Transformation of Chinese OEM Case study

Dissertation in Technical Project and Business Management, 15 ECTS
2010-05-31
Authors:
Xinjing Chen
Ming Yang

Supervisor:
Jonas Rundquist
Examiner:
Mike Danilovic
ACKNOWLEDGEMENT

This Master’s dissertation was written during the spring of 2010 at the Technical Project and Business Management at Halmstad University.

We would like to express our gratitude towards our supervisor Mr. Jonas Rundquist Ph.D. and examiner Mike Danilovic, Ph.D. for their excellent supervision and support during the entire process of the dissertation. A special thank also to the respondents of the Damekiss Co., Ltd. and our classmates. Your information and knowledge was necessary for completing this dissertation.

Halmstad, May, 2010
Xinjing Chen and Ming Yang
ABSTRACT

Due to the globalization trend, the transformation of Chinese OEM has become a hot topic in the last decades. Although the previous literature suggested that there were many different determinants influencing firms to be successful companies, there is a lack of combination in the context of Chinese OEM. Thus, the purpose of this research study is to find out the approach of Chinese OEMs to successfully launch their own products based on three perspectives - organizational structure, processes and culture.

Applying a qualitative approach, the data was gathered through semi-structured telephone interviews with the senior personnel of one Chinese OEM company (Damekiss), complemented with secondary data collected from the company’s and public websites.

The results of analysis showed different views of how organizational structure, process and culture influencing on the transformation of Chinese OEM. We found that four functions (i.e. manufacturing, distribution, new product development and human resource management) influenced the transformation of Chinese OEM in organizational structure perspective. Among these functions, human resource management and distribution are extremely weak in the organizational structure of Chinese OEM. Regarding to the process of formulating these functions, the deep understanding of the customers’ preferences and collaboration partners that influenced building distribution were figured out. In the case company, it showed a relative poor ability on distribution which would be the barriers for further developing. Building HRM process was raised as another issue of the transformation of Chinese OEMs. According to the case company, HRM was poorly organized. The recruitment did not get enough attention; the training programs stayed at a lower level. The last not least, the corporate culture was also proven to be playing an important role in the transformation of Chinese OEMs. Awareness of corporate culture as one of significant aspects influencing the entire company was found in the case company. Slogan, company heroes and rituals as an internal culture were properly used to motivate employees.

Keywords: Transformation, Chinese OEM, case study
Content

1. Introduction ......................................................................................... 1
   1.1 Background .................................................................................. 1
   1.2 Problem ...................................................................................... 3
   1.3 Purpose ...................................................................................... 4
   1.4 Disposition ................................................................................ 5

2. Case description .................................................................................. 6
   2.1 Overview of Damekiss ................................................................. 6
   2.2 Resource of Damekiss ................................................................. 7

3. Methodology ...................................................................................... 14
   3.1 Research approach ...................................................................... 14
   3.2 Case study .................................................................................. 14
      3.2.1 Case selection ..................................................................... 15
      3.2.2 Data collection ................................................................... 15
      3.2.3 Case analysis ..................................................................... 16

4. Theoretical frame of reference .......................................................... 17
   4.1 Perspective of organization ....................................................... 17
   4.2 Organization structure perspective .......................................... 18
      4.2.1 General organization structure ......................................... 18
      4.2.2 Determinant functions of OEM organization structure .... 19
   4.3 Process perspective ................................................................. 20
      4.3.1 Manufacturing .................................................................. 20
      4.3.2 Distribution ...................................................................... 21
      4.3.3 New product development .............................................. 22
      4.3.4 Human resource management ........................................ 23
   4.4 Corporate culture perspective .................................................... 26
      4.4.1 Culture as symbol ................................................................ 26
      4.4.2 Customer orientation and innovation ................................ 27
      4.4.3 Corporate culture as total quality management .............. 28
   4.5 Conceptual model ..................................................................... 29

5. Analysis ............................................................................................. 32
   5.1 Organization structure perspective ........................................... 32
   5.2 Process perspective ................................................................... 33
      5.2.1 Manufacturing .................................................................. 33
      5.2.2 Distribution ...................................................................... 33
      5.2.3 New product development .............................................. 34
      5.2.4 Human resource management ........................................ 35
   5.2 Corporate culture perspective .................................................... 37
   5.3 Short summary .......................................................................... 38

6. Conclusion and Discussion ............................................................... 40
   6.1 Conclusion .................................................................................. 40
6.2 Discussion .................................................................................................................. 41
6.3 Further Research ........................................................................................................ 43

7. Implications for managers .......................................................................................... 44
Reference .......................................................................................................................... 46
Appendix ............................................................................................................................ 53
1. Introduction

In the introduction, the background of this research fields will be introduced, followed by a discussion regarding the research problem, which in turn is followed by the purpose of this research along with the disposition.

1.1 Background

The economic recession that impacted the global economy has drawn worldwide attention. Subsequently, the results are that trade business and consumer-spending are reducing sharply. Thousands of companies are bankrupt, especially original equipment manufacturers (OEMs), which have no own-branded products across the world. It is well-known that OEMs play a very important role in the industrial infrastructure. OEM processes in a sequential way which receives an order and delivering the product. The entire process operates under the purchaser’s brand, which includes customer requirements, product engineering, assembly, shipment and installation and service (Schilli & Dai, 2006).

With regard to China, OEM has captured a very important position in the structure of manufacturing industry over the past two decades. There are more and more multi-national corporations moving their manufacturing processes to China. China now has been the world’s biggest OEM base, supplying the worldwide famous brands and retailers’ private-labels with a wide range of products almost covering all of the goods used in people’s daily lives (Gao, Woetzel & Wu, 2003). Due to the huge numbers of OEM orders, China has already made available a large and growing pool of skilled engineers, and it is the place to invest because of a mature production capacity and low-cost labor. However, as many developing countries, such as India, Brazil and Southeast Asia, start with OEM, China’s leading position regarding OEM is diminishing day by day. Furthermore, lacking of core competences (e.g. competitive own-branded products), Chinese OEMs extremely depend on their customers making it very hard to survive in the worldwide economy recession.

The low cost of labor in China is one of the greatest advantages over other countries. It is also the motivation that customers consider China to be the OEM partner. Take China’s manufacturing industry as an example; in 2004, the average hourly manufacturing remuneration estimate for China was $0.67, about 3 percent of the average hourly remuneration costs of production worker in the USA. However, the survey showed that, in China, the hourly remuneration costs of the manufacturing industry were increasing rapidly between 2002 and 2004 (Lett & Banister, 2006). The costs of total remuneration of manufacturing employees in China increased almost 18
percent, from $0.57 to $0.67. Compared with United States’s total hourly remuneration costs of manufacturing, it only increased by 7 percent in the same period from $21.40 to $22.87 (ibid). In 2004, China’s government also enacted a law that, every two years, the lowest income should be adjusted. Again, one of the remarkable features of labor costs in China is the difference between urban and rural areas. Between 1990 and 2004, the average real earnings of urban manufacturing workers increased from 5000 Yuan a year to 14,000 Yuan a year (ibid). Meanwhile, the economics professor from Tsinghua University claims that China’s low labor costs advantage will disappear in 5 to 8 years later. This result has also been published by the Survey Research Center of Nuremberg, showing that China’s low labor cost advantage might only continue for 3 to 5 years (Tax committee of Liaoning province, 2010-02-20).

The rising of raw material prices is another critical challenge that Chinese OEMs have to conquer. The news from ICF (International Cable makers Federation) pointed out that the prices of raw material were increasing rapidly. In 2007, the LME copper price has gone above $8,000 per ton but, in 1999, the LME copper price was only about $1,600 per ton. The price of other raw materials, like aluminum and tin, also rises dramatically. The ICF argues that, although U.S. and North East Asia market shows reducing requirements of raw materials, the increasing demands from the developing countries is the main determinant that underpins the high price of a commodity. In China, the Chinese government encourages companies to import key materials and discourages export. Xinhua daily one of the largest circulation newspaper in China also reports that higher raw material cost are forcing Chinese white goods manufacturers to increase prices. For instance, Haier, which is the biggest domestic home appliances producer, has already raised prices by 5 to 10 percent.

The report written by Qi (2008) in Modern Business Trade Industry claimed that the biggest difference between OEM production and counterfeit and shoddy products is whether business is based on a legal contract authorization. At the 40th session of the world Economic Forum in Davos, Chinese Premier Wen Jiabao pointed out that: “OEM production of low-risk and short term interests, coupled with the lack of policies and regulations related to factors such as the manufacturing sector has led to a lack of excellent brands. Therefore complete laws and regulations are needed for Chinese OEMs” (Admin, 2010-02-05). Moreover, quality issues should also be related to the rules during the business process across the OEMs. In auto industry, China’s domestic carmakers have taken off in recent years. Suppliers need to make huge strides in quality and efficiency to meet the world-class standards. In 2003, China exported just $4 billion worth of auto parts, mostly low quality aftermarket items, rather than original equipment components used in the assembly of cars (Bergamann, Mangaleswaran & Mercer, 2004).
Recently, more and more Western companies perceive that domestic-market organizations are no longer the primary places for innovation. Entering into the emerging markets in a vertically integrated fashion should be considered by multinationals (Brown & Hagel, 2005). There is no doubt that China is one of the most notable emerging markets, and probably will become the next economic superpower because the country does have a gross domestic product of 1 trillion RMB and will continue to grow more quickly. Furthermore, the use of local equipment, design, and construction firms allows the Chinese to build factories and install machinery for just 30 to 50 percent of what their foreign rivals would pay (Woetzel, 2004). For these reasons, many international companies are attracted by the huge Chinese market and attempt to explore the Asian development strategies through the expansion to China. The increasing numbers of investors are very interested in learning how to operate businesses in China, like gaining access to its regulators, building market share or brand awareness, and developing export-manufacturing bases (Kenevan & Pei, 2003). Nowadays, the production of dies is shifting dramatically from North America to China (Bergmann, Mangalesearan & Mercer, 2004). Until 2002, roughly 50 percent of China’s record $55 billion in new foreign direct investment is attracted by alliances, and more and more foreign companies are intending to pursue alliances with Chinese partners (Kenevan & Pei, 2003). It is obvious that the presence of western competitors inspires the emerging countries’ corporations to give feedback. A wave of disruptive of product and process innovations are being generated to help established companies and the new generation of entrepreneurs to reach new price-performance levels for a range of globally traded goods and services (Brown & Hagel, 2005).

1.2 Problem

The fact is that China’s manufacturing industry has long been recognized as the world’s factory, most prominent for the non-branded, with no distribution channels, no design, by doing the OEM for overseas companies. However, OEM production getting meager profits and relying too much on the foreign markets cannot adapt to the changeable international trade situation. Moreover, OEM production of low-risk and short-term profits, coupled with uncompleted policies and regulations conduct lacking of excellent products with own brands.

Then do they know how to restructure the organization structure to fulfill these requirements? The answer is confusing because they do not really know how to improve themselves in order to realize role shifting. Although some Chinese OEMs claim that they could be as profitable as sellers of branded goods, operating in OEM mode could help them to avoid the risks of building capital ventures of R&D and marketing. However, the problem is that it could only last for a short time because the relationship of buyer-supplier will be terminated ultimately. Therefore, to find the
proper approach of role shifting is the next step that Chinese OMEs should think about. Today, Chinese OMEs believe that they could take more business orders from their customers only if they have qualified technology capabilities for producing (Swink & Mabert, 2000; Wu & Hsu, 2001), and enough logistics abilities, such as storage. Similarly, Gao, Woetzel and Wu (2003) claimed that most Chinese companies could successfully launch products with their own brands in the domestic and overseas markets because of having professional distribution skills, such as Haier and Galanz. Their distribution networks and large, low paid sales force point them in the right direction. Comparably, this is one of missing characteristic of OEM organization. To sum up, in order to achieve the goal of transformation, improving organizational structure through various aspects would be extremely important.

