

# The Lucky Dragon 幸运的龙 – Hong Kong, Special Administrative Region, China

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## ABSTRACT

*The Lucky Dragon is a vitamin, Chinese medicine and nutraceutical company located in Causeway Bay in Hong Kong. Although the company was ran for 50 years by the Ng family, after the patriarch Mr. Ng Shu Chorn passed away, his children decided to sell it, as none of the three children were interested in managing the store or sourcing products and selling them to other shops. Increasingly, competition from mainland China had been eroding profit margins of similar businesses in Hong Kong, and each of the siblings had respectable jobs, so cashing in was the best course of action. Anderson Products LLC, a health and wellness company headquartered in Provo, Utah, had hoped to expand to the seemingly lucrative Chinese market, but they were inexperienced with international business and afraid of mainland China regulations. They saw the advertisement for the sale of The Lucky Dragon as a great opportunity to get their feet in the door, under the more auspicious regulations that Hong Kong could offer.*

**Keywords:** International Business; Management; Family-Owned Business; Culture

## INTRODUCTION

Ed McMillen had been chosen by the Anderson family, which controlled and managed Anderson Products LLC., to lead the company's expansion into Hong Kong. Ed was thrilled. As a young church missionary in Taiwan, he had learned to speak Chinese, and even though the Hong Kongese speak Cantonese, he figured he would get by since most people in Hong Kong speak both. Except for his time in Taiwan, he had never had an opportunity to travel, much less work in another country, and the prospects were exciting to him. It was deflating to learn on his first trip that not only do so many people speak English in Hong Kong, but that his attempts to speak Mandarin were met with a cold shoulder and signs of non-comprehension and often led to a quick switch to English. He was also overwhelmed both from the long flight, and the culture shock: no two cities could be more different than Provo and Hong Kong. Getting into his hotel, The Park Lane in Causeway Bay, late in the evening meant he could at least get a full night sleep before being picked up by Tommy Ng at 8:00AM the next morning for his orientation of the new business. Little did he know that since he was jetlagged, he would be up at 3:00AM and would never be able to go back to sleep. At breakfast, he didn't find the buffet particularly appealing, even though there were dozens of dishes to choose from--Ed was a meat and potatoes kind of guy, but he did find the price outrageous, \$48 for breakfast was a bit much compared to \$8 in Provo, Utah.

Tommy Ng was very pleased to meet Ed, after all, he represented the saviors that had rescued him and his siblings from the noose of their father's boring and difficult business. Tommy thought it was very auspicious for the sale to happen at a time when, in his assessment, their business could only decline from now on.

## **THE LUCKY DRAGON**

The Lucky Dragon was started because Mr. Ng came from a long line of healers from Canton. Chinese healers and herbal suppliers established life-long relationships with The Lucky Dragon and, in a country where relationships mean everything, The Lucky Dragon's many clients kept the business profitable. Mr. Ng personally managed each account, spending seventy percent of his time meeting with customers, having lunch with them, soliciting ideas, inquiring about the effectiveness of his products, and, over copious amounts of tea, strengthening and improving relationships. If his clientele could get a product from The Lucky Dragon they bought there first, and if they needed something that Mr. Ng didn't supply, they would request it and within 2 weeks they had the herb, unguent, oil, seed, tea, or pills in the store and they could be assured of the highest quality for a reasonable price.

## **MOM AND POP HONG KONG BUSINESS VS. AMERICAN CORPORATION**

Ed McMillen had asked Tommy Ng to explain and go over the job analysis for each position and how the typical "a day in the life" of the company developed. As Tommy spoke, animatedly and with detail about how the company and the shop is managed, Ed began to break into a sweat, realizing that much of what he'd learned in business school was worthless here—it was all about relationships with a very different business culture, motivation, and goals. Short-term successes were looked down upon and ultimate success was measured by ongoing customer satisfaction and whether the company survived as an ongoing concern into the future. Anybody only focused on the short-term, next quarter profits or this year's year-end bonus would only bring shame, misfortune and bad karma to the business. Ed began to feel homesick for Utah and discouraged that either they had made a big mistake buying this business, or that he was the wrong man for the job.

The corporate culture could be defined in simple terms as, "you will do nothing that will bring shame to the family and the company." Despite the "the customer is always right" initial appearance of the meaning of that motto, leaving a penny on the table in a negotiation was also viewed as "bringing shame to the family and the company" so ascertaining how one would go about measuring compliance, was difficult for an American, where one could be almost altruistic or ruthless, but not both! Motivation was also strange; money was far more a motivator than Ed had imagined, but not in excessive amounts, and not if it would bring profits today and ruin tomorrow. Leadership was simple: elders were almost revered for their opinion and their advice was constantly sought, but anything that required technology was only done by younger employees without any consultation with the elders. Ed was surprised that Hong Kong was not the bureaucratic, corrupt and difficult country for business he had anticipated. Indeed, the 2014-15 Global Competitiveness Index (World Economic Forum, 2015) listed the United States as ranked 3<sup>rd</sup> in the world while Hong Kong was only slightly behind in the 7<sup>th</sup> slot. The Hong Kongese were also extremely hard working and never complained. Their "can do" attitude was remarkable and no matter what one brought up, a typical answer would be: "no problem." Ed could now understand why one of his business school professors had once said: "a staff of Hong Kong Chinese can accomplish anything..."

