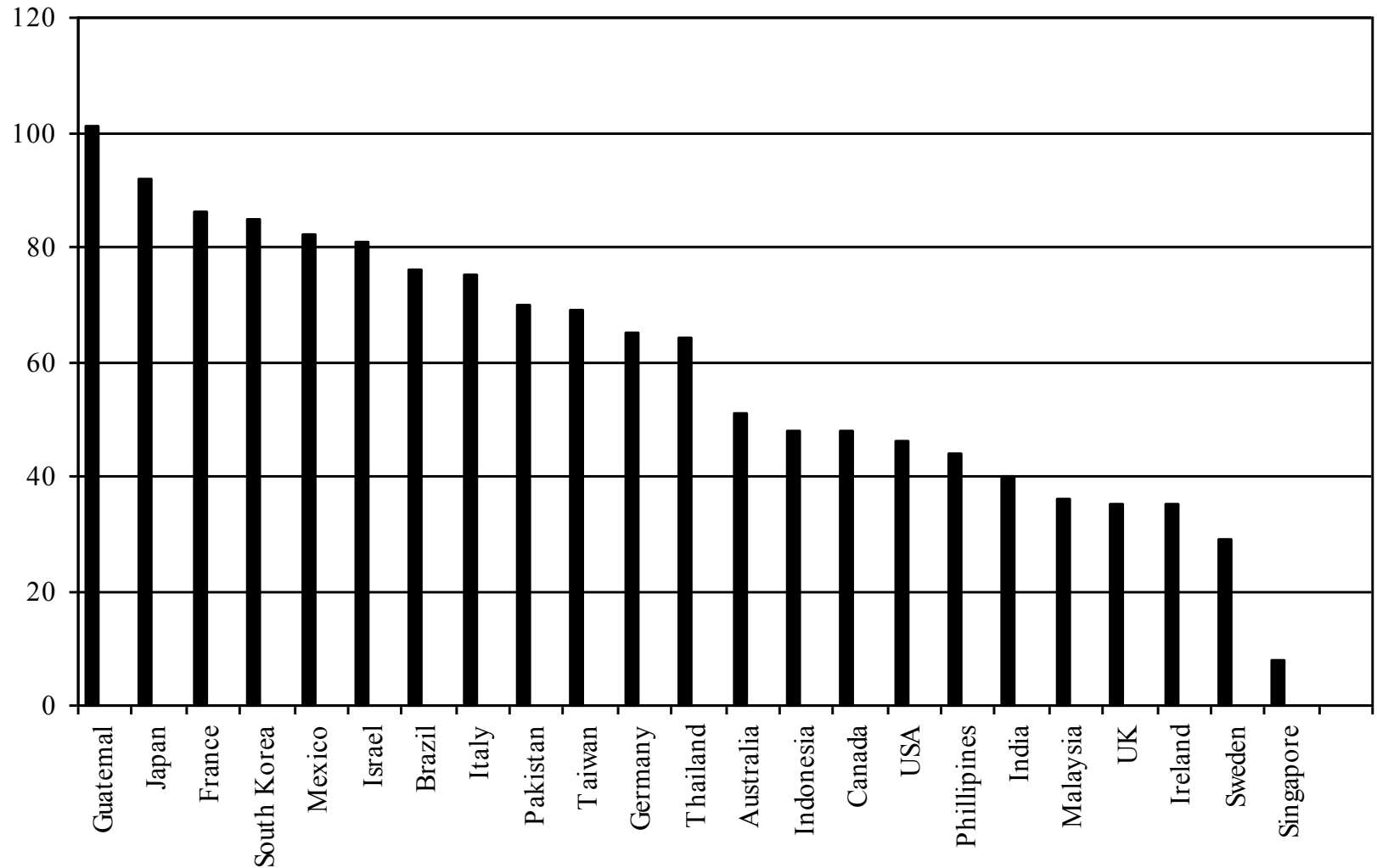


Individualism Index Values (You guess for India)