1.3 Purpose

The purpose of this research study is to examine the approach for Chinese OEMs to launch their own products based on three perspectives of organization, which are organizational structure, process and culture, and to specify the adaptable way for the transformation of Chinese OEM by applying these three perspectives. In this thesis, we will undertake an organization analysis of Chinese OEM and suggest proper approaches for them to be able to renew the organizational structure so as to enter world markets with own-branded products.

Although there is abundant research on different subjects which influence firms to be successful companies, there is a lack of combination of these subjects on the perspective of Chinese OEM as a whole. The motivation of this study is to research the transformation process of Chinese OEMs. The following research questions are posed in order to obtain a full understanding of this radically changing process. Furthermore, the sub-questions posed in the interview guide are listed below to show the ways how the research questions can be investigated:

- What are the crucial functions of organization structure needed for Chinese OEMs to successfully launch their products with their own brands?
  
  - Could you please describe the composition of the functional departments which exist in the current organizational structure?
  - What is your perception of the most important functions in the current organizational structure? Why?
  - Which functions do you think are missing when launching own products? And which functions should be improved or preserved?

- How could these functions be formulated via appropriate process in an organization structure?
Comparing with other OEMs’ manufacture equipments and technologies, would you please introduce what are your competitive advantages?

Do you set the distribution/sales functional department in your company? What role do you think it plays toward your success business future?

In the aspects of NPD, would you please introduce how does Damekiss satisfy customers’ various requirements when develop new products?

What is your perception of human resource department in the organization structure?

How does the corporate culture impact the transformation of Chinese OEMs?

Would you please show some examples or information about corporate culture?

What do you think that company needs to improve the views of products’ quality control and safety as a corporate culture?

1.4 Disposition

The empirical findings about transformation of Chinese OEMs are shown first in chapter 2 so as to give an overview of Chinese OEMs at the beginning. The methodology and theories in this study are explained in chapter 3 and chapter 4. The Analysis is discussed in chapter 5. Conclusion and discussion take place in chapter 6. The implications are presented in chapter 7 and comprise an independent section.
2. Case description

In this section the empirical data obtained from the interviews and documents will be presented. The case description is divided into two main parts, representing the general information and the details of the case company.

2.1 Overview of Damekiss

Damekiss Daily Chemical Co., Ltd. (Damekiss) is a Chinese cosmetics OEM company that manufactures the cosmetics under customers’ brands. It was founded by CEO Yang Guangquan in Southern China in 1992 with 20 employees, and began with supplying shampoo for hotels across the southern area. The process of building Damekiss is very long and hard. After finishing the bachelor study in Zhongshan University, Yang started his own business in 1985. However, the difficulties emerged all the time during his business life. Luckily, Yang did never give up even when he met a seven million RMB deficit. Relying on his courage and belief, Yang loaned the money from friends and got over the crisis eventually. All of these showed the characters of Yang which resulted the today’s success of Damekiss.

In 1995, with the declining number of new hotels being built, the market had been saturated, which gradually narrowed down the business scale of Damekiss. In order to expand new market opportunities, they paid great attestation to marketing. Meanwhile, because of the high demands of the beauty industry in the domestic market, huge amounts of own-branded products such as shampoo and body cleanser were introduced to the market. In order to pursue the trend of the mainstream market, Damekiss began to establish own-branded products as well. After six years, the number of employees of Damekiss had increased to over 40 and doubled the scale of company in 1998. However, due to imitate terminal operation mode blindly, huge amounts of products could not be sold, which resulted a lack of capital support.

All of this forced Damekiss to transform the strategy for future development. They found that there existed a group, called “OEM”, which only produced products for specific brands. As the scale of these kinds of factories in the cosmetic industry was very small, there had major development potential. In 2000, Damekiss started to carry out the OEM strategy for other, own-branded cosmetics companies. Damekiss achieved its first three-years plan – to be the biggest cosmetic OEM manufacturer in the south of China. The next three-year plan is to be the biggest cosmetic OEM manufacturer in China. Operating as OEM mode, Damekiss understood that only core technologies are core competitive. They moved the research and development centre
to Guangzhou and established Anchor Bio-Technology Center so as to obtain an advanced position in the domestic cosmetic OEM industry in 2006.

Nowadays, Damekiss has dealt with the cosmetics OEM business for more than 10 years and obtained the certificates of American Food and Drug Administration (FDA) as well as the ISO9001. It owns two seven-floor workshops in Guangzhou with 300 workers, over 10 R&D engineers, 40 senior management officers and 8 advanced automated production lines. Today, the turnover of Damekiss is over 20 million RMB per year. The 90% of business orders is from OEM which involves producing lotion, cream, and shampoo etc. serving the domestic and U.S. markets.

After China joined WTO, it has already entered a new age. The Chinese market is no longer as an independent market but a part of globalization. Therefore, Damekiss, as a traditional OEM company, is also changing its strategy to keep up with the rapidly changing business environment world.

2.2 Resource of Damekiss

The company’s current organization structure consists of eight functional departments (see figure 2.1), which are purchasing manufacturing, logistics, quality control, marketing, sales/distribution, administration and the financial department. Among these functions, manufacturing and purchasing are of great importance at the moment. Considering the interview, Dr. Zhou who is the general manager of Damekiss said:

“Current organization operates according to the present OEM strategy of Damekiss; and the most differences between OEM and own-branded company are lacking of the experience in distribution channels, technologies capabilities and cooperation of team work.” (General Manager Dr. Zhou)

![Figure 2.1 Organization structure of Damekiss Co., Ltd.](image-url)
When we talked about key functions across organization, Zhou said:

| If Damekiss wants to launch the products with own brands, key functions like, after-service and advertising should be added into the present company’s organization structure. At the same time, human resource management, new product development and distribution could be reinforced. Once a company wants to launch a new product, advertising for this product to increase the awareness of public is very necessary, especially in China. Similarly, after-service is also one way to maintain customer’s loyalty and awareness after selling the products. Also, as a manufacturing company, manufacturing capability and new product development should be enhanced (General Manager Dr. Zhou) |

In 2003, Damekiss has already been the biggest cosmetic OEM company in the south of China, as CEO Yang said:

| “The next step is to be the biggest cosmetic OEM company in China and supply for all kinds of cosmetic production under any branded products.” (CEO Yang) |

Damekiss takes advantage of prices of manufacturing equipment. It already successfully established 8 product lines in two plants serving different categories of creams, lotions, powders, and perfumes, and cooperated with relevant equipment producers in U.S. Japan, France, and Canada to improve its own production facilities in order to control the production costs. Moreover, Damekiss has more than ten automatic racking machines working on different products; and it has three independent workshops with five production lines which cover the functions of cleaning, disinfecting, bottling and packaging. These production lines manufacture more than eighty thousands bottles of different products per day. Today, Damekiss have owned various production lines, and has the most clients in the domestic market. The advanced production equipment like vacuum emulsifiers, one- ton lotion pots, vertical pressurized steam sterilizers and 3D packaging machines, could ensure production of all kinds of high quality cosmetics, according to customers’ requirements. Meanwhile, a closed-circuit monitoring system is used during the production process to ensure that problems will be discover and solved in time. All the production data are reordered and calculated by professional software for future manufacturing efficacy improvement.

Damekiss’s new product development strategy is made by three steps. The first step is to participate in market competition such as providing customers with the appropriate OEM processes. Second step is to integrate the cutting-edge technology of beauty industry through improving different functions of products such as paying attention to product safety, efficacy and effectiveness, working with the authoritative domestic
and oversea companies and absorbing the knowledge of the foreign high-tech beauty industry to match customers’ and markets’ demands. The third step is to implement bio-engineering technology to improve product efficiency. Adopting natural plants and natural mineral-based ingredients guarantees the efficacy and safety of products. The goal is to develop effectiveness of green beauty products which do not contain hormones and any harmful substances to the skin.

About the new product development of Damekiss, Zhou explained:

“Although we pay much attention to the new product development, we do not still have an independent department of NPD. All of the tasks are operated in the technological department which deals with the products’ formulas, quality control, developing conceptions of new products and purchasing of raw materials.” (General Manager Dr. Zhou)

Furthermore, the sales/distribution department usually works with marketing department in recent organization structure because the major business, OEM does not have a separated department of distribution so far. Even though Zhou stressed:

“One of the differences between OEM and own-branded company is lack of experience in distribution channels which could be a big obstacle for further developing. However, most of the salesmen have technological background which can satisfy the requirements of customers in different products. On the other hand, it is very hard for these technological salesmen to widely expand distribution channels due to the lack of sales skills” (General Manager Dr. Zhou)

Damekiss thinks up a new way of complementing these weaknesses. One of the ways is collaborating with domestic R&D institution to develop new products and expand distribution channels. As an example, the newly established R&D centre called Anchor Bio-Technology Center is in partnership with JiangNan University. This center focuses on developing cosmetic and health care products. Thanks to the cooperation, the center provides enough equipment for students and researchers of the university. Now there are five senior engineers and 10 technicians working in the eight independent laboratories to develop skin care products and health food in Anchor Bio-Technology Center. Also, Damekiss seeks for overseas partners to upgrade its technological capability and expand market scale. In 2006, Damekiss established a new company called Lanvanlan & Damekiss by allying with Lanvanlan Co., Ltd which is one of the leader cosmetic companies in domestic and European market. Damekiss takes advantage of technologies and networks of Lanvanlan to expand its distribution channels and build the base for introducing own products in the future. Some citations from Yang about their goal are:
"The goal of Damekiss is putting Chinese cosmetic company on a solid foundation which can make it possible to sell its products to worldwide customer with the label of "Made in China"." (CEO Mr. Yang)

When it comes to the communication issues, Damekiss does not represent strong relations between the different departments across the entire organization. Zhou gave an example to illustrate it:

"Today, the major members of NPD team are chemical researchers and engineers. As our projects already pass through many hands in different sections, the NPD do not need to include the people from different departments. As a result, there is lack of communication between each department." (General Manager Dr. Zhou)

Human resource is not closely related to the communication part. Damekiss does not show a positive opinion about developing human resources. Moreover, it spends small amount of money on the human resource management every year. Zhou explained it in detail:

"Damekiss is not interested in human resource management because the company goes through a rapid turnover of personnel. It usually happens among the production workers who are not the key employees in the company. Another reason that we do not care about HRM is the low labor price in China." (General Manager Dr. Zhou)

These days, Damekiss focuses on training internal employees rather than external recruit. Yang explained:

"Frankly speaking, we do not hire managers outside of the company. Most managers in the middle or high positions are promoted internally because those who have interest in company always have a much better relationship with colleagues than the new comers. On the other hand, we usually recruit people from the external labor market when we are looking for qualified technicians. The most of our employees are operators who do not have professional knowledge about techniques. We avoid teaching operators about the techniques from the very beginning because it needs too much time and money which may have a bad effect on present situation of Damekiss." (CEO Yang)

Therefore, the training programs have low quality and lack of frequency. Nowadays, special training programs are held regularly to improve the leadership skills of the managers. For example, the core theme of the third training program is to improve commitment, innovation and enjoyment. One of the members attending the program described as:

---
“After I finished the training camp, the range of vision I have on the commitment, innovation as well as the importance of leadership for a manager has been widen. To make effective team across the organization, you need to place the right man in the right place.” (Manager Li)

To finish the topic of HRM with Zhou’s expression:

“HRM has not been the key department so far because HRM relates to practical situation of corporation. As Damekiss shows, the major business is only working as an outsourcing industry. Operators in the workplace are enough to satisfy the demands of human resources. Although we are aware of the importance of hiring qualified human resource, it is not the appropriate time to do it. However we realize the significance of HRM especially when expanding of business scale. We try to improve it through different ways.” (General Manager Dr. Zhou)

Damekiss has already established the various product lines to meet different requirements for different kinds of customers, such as OTC, daily cosmetic, professional and premium class customers. These days, Damekiss tries to transform its business from OEM (see figure 2.2) to original brand manufacturer (OBM) (see figure 2.3). The main business still operates as OEM but the strategy and the goal have gradually turned to OBM. OBM of Damekiss is the project providing private retailers with specific cosmetic products. The entire process of OBM in Damekiss is described as five steps. The first one is to gain the intentions or requirements from customers. The second one is product planning, such as evaluating the feasibility of the products, designing the brand and selecting the categories of the products. The third one is pre-production. In this phase, Damekiss will provide customers with sampling through frequent communication. The fourth step is similar with the process of OEM production; and also takes the work for designing the package for the customers. The final step is to deliver the products to customers. The following two figures clearly show the difference between OEM process and OBM process.

