The Hong Kong Toy Industry –
A Qualitative Study

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Dissertation submitted to the Faculty of Business & Law,
Newcastle Graduate School of Business,
University of Newcastle
In fulfilment of the requirement for the degree of
Doctor of Business Administration

July, 2015
Declaration

The thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University’s Digital Repository, subject to the provisions of the Copyright Act 1968.

(Signed) __________________________
LAM Kin-shing, Kevin, C3171342
July, 2015
Acknowledgement

I would like to thank my beloved wife, Agnes, and my sons, Stanley and Chris, for their support and patience extended to me during the course of this Doctoral study. I also want to extend appreciation to my dissertation supervisor Dr. Len Whitehouse for his excellent guidance in accomplishing this dissertation. Additionally, I would like to thank the support team of the University of Newcastle, especially the professors who have enlightened me with their quality shared experiences. Their names in the alphabetic sequence are Dr. Gordon Boyce, Dr. Stephen Chen, Dr. Guilherme Pires, Dr. Marcus Rodrigs, Dr. Suzanne Ryan, Dr. Ramaswami Sridharan, and Dr. Hao Tan.

Finally, I thank the six interviewed toy manufacturers for sharing their views about the Hong Kong Toy Industry, allowing this dissertation to contribute meaningful insights to the Toy Industry and others interested in this field.
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Abbreviations and Acronyms

Below is the quick reference of some key abbreviations and terms often used.

FFF: Porter’s Five Force Framework
FHKI: Federation of Hong Kong Industries.
GDP: Gross Domestic Product.
GPRD: Greater Pearl River Delta of China
HKTD: Hong Kong Trade Development Council.
ICTI: International Council of Toy Industries
NPD: New Product Development.
NVIVO: An analytic tool for the research from QSR (2014).
OBM: Original Brand Manufacturing
ODM: Original Design Manufacturing
OEM: Original Equipment Manufacturing
PCF: Participant Consent Form
PESTL: Political/Legal, Economic, Socio-cultural and Technological
PIS: Participant Information Statement
PRD: Pearl River Delta of China
R&D: Research and Development.
RMB: Renminbi, the currency of China.
ROI: Return On Investment.
SME: Small and Medium-sized Enterprise.
SOE: State-owned Enterprise.
TCE: Transaction Cost Economics
TFP: Total Factor Productivity
Xinhuanet: An on-line communication platform and an important information organ of the China central government under Xinhua News Agency
Abstract

This is a qualitative study of the Hong Kong Toy Industry and its close association with Mainland China production, where there exists the behaviour of more OEM involvement than ODM. The study commences with: (a) a literature review that examines the relevant articles in PESTL and the strategic dimension, together with Transaction Cost Economics as the mainstream theory; (b) semi-structured interviews with six toy manufacturers to obtain primary data, in order to identify the factors influencing OEM-reliant behaviour and to determine the root of the problem in the Toy Industry. There are discussions of the inadequacy of and barriers to innovation and ODM development, encompassing: (a) manufacturers’ conservative mindset of risk avoidance for the costly investment involved, exposing uncertain market design acceptance; (b) manufacturers’ constraint in innovative idea acquisition and corporate capability; (c) economic, government and institutional environment; (d) the strategic environment of customers’ strong bargaining power over toy manufacturers in a bilaterally dependent contractual relationship; and (e) keen competition at all levels. Opportunistic behaviour is observed between customers and manufacturers for maximizing benefits, as well as within manufacturers’ personnel who may pursue goals deviating from the company direction. The role of transaction costs in the ex-ante investment alignment and ex-post governance is found to be crucial for toy manufacturers in deciding their involvement in ODM or OEM. The need for serious innovation and government support with appropriate alignment has emerged, and are important to sustain the competitive advantage of the Hong Kong Toy Industry. This study presents 11 propositions and suggests further research opportunities.