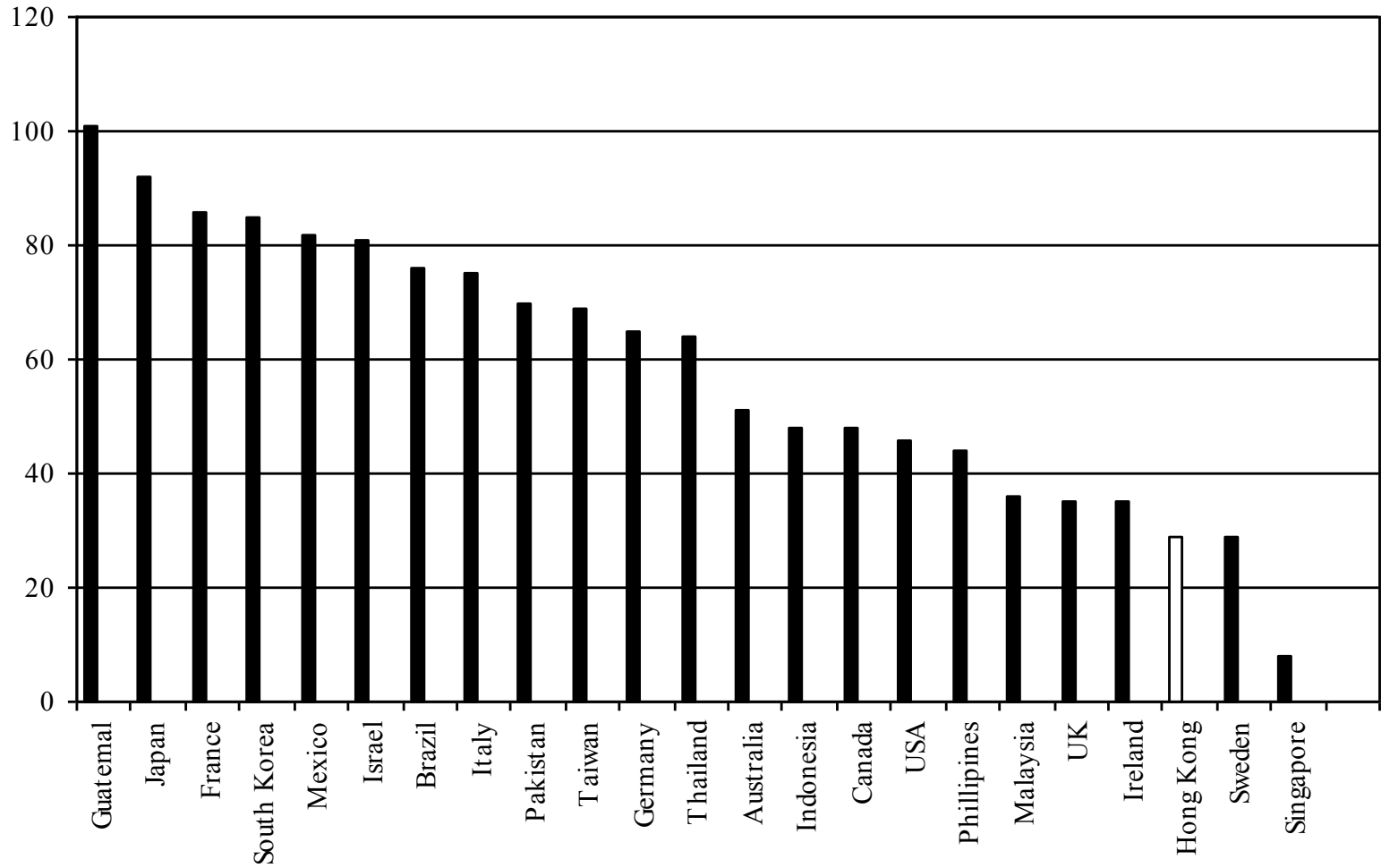
### 3. Uncertainty Avoidance Index (UAI)

- A high UAI indicates increased anxiety and more expressiveness. In contrast, a low UAI indicates more internalization and higher incidence of coronary diseases.
- Paradoxically, people with high UA tend to reduce ambiguity. They are often prepared to take risks to reduce ambiguity.

(Note your score)



Uncertainty Avoidance Index Values  
(You guess for Hong Kong)



Uncertainty Avoidance Index Values  
(You guess for India)