## **HONG KONG CULTURE VS. AMERICA**

Hong Kong is a small area of land of around 425 square miles. Forty percent of the land is set aside as park or protected land and only 15% is urban. It has a population of 7,112,688 people in July 2014 (CIA, 2015). Hong Kong is one of the most crowded cities in the world. It was occupied by the United Kingdom in 1841 and became a British colony the next year. It remained under British authority until it was returned to the People's Republic of China in July, 1997 (ibid, 2015) and remains an autonomous Special Administrative Region of the People's Republic of China. The culture of Hong Kong is rooted in the traditions of China and only influenced by British culture in the last 100 years.

Research by The Hofstede Centre (Hofstede, 2015) looks at 6 areas of culture and their data allows one to compare different countries in those 6 cultural areas. The difference between Hong Kong and the culture of the United States of America is dramatic (see Figure 1).

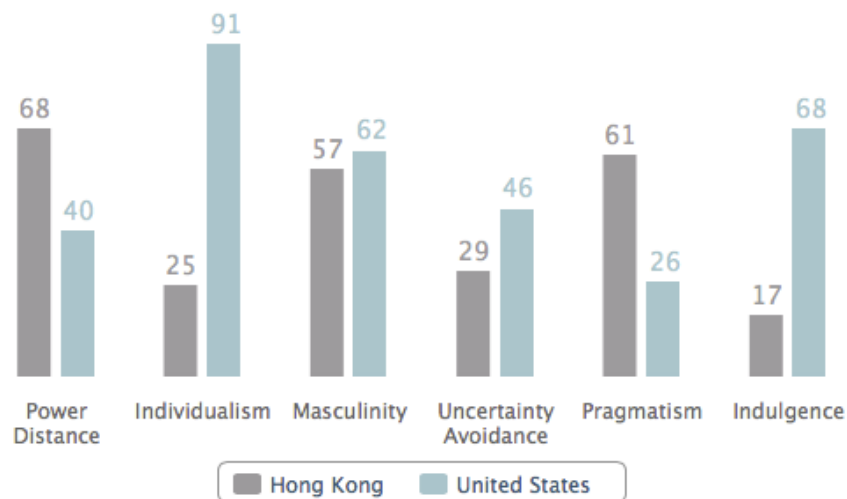
In the area of Individualism, which is defined as "the degree of interdependence a society maintains among its members" or a person's focus on themselves versus others, Hong Kong people value the group. They value loyalty

to the group and expect the group to take care of them. In contrast, people in the U.S. care more for themselves and their immediate family. It is not hard to imagine that Ed McMillian and the Anderson family would be most concerned about their success while the Ng family looked after their groups of suppliers and customers.

Indulgence is “the extent to which people try to control their desires and impulses.” People in Hong Kong are viewed as having much more self-control and restraint in comparison to those in the United States. This comes from lessons learned in the family and reinforced through the culture. The result is that Hong Kongese are more likely to be less optimistic, more cynical, and less likely to enjoy activities for self-reward or outside of the rules of society.

Pragmatism looks at the past and how it influences views of the future. Traditions and culture are important to those in Hong Kong. Change is often avoided or viewed with concern. Modernization, investment, and a focus on updated education in the U.S. shows a different side of Pragmatism. Americans are accepted far better in Hong Kong than in Japan, for example, yet that higher level of acceptance should not be interpreted as two cultures with affinity. Americans are commonly seen as brash, too aggressive, too short-term oriented, and myopic in their views of problem solving.

**Figure 1.** Hong Kong Culture compared to United States Culture



Data from The Hofstede Centre, 2015. The scale runs from 0 - 100 with 50 as a midlevel. The rule of thumb is that if a score is under 50 the culture scores relatively LOW on that scale and if any score is over 50 the culture scores HIGH on that scale.

In the area of Power Distance, people in Hong Kong accept that power is shared unequally, that supervisors do have control over others, and that authority does give people power over others. As a result, they expect leaders to get things accomplished. People in the U.S. hold a view that power should be more shared and are not likely to yield to superiors just because of their position.

Uncertainty Avoidance in a society reflects how they look at the future and its predictability. In the U.S., people are less comfortable with the inability to predict the future. Those in Hong Kong are used to ambiguity and can adjust well to change. They are more willing to take risk in business ventures.