Damekiss still remembers the slogan which is to be the most professional cosmetic OEM supplier in China. The slogan of Damekiss is:

“Providing the best service and setting the most suitable scheme for your brand.”
(Damekiss slogan)

Regarding the relationship between customers and Damekiss, some special insights was posed during the interview:
Figure 2.2 OEM process of Damekiss Co., Ltd.

Figure 2.3 OBM process of Damekiss Co., Ltd.
“We know that concentration could make things better, and could provide customers with a better service. We act as a cosmetic investment broker to satisfy our customers’ various requirements through suggesting the best and suitable ideas. For example, for the new customers who may invest in professional products, we suggest investing in whitening line, anti-aging line, freckle line and sensitive protection line. The customers who intend to invest in daily cosmetic, we suggest investing in different kinds of maintain lines. The customers who intend to get into OTC market, we suggest developing single and efficacy products. Again, cosmetic investment brokers do not only act as a salesman. They need consider the views of the customers, and provide the customer with practicable schemes in order to make profits.” (CEO Yang)

Thereby, Damekiss not only pays attention to its OEM production but also collects timely information from different customers. As Yang said:

“We try to help customers to reduce the risks of the investment and remind them to avoid making mistakes; these are the two criteria of Damekiss. Moreover, the most authoritative information of cosmetic industry is sent yearly to the customers for free, such as statistical analysis reports, International cosmetics development, variety of media related to cosmetic industry and the latest new cosmetic and health products.” (CEO Yang)

Furthermore, Damekiss publishes the analysis reports of OEM investment via the websites and the press media to their customers.
3. Methodology

In this chapter, the methodology will be presented. The research strategy of this study is qualitative, and the design is a case-study.

3.1 Research approach

Two methodologies, quantitative and qualitative are the most frequently used in business research. Quantitative research has many characteristics like entailing the collection of numerical data and as exhibiting a view of the relationship between theory and research as deductive, a predilection for natural science approach and as having an objectivist conception of social reality (Bryman & Bell, 2007, p. 154). Whereas, qualitative research is a research strategy that usually stresses words rather than quantitative in data collection and analysis which is constructionist and interpretivism (ibid, p. 402).

The way to collect the data and the field of research can influence choices of the research methods. In order to acquire a full understanding of the critical functions, process and culture needed for Chinese OEM’s organizational structure, the methodology used in this study is qualitative study. This is especially well suited to the new research areas or the other research areas that lack of existing theory. The use of qualitative research in this paper can help us to come to the transformation process of Chinese OEM as close as possible. It provides the perceptions, values and goals based on the words to get specific phenomenon in terms of the research areas.

There is no study entire inductive or deductive (Bryman & Bell, 2007, p. 13). However, based on the qualitative research method of this project, the research approach is inductive. The reason to choose inductive is that the project develops from empirical findings not from the theory. Therefore, findings will conduct the direction towards an appropriate theoretical outcome (ibid, p. 580-581) since the purpose of this project is to find an adaptable approach for Chinese OEMs to launch their own products. Moreover, in order to be able to develop the conceptual model that we are departing from, there may be the needs of supplementary theory after writing theoretical framework and the analysis if and where the empirical finding are needed to be support. Thereby the thesis can be described as partly abductive.

3.2 Case study

According to the research questions and the purpose of this study, the research framing is the structure for yielding empirical findings. Then, in this study, the case study is chosen as research framing. Eisenhardt (1989) suggests that the result or
theory developed from case study always have the strengths of novelty, testability, and empirical validity. Ibid argues that the case study focuses on understanding the dynamic present within single settings. Further, within case analysis by the description of the case study, it can be helpful to build new theory (ibid). Therefore, one of the reasons doing a case study is giving new theory which can be applied to Chinese OEMs.

3.2.1 Case selection

Eisenhardt (1989) and Yin (1994) suggest that the traditional approach of sampling is to identify a population. After finishing this first step, a selection is done randomly or not. In the case study, researchers always tend to select several cases or single case by different criteria. When we develop the theory from the case study and associate with the literature review, we choose the company which should satisfy the following criteria:

- First of all, the company should be a Chinese OEM company and hold the leader status in this industry.
- Secondly, the company should have the intentions to develop its own-branded products or the company already has its own brands which do not have a large market share.
- Thirdly, the company should be representative, and the scale of the company should be medium size or above.

According to the criteria mentioned above, we start to collect the information of OEM companies via companies’ official websites and China’s mainstream medium. There were more than 40 companies with which we had connection through emails and telephones. Fortunately, two medium sized companies agreed to participate in this research. Subsequently, in order to gain a deeper understanding of the case, only one cosmetic company is selected ultimately.

3.2.2 Data collection

A case study often involves data collection from multiple sources (Ghauri and Gronhaug, 2005). Bryman and Bell (2007) suggest that different kinds of data should be used in the thesis to improve the quality of the results. In this study, different mechanisms are used for collecting primary and secondary data. Jick (1979) argues that triangulation of data types provides the additional pieces for building a framework of theory from the case study research. Thus, various resources of data could help us to evaluate validity of the case from different angles, leading to a reliable outcome. In this thesis, the interview is mainly conducted with a way of collecting detail and secondary data as well as with an adjuvant way to look for general data.
Secondary data is the information that has been collected both for commercial and research by other people (Bryman & Bell, 2007). In this thesis, the information from the company’s website, the internal reports as well as the news and the articles related to the company are collected. These documents are also useful to put relevant questions in the interview guide which relates to the situation company faces. Furthermore, some of the simple questions can be skipped in the interview because they are easily found in official websites. Again, the contextual understandings gained through the secondary data are valuable when we meet the executives and analyze the empirical findings. However, using only the secondary data is not enough to obtain a deeper understanding of the case. The primary data is used in this thesis as well.

The advantage of primary data is that they are collected for the particular project at hand, which means they are more related with research questions and research objectives. Through primary data researchers could know the reasons behind consumer behavior, management decisions or problems (Ghauri and Gronhaug, 2005). There are different ways to collect primary data such as verbal reports, personal interviews and observations (ibid). The main way we used in this thesis is semi-structured interviews. In the semi-structured interview, the respondents can describe and reflect upon the theme of interview, and give their own perceptions (Bryman & Bell, 2007). It is suitable for our target since we have a specific point. Further, semi-structured interviews give clear themes which we want to catch during the interview. Consequently, the framework of interview guide is very structured because all the questions are based on our conceptual model which can conduct the interview towards the theme which we focus on, but the types of questions asked are relative open in order to get the possibilities of engendering new ideas. Due to the fact that the company is located in China, the interview is taken by telephones and emails. Moreover, the memo is applied when we get the unexpected answers according the conceptual model during the interview process. Afterwards the re-interview are fulfilled to get further responds when we realize that some of the questions need to be discussed more.

3.2.3 Case analysis

Firstly, the general case descriptions are written according to the information from primary data and secondary data, which give an overview of the companies. Eisenhardt (1989) argues this process would allow the researcher to be familiar with each case and result in getting unique pattern of each case. Then, the theories are applied and compared with the companies’ actual behaviors (Eisenhardt, 1989) in order to check the theory match with reality. Finally, it has been used as a basal means for comparison and conclusions.
4. Theoretical frame of reference

A theoretical framework will be presented in this chapter. The earlier theory in the field of this study (i.e. organizational structure, process and culture) will be applied. Finally, a conceptual model combining the theories will be illustrated.

4.1 Perspective of organization

There is an increasing number of literature of comparative studies of organizations (Udy, 1959; 1965; Seashore & Yuchtman, 1967). The main target of organization theory is to develop the conceptual and methodological tools, especially for dealing systematically with variations between organizations (Pugh, Hickson, Hinings & Turner, 1968).

The mainstream approach to study organization is from three aspects (see figure 4.1). The first aspect of organizations that have been held to be relevant to organizational structure were examined through five determinants, which are specialization, standardization, formalization, centralization and configuration (Pugh, Hickson, Hinings and Turner, 1968; 1969). Secondly, some research on organizations consist the development of hypotheses about the functional process of organization and the observation of one or two organizations to see whether these processes appear to match the theory (Gouldner, 1955; Hutton, 1962; Gould & Melbin, 1964). Thirdly, organizational culture is another indivisible aspect of organization research. Many researchers have applied quantitative survey methods and identified comparative determinants of culture in a way that appears to contradict some of the original foundations of culture research within organizational studies (Denison, 1996).
4.2 Organization structure perspective

4.2.1 General organization structure

The traditional and functional organization structure (see figure 4.2) is found in many larger and mature companies. People are grouped principally by disciplines, each working under the direction of a specialized sub functions (Clark & Wheelwright, 1992). The similar structure called matrix model is developed by Ansoff (1988), which is widely used in the management of manufacturing company.

![Functional organization structure](image)

Figure 4.2 Functional organization structure

New product development is a productive function of research and development (R&D), in which the growing R&D efforts represent the firm’s input of knowledge capital (Klette, Møen and Griliches, 2000). One of the important features of R&D is that it functions as an indicator of both current knowledge of the firm and its past experience to be commercialization of the new products development (Johansson & Lööf, 2008). Furthermore, R&D can be a specific unit, but also a combination between competencies held by staff from different units or internal staff and staff at partnering companies. (ibid)

Manufacturing is the approach to apply machines, tools and labor to make things for use or sale to industrial companies, in which raw materials are transformed into finished goods on a large scale. It is a function of value adding for the resources which transform the manufacturing resources (materials, energy, etc.) into final products or semi-final products (Jiang, Zhang & Xiao, 2008).

Marketing is the function by which companies decide what products or services may be of interest to customers, and the strategy to use in sales and business development. It is also an integrated process through which companies create the value for customers and build strong customer relationships in order to gain the loyalty from customers in return (Kotler, Armstrong, Wong & Saunders, 2008, p.7).
Distribution is something that involves in selling products or services in return for money or other compensation. It is an act of completion of a commercial activity.