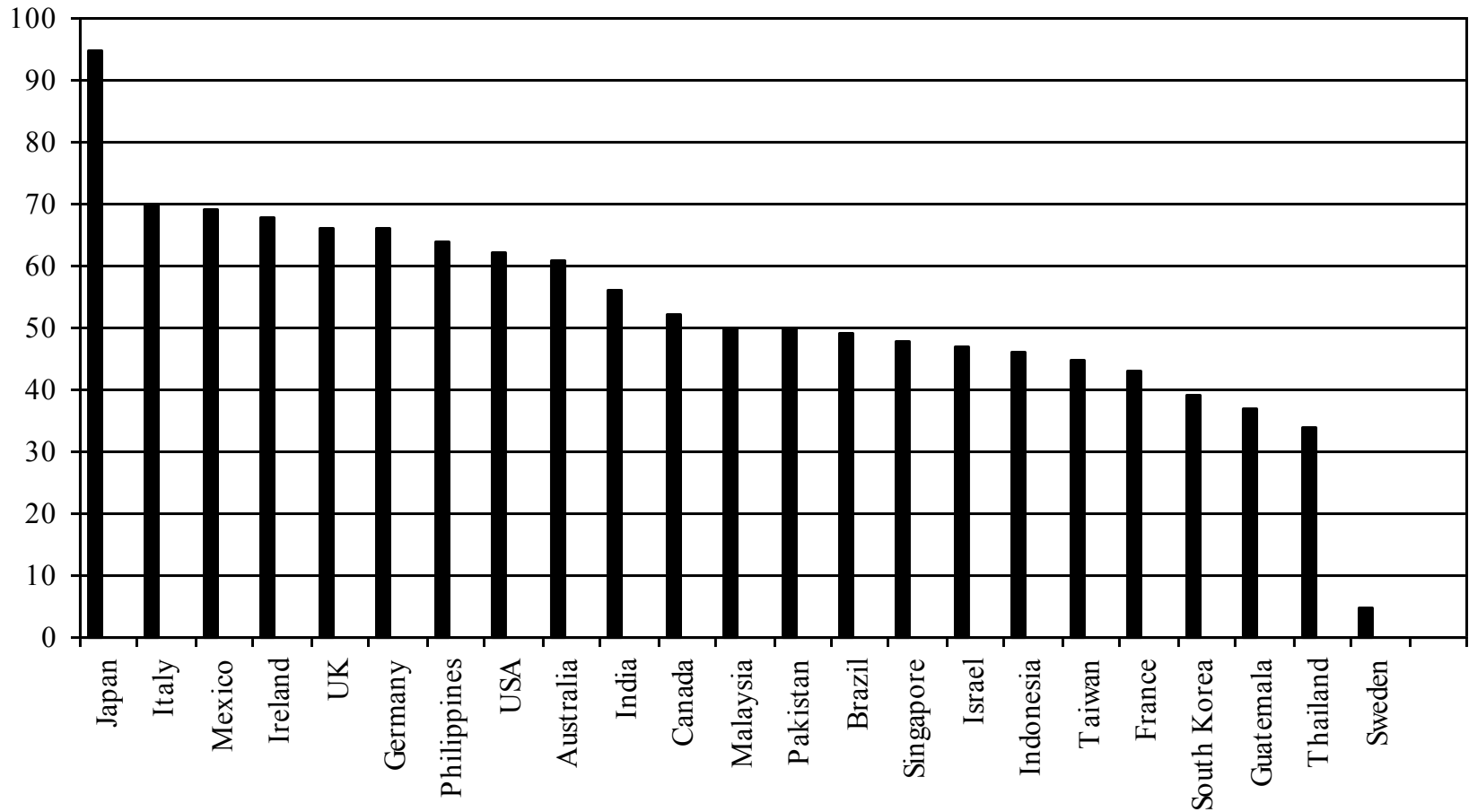


## 4. Masculinity Index (MI)

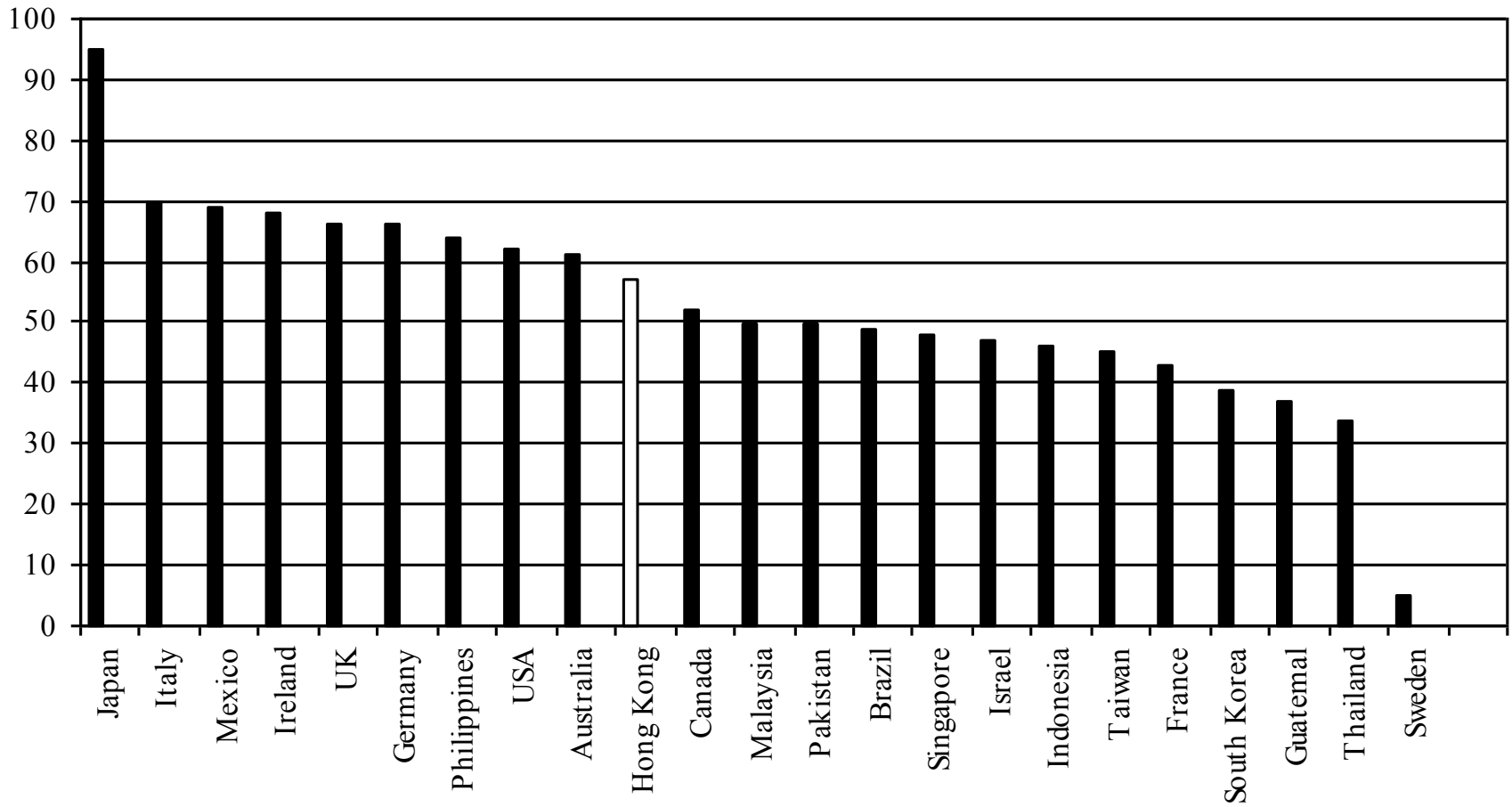
MI indicates the degree to which tough values like assertiveness, performance, success and competition which, in nearly all societies, are associated with the role of men, prevail over tender values like the quality of life, maintaining warm personal relationships, service, care for the weak, and solidarity, which in nearly all societies are more associated with women's roles.

.A large MI indicates preference for having

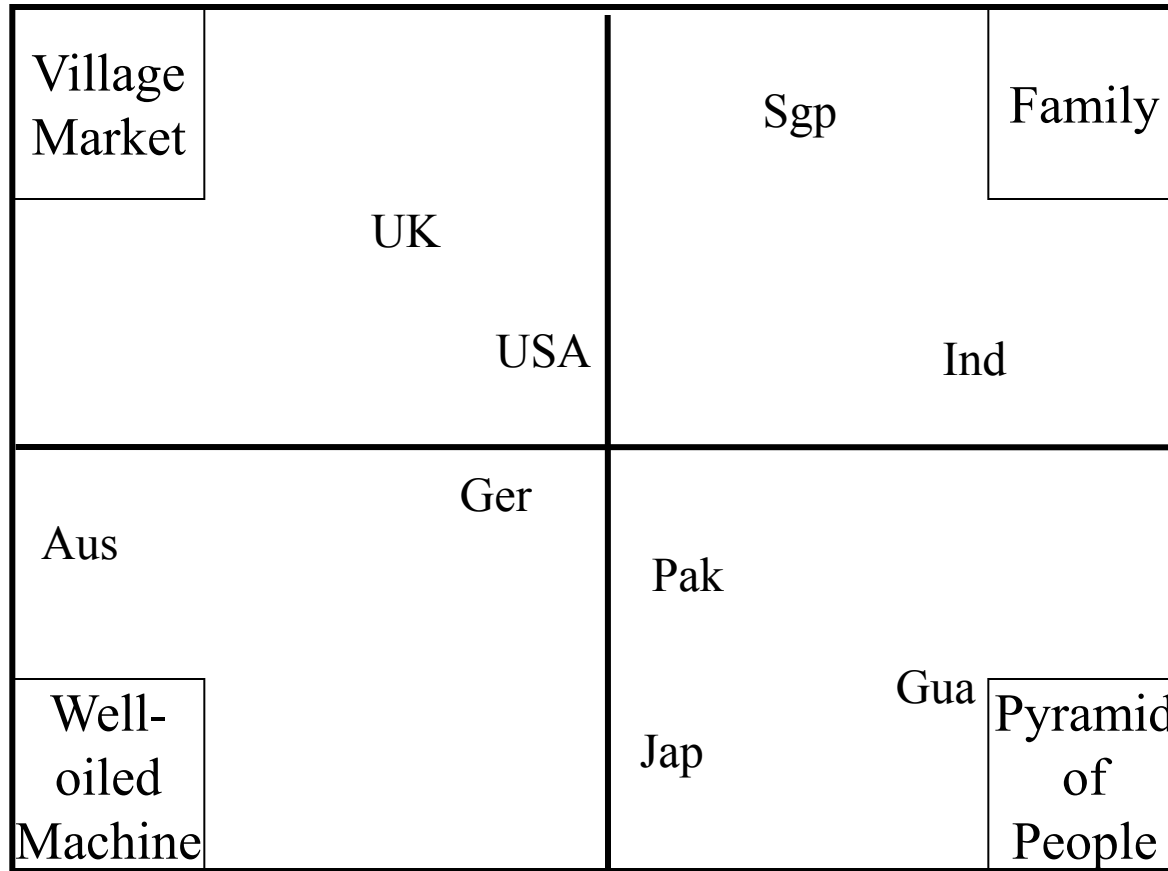
- an opportunity for high earnings, getting the recognition one deserves when one does a good job
- an opportunity for advancement to higher level jobs
- work from which one can get a personal sense of accomplishment