Human resource management (HRM) involves in managing people in organizations. In general, HRM means to recruit, develop employees’ abilities, utilize, maintain and compensate their services consistent with the job and the organizational requirements (Armstrong, 2006).

4.2.2 Determinant functions of OEM organization structure

Due to the performance of today's global economy, the organization of OEM companies are facing many challenges such as motivation, communication inter-organization, transferring new technology into manufacturer process, assessing organizational structure, efficient storage and logistics system. If one company wants to successfully achieve the agreement on the goals, the understanding of effective structure, manufacturing process and human resource inside of the organization is really important (Ghazzawi & Verne, 2009).

One of the most important functions in OEM is manufacturing. Asmus and Griffin (1993) claim that the success of the final products depends on not only marketing capabilities of the company but also manufacturing. OEMs perceive that they need to constantly improve their technologies and organizational capabilities so as to get more business orders (Swink & Mabert, 2000; Wu & Hsu, 2001). Likewise after obtaining new knowledge from the customers, OEMs should still focus on absorbing and integrating the knowledge to cultivate new organizational capabilities (Helleloid & Simonin, 1994; Leonard-Barton, 1995; Nonaka & Takeuchi, 1995; Kostova, 1999; Cohen & Levinthal, 1990). Another issue of manufacturing is the increasing attention to technical specialization. OEMs specialize in designing and constructing integrated concepts and being responsible for concept development and integration of technical function when further development of functional products take place within the OEMs. It is a possibility but also a risk for OEMs to become bigger and more technically proficient suppliers in this field (Karlsson, 2003).

Logistics function is underlined in the OEM process (Lin & Li, 2006). On the basis of global economy, outsourcing warehousing and distribution have been used for multinational companies to resolve the logistics problems. Resource integration, manufacturing flexibility, and IT infrastructure capacities are closely associated with global logistics competence (ibid). Luttwak (1971) describes logistics is that all the activities and methods connects with the supply of armed force organizations, including storage requirements and transport. Nowadays, a wide range of equipment and suppliers is employed in varied “mixes”. It involves a great deal of planning and calculation as well as physical activities. The aim is to provide each echelon of the
armed force organization with the optimum quantity of each supply item, in order to minimize both overstocking (which restricts mobility and causes diseconomies) and shortages of essential equipment (ibid). Furthermore, Gorman (2009) points out that there is a growing trend that the traditional storage and logistics are combining to the third-party logistics industry, especially for small businesses. To sum up, logistics is a complex inter-organizational process, which is a challenge for manufacturing companies to struggle with.

4.3 Process perspective

To be clear, according to the Bakka et al. (2006), the process is something you do around certain tasks in the organization. The process here means the approaches to formulate the functions mentioned above in the context of organizational structure.

In the perspective of organizational structure, the key functions are found after comparing OEM organizational structure with general organizational structure. It shows a clear picture of the existing functions as well as the missing functions across the organizational structure of Chinese OEM. The distribution, new product development and human resource management which are ignored functions are chosen to be discussed through different approaches. Meanwhile, the function of manufacturing is something that is important in manufacturing companies. Therefore it is chosen as one of the key function as well. The following sections will discuss the above key functions from the process perspective in detail.

4.3.1 Manufacturing

Manufacturing process is the main phase in manufacturing companies which involves resource consumption. It transforms the raw materials into final products or semi-final products which value the products through adding the resources during process (Jiang, Zhang & Xiao, 2008).

Walrasian model portrays production process as a set of input-output relations which select a serious of appropriate technologies to minimize the cost of manufacturing with the perception of market-determined prices (Bowles, 1985). In an industrial context, production costs are often cut down by reducing manufacturing times through improving machine tools with respect to their speed, variety and process force (Brecher, Esser & Witt, 2009). Jordan and Graves (1995) clarify that there are the two factors influencing the benefits of flexibility, which are 1) correlations in product demand and 2) total capacity relative to expected total demand. Increasing manufacturing flexibility is one of the key approaches to meet the market uncertain demands of future products. Moreover, flexibility provides the capability to regulate the amounts of products produced in response to demand changes. However, many
people who invest in flexibility fear huge costs because they realize that to be beneficial flexibility must mean that each plant will have to build different types of production lines in the same plant or production facility at the same time (ibid). To decide where to add flexibility, the concept of "chain" should be introduced. A "chain" is an array of products and plants which are all directly or indirectly connected with each other. Within a chain, a path can be pursued from any product or plant to any other product or plant via the product assignment links. No product in a chain is built by a plant from outside that chain; no plant in a chain builds a product from outside that chain (ibid). Once a complete product-plant chain is formulated, flexibility may be valuable if it is added in a way that better balances the assignment of products to plants, and creates loops in the chain (ibid).

Moreover, using the information technology in technological development plays an important role (Evans & Wurster, 1997). The development cost for information may be high but it could reduce the production and reproduction costs (ibid). Additionally, the transformation of technology is much easier with the help of information technology (ibid).

**4.3.2 Distribution**

Distribution is one of the key processes of business activities which implements the product transition from manufacturers to customers. The amount and type of resources devoted to distribution channels across global product markets portray the importance of its function for many companies (Gray, 1999). Therefore, this subject has received significant attention by many researchers.

However, a central issue of vertical integration in designing a distribution channel is raised. Many authors such as Scherer (1980), Stern and El-Ansary (1988) and Williamson (1975) use different ways to answer this question: Should the manufacturers do the distribution himself or use independent retailers? As Moorthy and Peter (1988) point out that a manufacturer prefers vertical integration over decentralization when he doesn't interact strategically with another manufacturer. Now more than ever, a customer-driven and holistic approach to supply chain management is required (Chiadamrong & Kawtummachai, 2008). End-customers’ preferences for products and services greatly influence the business trend; the capability of channel members will directly affect the organization and management of distribution channels as well (Gray, 1999). Therefore, the need for a better understanding of working partnerships between manufacturers and distribution firms are very necessary. As it in large organizations, they tend to have many levels of hierarchy and many divisions, which guide them to develop more complete measures of output. They also tend to have more homogeneous tasks within each department, which increases the supervisory efficiency of the management (Katz & Robert, 1966).
Meanwhile, channel management research has long recognized the importance of managing relationships between the customers and firms’ distribution processes which create value through making products and services available to customers in a proper way at the right place and time (Bortan & Sandy, 1995). According to Gary (1999), he highlights the most important factors relating to the organization and management of channels of distribution. There are (1) how resource allocations to channels should be made across global product markets; (2) how functions are shared-split between channel members; (3) what combination of push and pull strategy is appropriate for firms using indirect channels; (4) when and how the Internet should be used as a sales-distribution channel; (5) how coordination is achieved among distributors in integrated supply networks; (6) how goals are set, plans are developed, and performance is evaluated among channel members.

4.3.3 New product development

Managing new product development (NPD) is, to a great extent, a process of separating the winners from the losers (Cooper & Kleinschmidt, 1995). Cooper and Kleinschmidt (2007) argue that the strongest driver of profitability is conducted through a high-quality, strict new product process. However, to manage NPD process requires a cluster of abilities for firms (Bessant & Francis, 1997).

Therefore the emphasis on new products has inspired researchers from marketing, management and other disciplines to study the new product development processes for several decades. In order to meet these challenges, attention has been drawn to reconfigure mechanisms for integrating and optimizing the NPD process (Thomas, 1993; Wheelwright & Clark, 1992).

Cooper (1979) found that the most critical factors in successful new product process are having a product unique or superior in the eyes of the customer and having marketing knowledge and proficiency. To specify, in NPD, there may be a stream of routines associate with developing a deep understanding of markets and customers’ requirements (Bessant & Francis, 1997). Meanwhile, customer information in the form of expressing is much needed for the NPD process as well (Griffin & Hauser, 1993). Subsequently, Cooper and Kleinschmidt (1993) develop their findings, they clarify four specific aspects involved in the NPD process, which are (1) clear definition of the product before development begins; (2) high-quality preparatory work; (3) clear orientation of the NPD process to market demands (4) the existence of a high-quality NPD process. Secondly, the time-to-market is another central issue which is addressed in the new product development by Maidique and Patch (1988). The time elements are influenced by the different characteristics of products in different ways. If time to prototype is the critical element, a concentrated development
effort is preferable. If time to volume production is the key factor, a distributed development effort is desirable (Datar, Jordan, Kekre, Rajiv & Srinivasan, 1997).

Thirdly, in the management context, a successful new product development process which is always given the stable supports of top management (Cooper & Kleinschmidt, 1987; Gupta & Wilemon, 1990; Rothwell, 1972; Zirger & Maidique, 1990; Brown & Eisenhad, 1995; Craig & Hart, 1992). Fourthly, cross-functional approaches and co-ordination mechanisms have been employed since 1960s (Lawrence & Lorsh, 1967). For instance, the functional groups, described as R&D, marketing and manufacturing people, should coordinate with each other during the development process which affect the success of new product development (Billie, 1990). In fact, most companies implement a formalized cross-functional NPD process in which a team completes a series of activities to move the project along from inception to launch the final products (Griffin, 1997). Also, Sherman (2000) finds that inappropriate, irrelevant contributed to poor communication between functional team, is a major barrier to team member integration, and ultimately resulted in failed projects.

### 4.3.4 Human resource management

Armstrong (2000) claims that the study of HRM process is to persuade the high-performance management, it can make an influence of the firm via its employees in many aspects such as productivity, quality control and levels of customer service, growth and profits. HRM is a very complex task because people have different personalities and ideas about things. All people in an organization must work together to achieve the primary objective of the organization. The function of human resource means appointing right people in the particular jobs. Meanwhile, the needs of the people in the organization is also should be looked after to enhance the performances of employees in their duties by the human resource managers (Banhegyi et al., 2008).

HRM process could be described as the following phases: 1) planning; 2) recruitment; 3) selection; 4) orientation; 5) training; 6) performance management; 7) compensation and 8) benefits (Robbins & Coulter, 2002). Moreover, Banhegyi et al., (2008) develop the process by adding the career development. As their points of view, both of them agree that the process of HRM contains two elements. One is human resource provision which ensure the companies employing the right employees on a constant basis. Another element is human resource retention which keeps satisfying the requirements of its staff.

Citing Nieman and Bemet’s (2002) human resource management process model (see figure 4.2), Banhegyi et al., (2008) demonstrate what should be focused during the process of human resource management in detail. Generally, the phase of human
resource provision could be described as the human resource department (HRD) which has to carefully plan in order to guarantee the organization and business having enough people with the right skills at the right time. Human resource is an ongoing process in which the HRD makes a complete human resource forecast (HRF) deciding the type and the number of people needed in the future. Once it is done, the HRD seeks for the right workers to do specific jobs in the organization. It includes three major steps which should be considered by the organization. The first step is to decide the specific positions’ requirements such as internally or externally recruiting. After recruiting, the organization will select the most suitable person for the position from a list of applicants. Finally, once the job offer is sent out to the candidates; and the candidates decide to accept it. The organization should place the employee in the position immediately. An induction is organized to help new employees to adapt to new work environment (ibid).