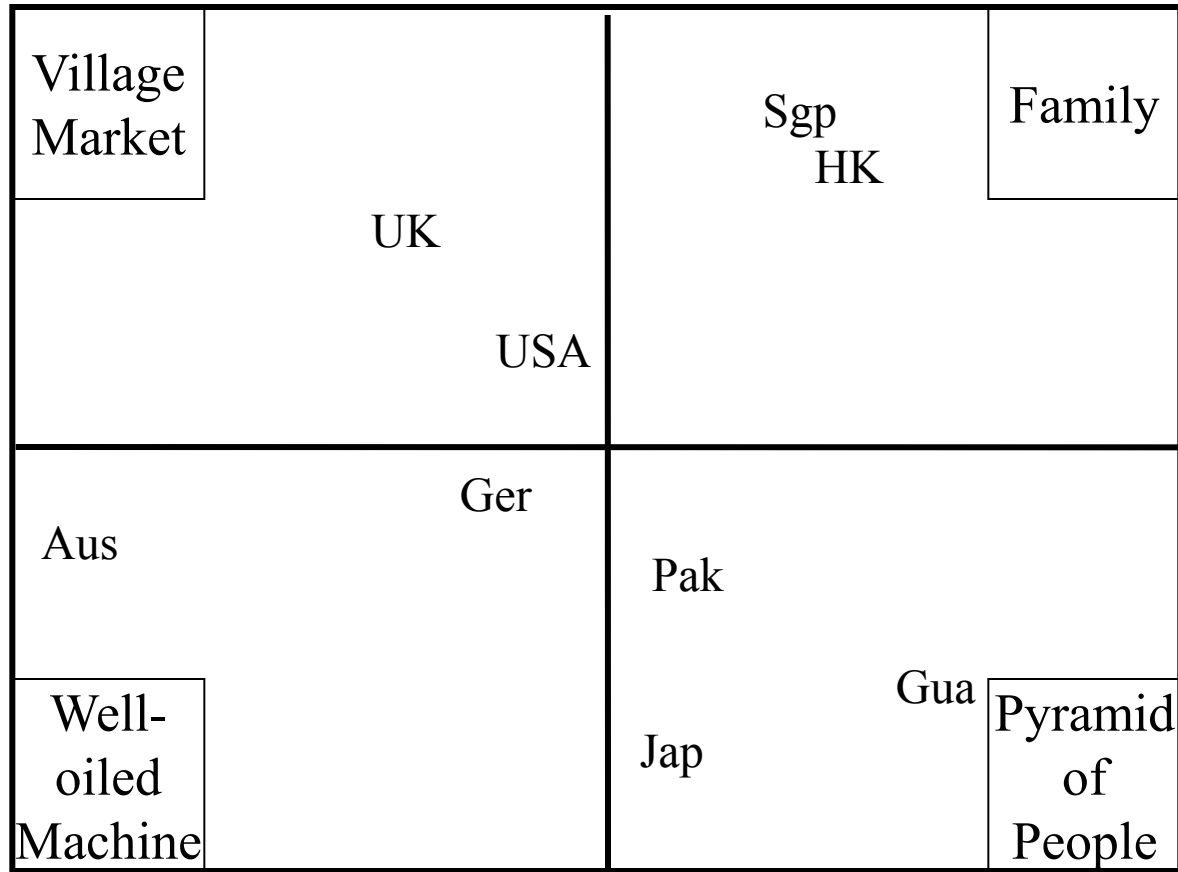
Masculinity Index Values  
(You guess for Hong Kong)



Masculinity Index Values  
(You guess for India)



Four Reference Models for Corporations  
 Locate your organization  
 (Locate your workplace in Hong Kong)



Four Reference Models for Corporations  
 Locate your organization  
 (Locate your workplace in India)

Here are Hofstede's indices for HK.  
Why do they differ from your own  
assessments?

- PDI: 68
- II: 25
- UAI: 29
- MI: 57

# Here are Hofstede's indices for India.

Why do they differ from your own  
assessments?

- PDI: 77
- II: 48
- UAI: 40
- MI: 56



# Cultural Relativism

- One cannot evaluate a given culture in the absence of *a priori* specification of the desirable values to be adopted while making the evaluation.
- This is the reason that two persons with different cultural backgrounds usually end up in an emotionally charged stalemate when they engage in a dialogue directed towards comparing their respective cultures.

# Can we redirect a corporation's culture?

- What cultures are suitable in the eras of P, Q, and I?
- Does a culture need to be monolithic? For instance, can the design and manufacturing departments have different cultures?
- USA, a leader in I, exhibits medium PDI, UAI and MI. But has the highest II according to Hofstede. What does this indicate for HK in the era of I?

# What's the right innovation direction for HK?

Classically, innovations have been classified as

- Induced or Schumpeterian
- Incremental or Radical

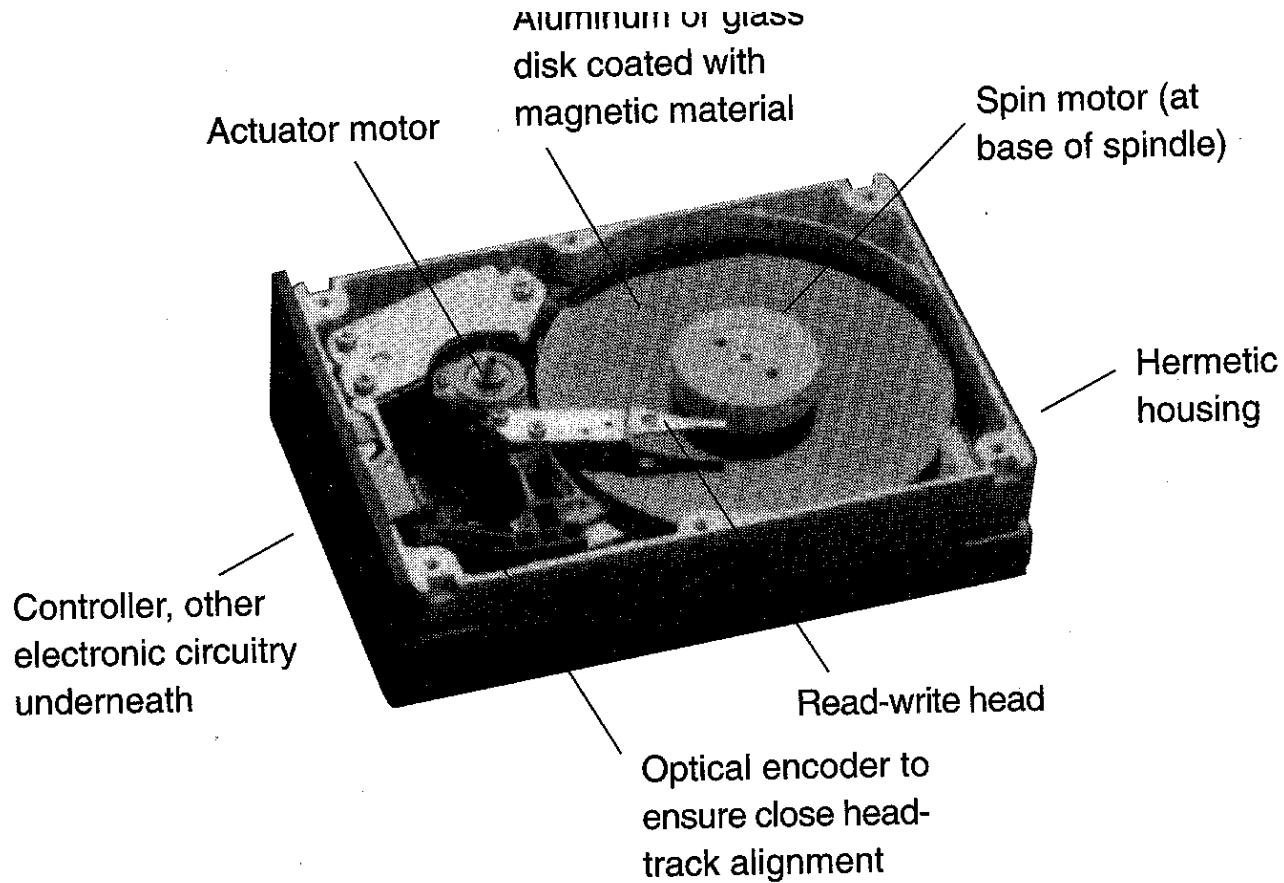
Very recently, Christensen (a professor from Harvard U) distinguished between