The phase of human resource retention includes all the things that organization does to keep their employees satisfied. Training and development are the first aspect to be considered because businesses have certain expectations of their staff to as well as the employees from their jobs. It can provide an opportunity to retrain an employee for another position in the company more than to lose him. Therefore, companies need try to make employees more valuable to the organization, provide the knowledge and skill which is needed to the job, and improve the employee’s capability for long term. Normally, training and development could be gathered from following three methods: away-from-the-job methods, hands-on methods and group or team–building methods. After the employees are trained, the organization or company has to evaluate employees’ performances to determine how well an employee is performing in his responsibility. A dual objective is involved in performance appraisal, one is evaluative objective which means the manager can evaluate past performances by employees and thereby determine a fair compensation package for the worker and get a guide for manager to promote the right person. Another one is development objective which aims at developing employee skills. It is very significant to reward employees with good performance appraisals. This will create a feeling among the employees that the organization views them and their efforts as an important part of organization. The last aspect that an organization should consider is job design or career development. It is to reach agreement on the responsibilities of a specific job (ibid).

For a better HRM practice, the employee learning and education are needed to be enhanced. From a large number of studies, many researchers conclude a normative model of HRM practice which relates to the “best practices” or “high commitment” theory of HRM. In that model, it implies that certain HRM practices, both separately and in combination are associated with improving organizational performance (MacDuffie, 1995).
Argote, McEvily and Reagans (2003) argue that for NPD the properties of macro organizational context affect knowledge utilization in innovation. The size of the corporation positively refers to the incidence of HRM planning and formal training (Koch & McGrath, 2003). Small corporations consider any training beyond the necessary level of performing their current business as a luxury to be provided only when the corporate is making large profits (Hendry, Jones, Arthur & Pettigrew, 1991). On the other side, larger corporations prefer to have more formalized recruitment practices (Aldrich & Langton, 1997). Jackson et al. (1989) studied the U.S. companies and explained that unionization linked with more formal performance appraisal, the more training for new employees the greater of bonuses given for company-wide productivity.

Moreover, Fiol and Lyles (1985) point out that the organization’s strategic decisions partially determine on its learning capacity. The behavioral perspective as the use of personnel practices is the tool for shaping patterns of behaviors that help to achieve organizational goals and objectives (Naylor et al., 1980). A test of notion of Porter’s generic strategies was made by Schuler and Jackson (1987) to match a certain constellation of HRM practices. They suggest that higher work performance in those business activities will be perceived if an adaptable HRM policy and practices are
selected to particular generic strategies. Then, companies implement a quality strategy which should have specific job descriptions and high employee participation. Moreover, those with a cost-leader strategy should use narrow policies and innovation strategy which should motivate long term goals and extend career paths (ibid).

4.4 Corporate culture perspective

Corporate culture could be regarded as organizational culture. It refers to the value and norms that pervade the entire or part of a company (Armstrong, 2006) as well as the beliefs, attitudes (Furnham & Gunter, 1993).

4.4.1 Culture as symbol

Kennedy (1988) states that in the first place which determines the culture of a company and how that culture work in the day-to-day lives of a company should include the following elements: values, heroes, the rites and rituals, and cultural network.

- **Values.** It is the bedrock of any corporate culture. As the purpose of a company to achieve success, a serial of common direction for the entire employees and guidelines for their day-to-day behaviors are provided by values. If the corporation has gained great strength from shared values, then the employees could know what their company stands for and what standards they are to uphold. The staffs are more likely to support those standards (ibid).

- **Heroes.** “*If values are the soul of the culture, then heroes personify those values and epitomize the strength of the corporation. Hero is the great motivator, the magician, the person everyone will count on when things get tough*” (ibid, p.58). Heroes can reinforce the corporation’s culture by (ibid):
  - Making success attainable and human.
  - Providing role models.
  - Symbolizing the company to the outside world.
  - Preserving what the corporate special.
  - Setting a standard of performance.
  - Motivating employees.

- **Rites and rituals.** They are the systematic and programmed routines of every day in the corporation. The corporate with strong culture will understand the communication very well, especially, how do they want their stuff to behave. The actions like play, ritual, and ceremony are the builder of corporate culture (ibid).
  - Play. It implies the creative aspect of corporate life releases tension and encourage innovation.
  - Ritual. They are the rules to guide the behavior in corporate. They are also the dramatizations of the corporation’s basic cultural values.
  - Ceremony. It helps the corporation celebrate heroes, myths, and sacred


symbols.

- Cultural network. “Cultural network is the carrier of the corporate values and heroic mythology. It links all the parts of the corporate without respect to positions or titles” (ibid, p.74).

O’Reilly and Chatman (1996) argue that a strong corporate culture can increase behavioral consistency across individuals in a corporate. Strong corporate culture has highly possibility and positives to influence appropriate strategies choosing. In contrast, weak culture shows heterogeneity in participants’ beliefs inside relationship of organization and its environment. Kotter and Heskett (1992) conclude that three aspects of corporate can get performance benefits from strong corporate culture. First of all is broad consensus and agreement of corporate norms and values that can be got, which make the control in the firm become more facilitate. Secondly, strong culture can enhance the corporate goals which improve the practices, when there is an unexpected situation the employee could face less uncertainty and react in appropriately actions. Thirdly, strong corporate culture can enhance employees’ motivation and performances.

4.4.2 Customer orientation and innovation

Customer orientation and innovation are considered as relevant factors to R&D, marketing and NPD. Hence, to be clear, these two factors which penetrate into day by day work are regarded as a kind of culture.

In different companies, the culture is different. Some of the companies more focus on an outward-looking marketing department but others more consider about an internally manufacturing function. Companies could have common values and norms, but the work environment in some aspects is different (Michael Armstrong, 2006). In recent decades, more and more companies pay attention to marketing concept, customer orientation and innovation when making the business plans and strategies. Again, the companies only focus on customer orientation or innovation, which could not provide corporate with the best performance (Deshpande, Farley and Webster, 1993). However, many companies or marketing managers do not realize that their customers feel their suppliers not so focusing on customer orientation as other corporate. For instance, after comparing some Japanese with U.S and Europe firms, ibid get one of the reasons that Japanese firms win the competition is they exhibits a much higher degree of suppliers’ and customers’ agreement on a large extent of customer orientation. Customers expect to get high standards of product quality and customer service. Therefore, companies should do more jobs of self assessment (e.g. self evaluations of customer orientation) which should be accompanied by customers’ ratings on the same measures.
An innovative culture does not only mean to improve the awareness via sending employees to the new technological conferences or seminars but also means to use related ability to understand how plenty tools and concepts can be brought to solve the problem that corporate are facing. Numerous ideas and innovations are created by people through their special connection with the external world. An innovative corporate need to combine those ideas or innovations with corporate business lives because an innovative individual does not make the entire corporate highly innovative. Companies should give more opportunities to employees to learn and practice their skills (Robert, 2007). Innovation need to be fostered in the corporate, it is wrong to view the innovation effort as equivalent to R&D expenditures. Innovative corporate should motivate their employees, inspire them to go beyond. Some extrinsic and intrinsic factors highly influence the employees’ motivation, such as incentive compensation, benefits, appropriate tools, values of integrity, trust and beliefs. However, most of companies fail to notice the extent to which people’s actions are regulated by context. If a company’s executives only see the cost of innovation relative to total costs and expenses, his employees could get less comprehensive and quantitative view of innovativeness (ibid).

Making the companies sustainably attractive to extraordinarily high skill employees or talent people also should be noticed. Tempting them by compensation and early fascination with a new technology or even tempting them involved into the high growth prospects of an industry is not enough. Companies should retain intelligent employees through the corporate policies and practice which can improve the employees’ skills in a lifelong process of the employees (ibid).

### 4.4.3 Corporate culture as total quality management

Irani, Beskese and Love (2004) imply that because of the changeable global market, focusing on the customer and their requirement to control the entire activities across a corporate can make the corporate easily survive. Therefore, most of companies need to change their internal culture. To be clear first, in this section it means quality management as a corporate culture not a process in manufacturing context. Total quality management is an aspect of customer focus, it relates with a subsequent improvement of achieving a strong corporate culture, which will enhance a company’s competitiveness and performance. Zairi (1991, p.100) claims the definition of total quality management as “the agreed company-wide operating work structure, documented in effective, integrated technical and managerial procedures, for guiding the co-ordinate actions of the people, the machines, and the information of the company and plant in the best and most practical ways to assure customer quality satisfaction and economical costs of quality.” Employees’ actions and behaviors will be influence by corporate culture; it also can change the actions in the perceptions of all aspects of their work including quality.
control (Reeves and Bednar, 1994). According to the research by Klein et al. (1995) the corporate culture has a direct impact on service quality. A positive correlation is founded between perceived levels of quality and constructive and aggressive/defensive styles of culture (Cooke and Rosseau, 1988). Lakhe and Mohanty in Irani, Beskese and Love (2004, p.645) said that “the corporate need a complete changing in corporate culture, shifting of responsibility to management, and continuous participation of all in the quality improvement process” Several suggestions are referred by Lakhe and Mohanty (1994) to the corporation which is intend to change the corporate culture as total quality management.

- Corporate policies, procedures and processes must accentuate quality.
- The entire employee must have a clear understanding of the significance of quality in pursuing business goals.
- The entire employee should have the awareness of customer need at each level.
- The structure of the corporation should available for continuous improvement.
- The customer requirements should be integration internally and externally in the business plan.
- The communication lines should be strongly developed. Customer commitment should be fostered.
- In the corporate the leader should provide support to emphasis on customer oriented values and beliefs.

4.5 Conceptual model

After reviewing the literature, we are proposing a conceptual model (see figure 4.4) which will be used to analyze our empirical findings. Based on the theories above, four specific organizational functions are figured out. New product development, distribution and human resource management as three ignored functions and manufacturing as an existing but important function are combined to form a new organizational structure. The interaction between the functions and new organization structure are shown as one-way or double-way arrows.

HRM is responsible for employing people and training employees across each functional department to support their daily work. For instance, a company’s new product development is very much depending on high educated and skilled people to keep the continuity of introducing products. Therefore, HRM influences the new product development and other two functions which are shown in the conceptual model as three single-way arrows.
Any new products must be yielded through manufacturing process. Meanwhile, manufacturing capability could restrict the performance of new product development. Therefore, the double-way arrow between the NPD and manufacturing is presented to show the interaction with each other. Similarly, the correlation of distribution and manufacturing is drawn by twin-arrow as well. Distribution is an important channel to open new market. However, only acceptances of products gained from markets and customers are not enough, it also need to rely on the manufacturing capability of the company. Additionally, new product development as well as distribution is much related to the customers and market demands which are exhibited by broken lines with one-way arrow as the external influences. Again, in this model, the manufacturing is concluded without arrow connecting the new organization structure because it is an existing function across the organization structure. Corporate culture is presented as an ellipse in the conceptual model which is considered as an internal environment influencing the different functions of new organizational structure. Therefore it includes all the other factors but as a relative independent factor which affect the transformation process.
In a word, in the context of corporate culture NPD, HRM, distribution and manufacturing are the four significant factors which affect to renew the new organization structure. Both of them are drawn by different formats in the following conceptual model.
5. Analysis

This chapter will present the analysis of empirical findings and compare with theory framework to figure out the solution for the research questions.

5.1 Organization structure perspective

To begin with, if one company wants to attain the goals, the understanding of effective organization structure is very important (Ghazzawi & Verne, 2009). In Damekiss, current organization structure is still much different from a traditional company. Damekiss has realized the weakness of their organization structure. Although the transformation process is very necessary, Damekiss’s main business is OEM. Moreover, reforming the organization structure should be linked with present strategy. This can be read from one of interviewee:

“Current organization operates according to the present OEM strategy of Damekiss; and the most differences between OEM and own-branded company are lacking of the experience in distribution channels, technologies capabilities and cooperation of teamwork.”