- Sustaining and DISRUPTIVE INNOVATIONS

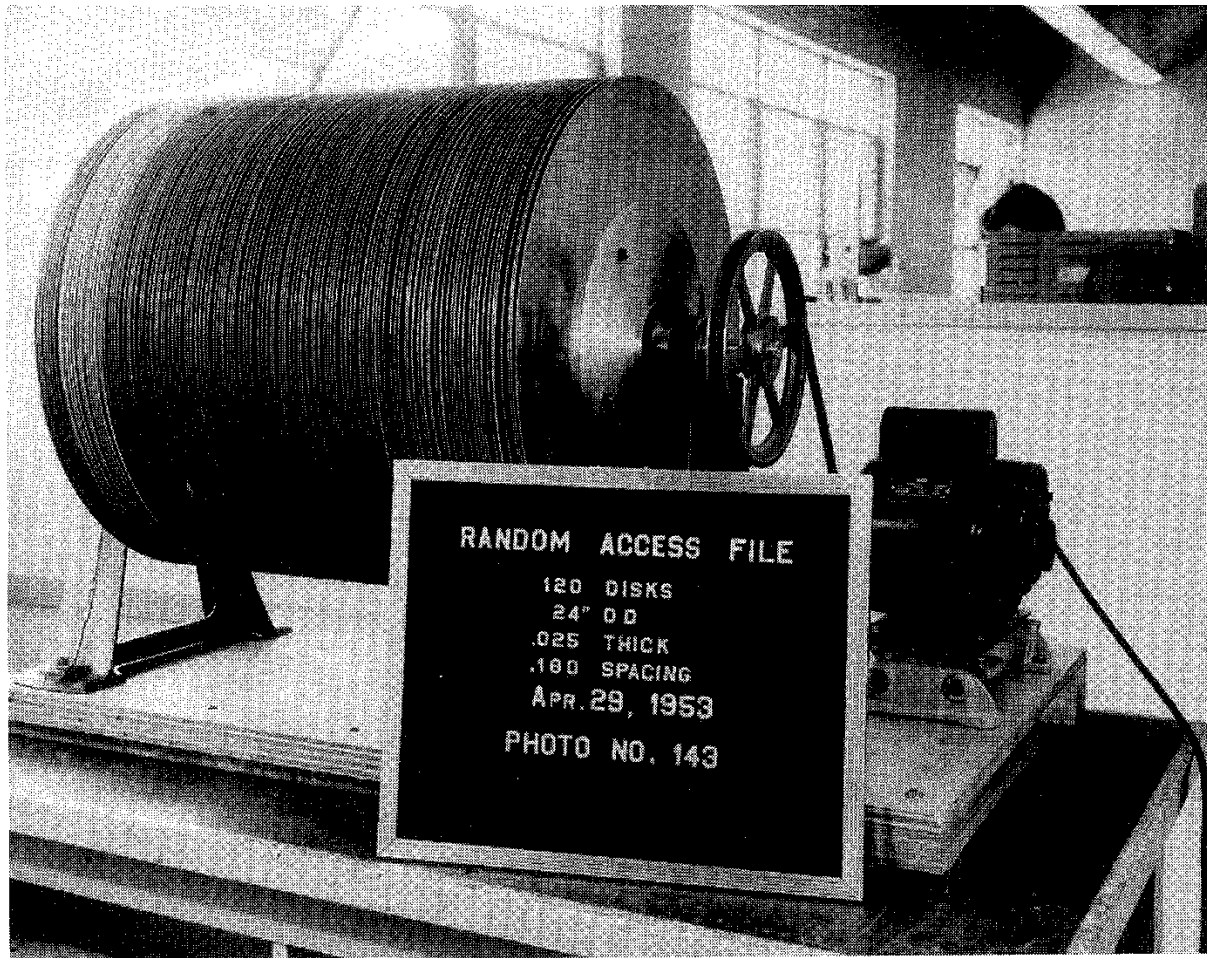
- Induced innovations are motivated by such signals as shifts in relative prices of inputs into a production process or changes in output prices.
- For example, during the second half of the 1970s, increases in energy prices provided a strong incentive for firms to produce innovations that conserved energy or substituted other inputs for energy.
- Since Hong Kong has no natural resources, the question of it engaging in induced innovations does not arise.

- Schumpeterian innovations are the result of ‘entrepreneurial behavior’ — the perception that it may be possible to exploit some latent demand or to attack existing firms with radically new product or process.
- Here lies the strength of Hong Kong. The entrepreneurial maturity of Hong Kong is well known.
- But, the ability to muster limited R&D infrastructure makes it difficult to compete against USA etc. in radical innovations.

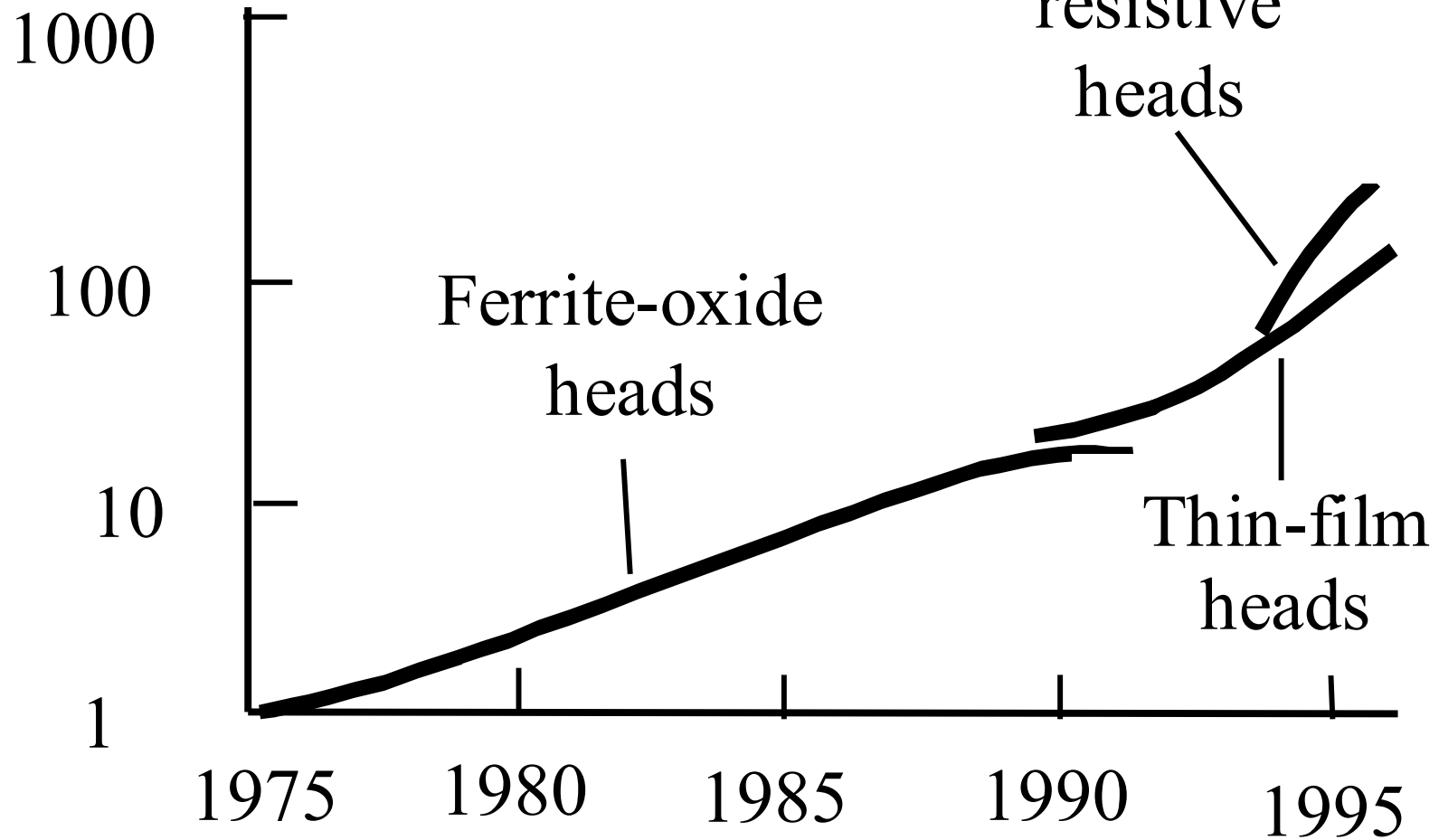
# Primary Components of a Typical Disk Drive



# The First disk drive (IBM 1952-56)



**Terabits/sq.in**





# All these were sustaining innovations

- “What all sustaining technologies have in common is that they improve the performance of established products, along the dimensions of performance that mainstream customers in major markets have historically valued.”
- “Some sustaining technologies can be discontinuous or radical in character, while others are of an incremental nature.”

“Occasionally,  
disruptive technologies emerge”  
that  
“bring to a market a very different value  
proposition than had been available  
previously.”

For example,  
14-inch to 8-inch to 5.25-inch to 3.5-inch to  
2.5-inch to 1.8-inch hard disk drives

# Characteristics of Disruptive Technologies

- underperform [at least in the near term] established products in mainstream markets.
- But they have other features that a few fringe (generally new) customers value.
- Products based on disruptive technologies are typically, cheaper, simpler [made from off-the-shelf components], smaller, and, frequently, more convenient to use.”