Secondly, comparing the traditional organization structure with Damekiss’s, it misses certain functions which influence on the company’s success. Although they have already realized the importance of other key functions like distribution, new products and human resource management, it is still neglected in the case of Damekiss. On the other hand, they greatly emphasize the importance of manufacturing across the structure which greatly affects their business process.

Thirdly, another two functional departments such as after-service and advertising have been the crucial functions in most of mature companies. Unfortunately, these two has not been carefully regarded by Damekiss at the moment. Citing the explanation by Zhou:

“Once a company wants to launch a new product, advertising for this product to increase the awareness of public is very necessary, especially in China. Similarly, after-service is also one way to maintain customer’s loyalty and awareness after selling the products.”
5.2 Process perspective

5.2.1 Manufacturing

Asmus and Griffin (1993) argue that the success of final products depends on not only marketing skills but also manufacturing. In Damekiss, manufacturing is recognized as a core function embedded in current organization structure by both of CEO Yang and Zhou. It is obvious that Damekiss invests a huge amount of money on advanced equipments and workshops in order to occupy high position in Chinese cosmetic OEM industry. As CEO Yang said:

“The next step is to be the biggest cosmetic OEM company in China and supply for all kinds of cosmetic production under any branded products.”

Moreover, in order to ensure enough manufacturing capabilities and keeping the advantages of low manufacturing cost, they also work together with foreign equipment producers to improve their facilities, which relate the assumption that production costs are often reduced by improving machine tools (Brecher, Esser & Witt, 2009).

Secondly, the manufacturing flexibility is proven to be relevant to uncertain demands in competitive market (Jordan & Graves, 1995). Given the data, Damekiss successfully produces various categories of cosmetics products with limited production lines in two workshops. Each of line in the separated factories could serve several products, which forms a chain and greatly improve the manufacturing efficiency. As a result, they could avoid risks of excessive products which could not be sold out. As Jordan and Graves (1995) claims that a complete chain is formulated, flexibility helps to match different products with different plants in a proper way.

Thirdly, information technology used in manufacturing process is necessary, which can reduce reproduction costs and control the quality (Evans & Wurster, 1997). The performance of production system of Damekiss shows this point of view in a deeper level. The closed-circuit monitoring system and information collection system used during the manufacturing process to ensure all the products are under control.

5.2.2 Distribution

Distribution is a highly important part for many companies which transfer the products from manufacturers to customers (Gray, 1999). Unfortunately, Damekiss does not have a dependent distribution/sales department now because majority of the orders relates to OEM. Although they lack a complete functional department, they
have already realized the importance of distribution as a determinant function in the company. As Zhou said:

“One of the differences between OEM and own-branded company is lack of experience in distribution channels which could be a big obstacle for further developing.”

As it is in the mature organization, it tends to have different divisions which lead them to arrange tasks among different departments and improve the efficiency of management (Katz & Robert, 1966). Comparing with Damekiss, to formulate dependent distribution may become the future goal to attain.

Secondly, customer preference for products and services could influence the business trend (Chiadamrong & Kawtummachai, 2008; Gray, 1999). The needs for a better understanding of working partnership between themselves and customer are extremely important. For example, in Damekiss most of salesmen have background knowledge in the field of cosmetics which enable them to give a good explanation to customers as well as get the specific requirements from the customers. Zhou perceived this like:

“Most of the salesmen have technological background which can satisfy the requirements of customers in different products.”

Thirdly, the two relevant factors such as combination of push and pull strategy using indirect channels and setting of goals, plans and performance through channel member influence organization management of distribution (Gray, 1999). Considering distribution channels is quite limited, Damekiss cooperated with Lanvanlan Co., Ltd in order to expend distribution channels. Meanwhile, Yang said:

“The goal of Damekiss is putting Chinese cosmetic company on a solid foundation which can make it possible to sell its products to worldwide customer with the label of “Made in China”

However, other factors such as allocating resource to channels, sharing functions among channel members and coordinating distributors in supply networks are missing in Damekiss’ current distribution process (Gray, 1999).

5.2.3 New product development

The new product development is a determinant of separating the winners from losers (Cooper & Kleinschmidt, 1995). In order to gain more orders, Damekiss consistently develops new products as well as new technologies. They make a three-step plan of
new product development strategy which gives the driver profitability as well as tendency of future development (Kleinschmidt, 2007).

Secondly, Cooper (1979) found that customer-orientation and marketing knowledge relate to the success of new product development. To specify, three aspects same as Cooper and Kleinschmidt’s findings are found (1993). These three are the definitions of products made from specific market and customer orientation, high quality preparation and existence of a high quality NPD process. In Damesiss, the first step of NPD is to participate in market investigation and evaluate the customers’ requirements. Some insight is brought forward by Yang:

“We know that concentration could make things better, and could provide customers with a better service. We act as a cosmetic investment broker to satisfy our customers’ various requirements through suggesting the best and suitable ideas.”

Subsequently, advanced equipments are prepared with strong NPD capability which means having strong manufacturing ability. Damekiss use the advantages of R&D centre through cooperating with universities and institutions and learning new technologies from Lanvanlan. All above can ensure to create a good environment of high quality NPD process to satisfy the customers’ demands and improve the efficacy of NPD.

Thirdly, cross-functional approach has been widely used in manufacturing companies. People in the different functional parts are gathered to complete the project from inception to final step before launching the project (Griffin, 1997). Related to Damekiss, the NPD team only consists of engineers. According to Zhou’s words:

“Today, the major members of NPD team are chemical researchers and engineers. As our projects already pass through many hands in different sections, the NPD do not need to include the people from different departments. As a result, there is lack of communication between each department.”

Communication between other departments’ tem and the NPD team hardly happens. However, the NPD members communicate with each other frequently, resulting in a high level of performance and efficiency.

5.2.4 Human resource management

Armstrong (2000) claims that HRM process could influence the firm via its employees in many aspects such as productivity, quality control, and levels of customer service, growth, profits. Meanwhile, the needs of the people in the organization also should be considered by human resource managers (Banhegyi et al.,
2008). However, in this case, Damekiss shows a negative view of developing human resources, and the investment on HRM has a really low percentage of turnovers per year. Zhou explained:

“HRM has not been the key department so far because HRM relates to practical situation of corporation. As Damekiss shows, the major business is only working as an outsourcing industry. Operators in the workplace are enough to satisfy the demands of human resources. Although we are aware of the importance of hiring qualified human resource, it is not the appropriate time to do it.”

Nowadays, Damekiss is just the beginner of OBM. Even the OBM business is really going well, the major focus of Damekiss is still OEM.

Secondly, Robbins and Coulter (2002) argue that HRM process includes: 1) planning; 2) recruitment; 3) selection; 4) orientation; 5) training; 6) performance management; 7) compensation and 8) benefits. Recruitment and training are more important than others. Banhegyi and Bates (2002) discuss that human resource is an ongoing process; human resource department (HRD) will make a complete human resource forecast (HRF) to determine which type of employees will be needed in the future. Once it is done, the HRD place right person in right position. After recruiting, the selection will be implemented to find most suitable person for a specific position. Yang said:

“Frankly speaking, we do not hire managers outside of the company. Most managers in the middle or high positions are promoted internally because those who have interest in company always have a much better relationship with colleagues than the new comers. On the other hand, we usually recruit people from the external labor market when we are looking for qualified technicians. The most of our employees are operators who do not have professional knowledge about techniques. We avoid teaching operators about the techniques from the very beginning because it needs too much time and money which may have a bad effect on present situation of Damekiss.”

As we can see from CEO Yang’s words, Damekiss does not estimate their requirements of human resource before they start to recruit employees in the aspects of HRM process. This discouraged Damekiss to abuse appropriate human resource.

Thirdly, training is the first aspect to be considered in HRM process. It can provide employees with an opportunity to be retrained for another position in the company instead of being fired (Banhegyi and Bates, 2002). Damekiss faces the problem of losing employees. It normally appears among production workers. However, due to the low labor cost in China, Damekiss does not take any action to improve it so far. Hendry et al (1991) argue that in small corporations they believe any training beyond the necessary level is for their current business but it is implemented only when the corporate makes large profits. This argumentation exactly reflects the thinking of
Damekiss’s top managers. The current HRM process in Damekiss is that they prefer training high level employees to recruiting them. However, the opportunities for employees to take part in professional training programs are very limited because it will take a lot of time and money, which is not suitable for actual situation. Therefore the quality and frequency of training programs do not reach a high level. Companies need to make employees more high-qualified through providing employees with the knowledge and skills in long term (Banhegyi and Bates, 2002). Furthermore, more training and bonuses for employees can boost up company-wide productivity (Jackson et al., 1989). Although the training programs are not high level in Damekiss, they have made efforts for training such as holding regularly special training camp to improve managers’ leadership abilities. Now Damekiss has already realized the importance of HRM during the expending of business scale and try to improve it through different ways.

5.2 Corporate culture perspective

Corporate culture refers to the value and norms that pervade the entire or part of a company (Armstrong, 2006). To prove it, the goal of Damkekiss is to be the most professional OEM corporate in China, which is recognized as the common vision across whole organization in the past 10 years. The slogan: “providing the best service and setting the most suitable scheme for your bran.” also shows the culture that every employees struggle to achieve. Values, heroes, the rites and rituals are placed in the first things to determine the corporate culture and influence the day-to-day work (Kennedy, 1988). Corporate hero is the great motivator. Everyone sees him or her as a magician who can solve any problems when things get tough (ibid). Above this context, CEO Yang greatly inspires employees to strive for success as an idol. The entire life of Yang is struggling with his personal dream and his career. Becoming the CEO of Damekiss from a factory worker, Yang is a good role model proving that efforts will be eventually paid off. Risk-taking is another spirit which deeply influences his employees. When Yang faced the huge debts resulting from the management problems, he loaned money for restructuring the company without hesitation.

Secondly, Deshpande, Farley and Webster (1993) found that most of the corporations do not aware that customers dislike the suppliers who do not focus on customer orientation. Corporate should pay attention to self-assessment of customer orientation. From the data, Damekiss brought forward the conception of cosmetic investment broker which fulfills customers’ various requirements through supplying appropriate and suitable suggestions. Yang argues:

“Again, cosmetic investment brokers do not only act as a salesman. They need consider the views of the customers, and provide the customer with practicable
"schemes in order to make profits."

An innovative individual does not make the entire corporate highly innovative, the corporate needs to combine different ideas or innovations in its business life and give more opportunity for employees to learn and practice (Robert, 2007). In Damekiss, the reward will be given at the end of each year by measuring the rate of contributions and individuals’ performance. Moreover, additional opportunities like promotion and special training programs are provided to motivate employees to strive for success.

Thirdly, quality management relates with a subsequently improvement plan to achieve a strong corporation culture which enhances a corporation’s competitiveness and performance (Irani, Beskese & Love, 2004). In fact, Damekiss focuses on not only production but also high quality customer service. For instance, Yang said:

“We try to help customers to reduce the risks of the investment and remind them to avoid making mistakes; these are the two criteria of Damekiss. Moreover, the most authoritative information of cosmetic industry is sent yearly to the customers for free, such as statistical analysis reports, International cosmetics development, variety of media related to cosmetic industry and the latest new cosmetic and health products.”

From this point of view, Damekiss is not only an OEM supplier but also a cosmetic investment broker.

5.3 Short summary

According to the empirical findings and the theatrical framework, we find some significant points that should be highlighted for the transformation of Chinese OEM.

- Chinese OEMs lack in fully-formed manufacturing, distribution and new product development processes.
- Maintaining at a high level of manufacturing ability and flexible production lines is really important.
- Damekiss shows a relatively poor result on distribution like communicating with customers in order to gain enough orders, loyal retailers and reliable distribution channels.
- Damekiss presents a really good example of new product development. It is common that ability for new product development is a key factor for the company to success in fierce competition. Unfortunately, most of Chinese OEMs are staying at the surface of new product development.
- Lack of systematic human resource management process is another barrier for Chinese OEMs’ further developing. The recruitment does not get enough attention and the training does not reach to a mature level.
Thinking corporate culture as one of the significant aspects influencing the entire company is found in Damekiss. Slogan, company heroes and rituals are properly used to motivate employees.

Corporate needs to change their internal culture with the development of society as well as own development (Irani, Beskese and Love, 2004).

The transformation of corporate culture takes a long time or is gradually done.
6. Conclusion and Discussion

The chapter will draw the conclusion from our research study, and implications and suggestions for further research will be presented as well.

6.1 Conclusion

In this study, we present a framework to study transformation of Chinese OEM. The purpose of this thesis is to answer the former research questions.

RQ1: What are the crucial functions of organization structure needed for Chinese OEMs to successfully launch their products with their own brands?

Four functions such i.e. manufacturing, distribution and human resource management are highlighted at the different level in terms of the critical functions which can help Chinese OEM to launch their products successfully in organizational structure. Also, missing functions such as new product development are needed to be reformed. Moreover, the after-service and advertising are addressed as another two key functions which are the ways to keep loyal customers in Damekiss. As a result, the effective organization structure consisting of diverse functions in a complete system is strongly needed for Chinese OEMs (Ghazzawi & Verne, 2009).

RQ2: How could these functions be formulated via appropriate process in an organization structure?

When it comes to the process of formulating the key functions of organization structure, the four functions such as manufacturing, new product development, distribution and human resource management is greatly related to Chinese OEM to launch their own products. In the distribution process, the two main factors related to building distribution networks are an understanding of the customer preferences and how to choose collaborative partners. In contrary, Damekiss as a typical Chinese OEM shows a relative poor ability on distribution. It lacks of frequently communication with suppliers in order to gain orders, loyalty retailers and reliable distribution channels, which will be a big obstacle for further developing. Another issue raised is HRM process. HRM process in Chinese OEMs does not work very well. In Damekiss, the process of HRM is not systemically organized. The recruitment does not get enough attention by the top management team; the training programs are also staying at a lower level, It is only limited among the managers which lacks of training for technicians. Although some of them already have explicit blueprints for the future development, they do not have a complete HRM system to support it. Furthermore, the manufacturing process and new product development process are
also strongly influenced the transformation of Chinese OEM.

**RQ3: How does the corporate culture impact the transformation of Chinese OEMs?**

To answer the last question, corporate culture refers to the value and norms that pervade the whole organization (Armstrong, 2006). Corporate culture is deeply understood by Chinese OEM. Corporation heroes and slogans are the symbols which motivate employees to share the values of customer orientation and quality control in Damekiss. Also, it is proven that customer orientation and total quality management have a huge effect on the new product development and manufacturing in the organization of Damekiss. These two are concerned as two dominant corporate cultures which affect the transformation process across the Chinese OEM. At the same time, the fact that the corporate culture may vary according to the expanding of the business scale are found out in Damekiss. Even though it changes a bit, the essence of old culture is still left and recognized by most of employees. Thus, old and new corporate culture should be integrated for companies’ performance in various phases. The process is not easy. It takes time but the benefits that come from having a well developing make it worth the effort.

### 6.2 Discussion

There are other aspects worth to investigate in detail for Chinese OEMs based on the functions, process and culture. The results of empirical findings and analysis imply that the following model (see the figure 6.1) can be revised from the previous conceptual model by adding two additional functions and interactions of eastern and western culture.

First of all, Chinese OEMs need to improve HRM process. According to Amstrong (2000), HRM process is important because it influences not only the rate of growth and profits but also employees’ performance on productivity and levels of customer service. However, the things Damekiss only cares about are productivity, quality control, customer service and business growth, which shows a shortage of systemic HRM process. Moreover, a huge amount of working people is the biggest reason that most of Chinese OEMs ignore professional training for workers. The labor cost in China is still much lower than other European countries and U.S. As Banhegyi et al. argue (2008), the important factors to ensure high quality of human resource are teaching employees the right skills, forecast of human resource and performance evaluation. The second reason of ignoring HRM process is the economic recession causing huge amounts of unemployed people. The employers do not worry about labor force in this kind of situation. However, for a long term development, Chinese OEMs should compensate the defect of the HRM process as well as workers’ cohesion and high productivity.
Secondly, Chinese OEMs should develop advertisement and after-service. These two functions do not exist in most of Chinese OEMs because Chinese OEMs are operated by manufacturers having no direct contact with customers. As many famous corporations show, it is necessary to design good advertising and develop after-service for ensuring the loyalty of customers. Advertisement is the sub-function of the marketing, which appeals to customers. The reaction of the market is reflected in designing the new product and fixing target groups to boost advertising effect. Meanwhile, after-service gives practical information that helps other three functions such as manufacturing, distribution and new product development to improve new products for the future customer. Therefore advertising and after-service is essential to establish the own-brand OEMs.

Thirdly, Chinese OEMs should build the culture for entrepreneurial orientation,
innovativeness and proactiveness to increase the growth in the future. The entrepreneurial orientation is the key ingredient for success. A strong entrepreneurial orientation enables start-up companies to get a high performance (Zahra, 1993). The entrepreneurial managers contribute to rapid growth of company because they give an appropriate vision and ideas to get an opportunist expansion (Penrose, 1959). Also, proactiveness is important for success. Venkatraman (1989, p. 949) states that “proactiveness refer to processes aimed at anticipating and acting on future needs by searching new opportunities, these activates may or may not related to the line of operations, introduction of new products and brands ahead of competition.” Even a company is not proactive. It still has the will and foresight to seize new opportunities to be innovativeness. Hage (1980) argues that innovativeness is a kind of signal whether the company decides to support new ideas or not. In this process, these factors such as novelty, creativeness can be applied to the new products, service and technology.

In addition to the corporate culture embedded in the organization, the different culture between eastern and western needs to be studied. The Damekiss case does not show this aspect because it hasn’t expanded into foreign countries so far. As increasing amounts of Chinese OEMs are used for big European and U.S. companies and Chinese companies start to purchase foreign corporate, cultural barriers should be considered. There is one example showing cultural difference between China and western. The leader has the strongest power in Chinese companies, so employees should obey the leader and satisfy the leader’s orders. They just do what leader wants without any questions. In contract, employees in western companies like Sweden have an equal relationship with the leaders. It means employees don’t hesitate to suggest their own ideas resulting in more active communication between employees and leaders. From this point of view, understanding the difference between eastern and western culture has a good effect on the future.

### 6.3 Further Research

This study focuses on the field of transformation of Chinese OEM. There are still many topics for future research. For example, in this research study we only focused on the four determinant functions of Chinese OEM transformation process. However, there are many other determinant functions which also influence the transformation process. Also, these determinants are more complicated and can be studied separately as well. Moreover, the transformation process can be studied from another perspective, the strategy and management. When the transformation process begins, Chinese OEMs have to handle the situation by strategy and management. To sum up, all of them should be dealt with deeper study.
7. Implications for managers

After analyzing Damekiss a single case, we found what Chinese OEMs should do next in order to shift the role from OEM to independent company based on three perspectives. The following points are kind of suggestions how to launch their own product with own-brand for Chinese OEMs’ managers. The first two are the approaches to make up the shortages of the missing functions. The third one is about how innovation as a corporate culture facilitates in an organization. It finishes by giving the proper suggestions to these successful Chinese OMEs who already plan to launch their products with own brands.

First of all, those OEMs who do not have enough manufacturing ability or have very small business scales to building their own brand and product line is in feasible. Actually, Damekiss have spent ten years to keep enhancing their manufacturing ability for producing different types of products such as focusing on high quality of production and optimizing manufacturing process. Moreover, they also pay much attention to the new product development and research in order to gain core technologies. Therefore for small and medium size Chinese OEMs the following two issues should be considered.

- Focus on manufacturing and quality control management such as production line flexibility and applying IT to control manufacturing process.
- Invest enough money on new product development (R&D) to set up the base for launching own product in the future, such as:
  - Collaborate with universities and research institutes to work together.
  - Acquisitions of core technologies from other companies which can rapidly access the technologies and reduce financial exposure.

Secondly, human resource management is an important and ignored segment in Chinese OEMs. It is essential to have enough skillful people to support daily work across the company. These three advices can be mentioned:

- Collaborate with universities and research institutes to cultivate qualified people
- Improve the training system to cultivate and retain potential talent people
- Enhance cohesion of organization and improve employees’ life-long skill development through proper training programs.

Thirdly, most of Chinese OEMs have realized the importance of corporate culture. Innovation is one of valuable culture not only for OEMs but also for many successful companies. Today, OEM should focus on core technologies to satisfy customers but not just producing issues for buyers. Hence, to create an innovative environment inside of the company is adaptable. However, OEMs should notice that innovative corporate needs to combine ideas or innovations with corporate business because an
innovative individual does not make the entire corporate highly innovative (Robert, 2007). Again, innovation does not equal to the effort on R&D expenditures. It is kinds of sprite or culture to motivate employees to be creative and contribute to the company beyond external reward. Providing a place for employees to apply and improve their ideas for long term is extreme important. To build an innovative environment, following are several feasible approaches to realize it.

- Develop appropriate roles fitted for right places in such cross-function team
- Provide innovation fund to collect ideas across the company
- Reward system such as promotion, recognition and money
- Ensure continual support from the top level of the company

In short, now there are already many Chinese companies which are very successful in the field of OEM. They begin to think to build their own brand through a proper way. According to the analysis of Damekiss, we suggest four feasible ways to launch products with own brand.

- Purchas branded companies which have good reputation but get into bad management condition.
- Build brand as a broker, which means the corporate should not directly build its own brand but target the investor through helping them build their brand for funding their reputation of their own brand
- Joint venture with other mature company which avoids distribution risk and technological/marketing unions can be done only a few times.
- Venture capital means invest money on small but potential company to build brands. It can a provide window on new market as well as technology comes out.

The first suggestion bases on the organizational structure of the company which is on a good track. However, their requirements of building own branded products are very intense. Thus, they can choose to purchase the companies with mature branded products. The second implication is based on the company which is very strong on manufacturing and has a deep understanding of the corporate culture and marketing. There are lots of new comers getting into the competition. Then, being as a brand building broker and supplying OEM service is a totally new concept of doing business. The third and forth points of view is based on the company’s R&D and NPD ability is weak, it cannot be improve and achieve result in a short time. Then, company is better to do joint venture with other institutions and invest money on small but potential company to build brands.
Reference


dimensionality, and measurement. Management Science, 35: 942-962


Appendix

Interview Guide (English Version)

Basic question
1. Do you wish that your answers staying anonymous in this study?
2. What is your education background and work experience?
3. When are you recruited in this company?
4. What is your title on your company, and its responsibility?

Background
5. Could you please describe the business domain in your company?
6. What is percentage of OEM business in your core business?
7. Could you please describe the composition of the functional departments which exist in the current organizational structure?
8. What kind of functions do you perceive is needed as a successful own-branded company?
9. What is your conception of difference of organization function between the OEMs and own-branded company?
10. What is your perception of the most important functions in current organization structure? Why?
11. Which functions do you think are missing when launching own products? And which functions should be improved or preserved?

Determinants
12. Comparing with other OEMs’ manufacture equipments and technologies, would you please introduce what are your competitive advantages? Could equipments and technologies be employed into new product development and production?
13. Could you please describe your company’s inputs and outputs on NPD? What is the influence in new product development on business growth, sales and market share? What is the position of NPD in current organizational structure? Can you explain how does it coordinate with the other functional departments?
14. What is the percentage of the investment of turnover on human resource each year? On the aspect of human resource, what is your perception of the risks that company faces? Do you have the problem of losing human resource? What do you do to solve these problems or risks?
15. Considering on training internal employees and recruiting new employees, which one is preferred? Would you please introduce how do you handle it?
16. What is your perception of human resource department in the organization structure? How does it influence the manufacturing process and other parts?
17. Do you set the distribution/sales functional department in your company? What role do you think it plays toward your success business future?
18. Do you set the marketing functional department in your company? What role do you think it plays toward your success business future?

19. Would you explain correlation of different functional departments in your company?

**Re-interview (English Version)**

1. Does Damekiss have its own distribution channels or retailers/franchisers? If yes, how does it look like in current organization structures?

2. The understanding of manufacturer’s products by retailers/agent and the perception of retailers/franchisers’ ability by manufacturer are the two factors which could affect the relationship of cooperation, how does Damekiss perform and handle this two issues?

3. The final goals is to sell the product to customers, thus, how does the customers influence Damekiss to pursue the appropriate retailers/franchisers?

4. In the aspects of NPD, would you please introduce how does Damekiss satisfy customers’ various requirements when develop new products?

5. Does Damekiss have a specific definition of products (e.g. target, quality) when you launch new product into the market? According to characters of different products, how do you choose the appropriate time to launch products into market?

6. How does NPD team of Damekiss look like? Is it all composed of engineers or mixed with other functional people like marketing in order to fulfill customers’ and markets’ requirement timely? How do the team members communicate or support to other members?

7. Since last interview, we realize that Damekiss does not pay much attention to HRM recently. Is it the obstacle that Damekiss meet in the perspectives of NPD, quality control and marketing because of weak capability of HRM?

8. For Damekiss’ further developing, which departments do you think greatly lack of human resource so far?

9. Would please talk about the aspects and approaches of employees training? (e.g via what kinds of training programs to train staff of different departments.) Comparing with the expectation of training and the performance after training, what kinds of results do Damekiss get? Would you please give some examples to explain it?

10. About corporate culture, we find that Damekiss really cares about the quality and safety of products. Would you please introduce what does Damekiss do to improve quality control and safety of products these year?

11. In Damekiss, would you please point out some examples or information on corporate culture? (Except customer orientation and quality control)

12. According to products’ quality and safety, how does Damekiss improve its equipments, professional employees, production standards and so on?

13. What do you think that company needs to improve about products’ quality control and safety as a corporate culture?
14. Through visiting the websites and the interviews, we know that Damekiss already has the ability to be “cosmetic OEM broker” who can provide customers with qualified design, production, and advertising capabilities. Why Damekiss does not develop its own cosmetic products like other famous brands (i.e. Lancome and Estee Lander)?

**Interview (Chinese Version)**

1. 您希望此次问卷调查是匿名调查吗?
2. 请您介绍一下您的教育背景及工作经历。
3. 您是何时加入目前的公司？您目前的职位是什么，以及该职位主要负责的公司事务？
4. 请您简单介绍一下目前丹奇日化有限公司:
   - 主要涉及领域及运行情况（销售额，产品品种）
   - OEM在公司主营业务中所占比例及情况
   - 目前公司组织构架（所设立的部门，例如：生产，销售等）
5. 您认为作为拥有自主品牌的优秀企业其组织架构应有哪些部门（例如：市场，生产，研发等）来构成？
6. 您认为OEM企业与优秀的自有品牌企业相比，在组织构架中最大的差异是什么？
7. 丹奇日化是中国较早涉及化妆品OEM的企业，您认为目前公司组织构架中最为重要的是哪些部门（例如：生产，物流，销售）？
8. 在丹奇日化建立自主品牌的过程中，您认为丹奇日化当前组织构架中哪些组织功能缺失的，又有哪些是需要加强和保留的？
9. 请您介绍下丹奇日化生产设备和生产技术在同类OEM企业中处于什么样的地位，具有哪些优势？对于新产品的生产，丹奇日化的技术是否能快速结合新产品开发而投入生产？
10. 贵公司在新产品开发上都有哪些收入和成果，新产品开发对贵公司的成长，销售和市场占有率有怎样的影响？
11. 新产品开发部门在贵公司组织结构上处于什么样的地位？是怎样的其他部门相结合的？
12. 请介绍下人力资源开发在贵公司每年资金投入上占有的比重是多少？您认为在人力资源开发上贵公司面临哪些风险？贵公司是否在人力资源流失的问题？
13. 贵公司在人力资源方面侧重于内部培训还是外部雇佣具有高技术，高学历新员工？公司对各职能部门职员个人技能，专业知识等方面有哪些要求？请您介绍下丹奇日化是怎样在其侧重点上进行操作的？
14. 请问人力资源部门对丹奇公司提高生产，增进效率等方面具有哪些作用？
15. 丹奇日化目前是否有配送/销售部门？如果有，其目前在公司中扮演的是何种角色？如果没有，在未来丹奇日化建立自有品牌过程中是否会建立这样一个部门？
16. 您认为市场部门是否对OEM公司的组织构架具有决定性地位？如果丹奇日化需要建立自有品牌，您认为市场部门在公司组织构架中将会起到一个怎样的作用？
17. 请问丹奇日化各职能部门之间是怎样协同工作的？
1. 关于销售渠道，丹奇目前的是否有自己专门的销售渠道或者分销商/代理商？如果有，在现有组织中它是怎样一个架构？

2. 分销商/代理商对生产方产品的理解，以及生产方对分销商/代理商能力的认可都十分影响双方的合作关系，在丹奇这两者是如何表现的，丹奇又是如何处理这两者的关系的？

3. 由于产品最终会销售给顾客，因此销售对象（即顾客）是否直接影响丹奇何选择和寻找新的分销商或代理商的？如果是，它是如何显现的？

4. 关于新产品开发方面，请您简述一下目前丹奇在研发新产品时是如何应对顾客以及市场需求的？

5. 在选择新产品进入市场时，丹奇是否对产品有一个明确定位（例如客户群，质量标准）？根据不同新产品的特点，选择进入市场的时机又是如何把握的？

6. 在新产品研发团队中，丹奇是如何构建的？主要是全为工程师组成，还是有市场及其他部门员工混合组成以便及时应对市场和客户的需求？此外在团队工作中，个各员工是如何交流和互助的？

7. 通过上次采访，我们了解到丹奇现在对人力资源培养还不是非常注重，请问丹奇公司对于人力资源匮乏，尤其在新产品开发，产品质量控制，市场推广等方面 企业存在哪些障碍或损失？

8. 对于丹奇日化将来的发展，您认为丹奇对公司需要对哪些部门或环节的人力资源进行重点投入？

9. 请问目前丹奇现有的人员培训都包括哪些方面，一般通过什么方式（比如：通过什么样的培训项目对于企业的某个部门进行什么样的培训）？ 培训的预期目标和培训后在实际工作中员工的工作表现都有怎样的结果（例如： 公司希望对研发人员进行培训，来提高公司自身新产品开发的能力，或者公司希望通过对技术人员进行培训，来提高公司生产环节质量上的控制）？请您给出一些具体的例子。

10. 关于企业文化，我们了解到丹奇非常注重 OEM 产品的质量和安全性，但对于丹奇在严格控制产品质量和安全上我们还不是很清楚，丹奇在近些年都做了哪些具体行动去推进产品质量和安全性。请您做以下简单介绍？

11. 丹奇日化的一定还有更深层次的企业文化，请您介绍下除注重品质，和客户需求丹奇日化还有着怎样的企业文化。 （希望您能给出一些具体的例子或数据）

12. 在针对产品质量和安全性方面，请问丹奇在使用设备，专业人员投入，化妆品生产标准等方面都有哪些具体的改善？

13. 您认为在控制产品质量和安全性上，丹奇公司存在什么问题是需要日后加强或改善的？

14. 最后通过采访和浏览贵公司的信息，我们了解到丹奇日化已经具有成为“化妆品 OEM 投资经纪人”的能力，并能为其他公司设计，生产，推广产品线。 请问丹奇公司为什么不将自己的产品发展起来，使其驰名国内外，成为像兰蔻，雅诗兰黛那样的国际著名品牌？
Implications in Chinese

结合丹奇日化的研究和分析，我们觉得对于中国OEM企业的发展有了更深入的理解。下面是一些建议希望能对中国OEM企业的经营和管理人员有所帮助。

1. 对于企业规模，生产水平不够成熟的OEM企业，在这个阶段考虑建立自主的品牌和生产线是不切合实际的。根据丹奇日化案例的分析，该企业用了至少花费10年时间去完善生产水品，使丹奇日化能接受各种类型，各种品牌的化妆品代包业务。在提高产品质最，完善和提高生产工序的同时，丹奇日化还注重对其产品的研究与开发。终上所述，中国中小型OEM企业，应该首先把目光放在生产和质量控制上，逐步使其能够对相关领域各种类型的产品进行生产和加工。与此同时，中小企业还应当适量对新产品研发进行投入，不断积累自由品牌产品开发的能力。以下是对中小型OEM企业的参考建议：
   ✓ 注重生产与质量管理。例如：应用灵活弹性的生产线和IT技术
   ✓ 投资适量资金与新产品研发。例如：与大学和科研机构合作，购买技术专利。

2. 人力资源管理多于多数中国OEM企业是一个不可忽视的问题。拥有足够技术人才资源是确定OEM企业转型的必要条件。
   ✓ 与大学合作培养合格人才。
   ✓ 改善公司内部培训体系培养潜力人才。
   ✓ 加强组织内部员工凝聚力培养以及员工长期技能培训。

3. 中国OEM企业对于企业文化已经有了充分的认识，但随着社会的发展，形成明确的企业文化是势在必行的。以下我们提出四条建议用于加强企业文化的培养：
   ✓ 根据不同员工特性安排于适当的岗位，例如较差功能团队。
   ✓ 在企业内部建立Idea收集中心以备及时只需。
   ✓ 建立合适的奖励机制
   ✓ 高层管理的支持和鼓励

4. 最后，对于中国大型OEM企业，此类企业已经具备了完善的管理制度和生产能力，自主品牌建立势在必行。然而，一个新品牌的建立和推广面临着诸多的障碍，通过丹奇日化案例的分析，大型OEM企业可以通过以下两个方法建立自主品牌：
   ✓ 通过合作的方式，收购先进技术，拥有良好市场声誉但企业经营状况不佳的相关企业。建立一个品牌是一个长久并持续的过程，因此通过收购品牌的方式可以节省大量的时间和资金上投入。
   ✓ 参照丹奇日化操作模式，如果一个企业具有良好的开发，策划，生产的能力，企业也可以通过创立品牌开发经济人的模式建立自主品牌。换言之，企业的目光不是直接针对普通消费者建立品牌，而是针对生产商，帮助生产商建立品牌的同事同时提升自己品牌知名度。
   ✓ 合作联盟或风险投资模式，投资小型且有潜力的企业来建立独立品牌，通过这些小企业试探市场效果及发展前景。