The single area in which both cultures are fairly similar is in Masculinity. Competitive and goal-oriented styles work well in both places. The winner takes all. (The Hofstede Centre, 2015).

For the Anderson family, they will have to understand the cultural differences. The Ng family have built their business by following the same cultural norms of their customers, suppliers, and society. To change the basis of the

beliefs and societal rules of all stakeholders of The Lucky Dragon is to risk any future success. Could the disconnect mean that managing this business could be an insurmountable challenge?

### **SOURCING FROM MAINLAND CHINA**

Hong Kong has a free-market economy. It is located in a central location to serve major business interests in Asia. Hong Kong has no taxes on imported goods and only restricts a small number of products. It depends on international business including re-exporting goods and banking/finance to drive its economy. With the designation as a Special Administrative Region (SAR) in China, it is growing its strong ties to mainland China with an increase in bond purchases and currency transactions. China has always been Hong Kong's largest trading partner. Tourism has grown from 4.5 million people in 2001 to 34.9 million in 2012 with most coming from China. Many Chinese companies that want their stock to be traded internationally are listed on the Hong Kong Stock Exchange. The Closer Economic Partnership Agreement was adopted in 2003 and encourages closer ties between China and the SAR (CIA, 2015).

### **CORRUPTION**

Ed believed that a problematic obstacle in managing in Hong Kong would be having to accept a culture of corruption, which he believed far exceeded that of the United States. Ironically, Ed was making an uninformed assumption that is easily solved by conducting research in rankings such as the World Bank's Worldwide Governance Indicators, which shows the United States as MORE corrupt than Hong Kong (85.17 vs. 92.34 respectively). Denmark, the benchmark, is the least corrupt with an index of 100.

### **CAN THE MODEL THAT SUCCEEDED FOR A FAMILY IN HONG KONG BE EXPANDED TO A LARGER COMPANY IN ASIA, AUSTRALIA, EUROPE, AND THE U.S.?**

Hong Kong is widely noted for its traditional ways. The main question here is can a company being operated under the simple form of business (sole proprietorship) expand into other parts of the world (entrepreneur.com, 2015)? Certainly the form will have to change. The simple form may no longer work for an enterprise this size and scope. Also, can what was initially a family-run concern thrive abroad or will it lose its way without direct family involvement? Assuming that professional management is brought in, what will be the ramifications of this major step? There are many who decry the loss of the family business, arguing that the company is actually an extension of the owners. Anderson Products may very well make the transition into other parts of the world, but the look, feel and substance of the firm may be very different than what it once was.

### **SHOULD ANDERSON PRODUCTS CLOSE THE HONG KONG STORE AND MAKE IT A SOURCING OFFICE FOR PRODUCTS TO BE SOLD IN THE U.S. AND OTHER COUNTRIES, OR KEEP THE STORE BUT EXPAND THE SOURCING FROM CHINA TO FEED THE U.S.?**

Ed McMillen realized he had many choices to make before commencing business under the new American leadership. One of the first of these was to decide whether to keep the Hong Kong store open for retail sales as it traditionally had been operated, or close it to the public and simply use it as a sourcing office for products that were to be shipped to the U.S. and other countries to be sold. McMillen realized that his knowledge of retailing was lacking. He would have to bring himself up the learning curve of retail issues such as staffing, training, record-keeping and other management issues very quickly if he is to be effective. In addition to those issues, there were always the sensitive cultural differences to contend with as well. When considering keeping the store open, McMillen found that he would have to recommend effective choices in terms of hiring and staffing the store. These choices could be difficult in the best of times, not to mention dealing with the language and cultural differences. In addition, he thought they might need someone local to tutor them on such topics as record-keeping and paying taxes. The original owner, Mr. *Ng Shu Chorn*, had worked very hard to build personal relationships with his customers. Could the new American owners continue this tradition? The second option of closing the retail end of the business and simply using the space as a sourcing office also led to many unanswered questions. Would there be any ill will or loss of reputation from an American closing the business? Would it make any sense to close the shop and voluntarily give up that revenue stream, or would it make sense, given increasing levels of competition? Finally,

McMillen wondered about shipping the herbs and medicines to the U.S. and beyond. How easy (or not) would it be to ship those items to another part of the world? What about local taxes and import/export duties? The more McMillen thought about these issues, the more he began to wonder if he was in over his head.

### **HOW LONG WILL IT TAKE THEM TO DISCOVER THEY NEED LOCAL EXPERTISE IN THE MANAGEMENT STRUCTURE?**

In addition to the problems mentioned above, McMillen also realized that should the sale of the company go through, there still remained the major problem of running the day-to-day operations. It had been made clear to him that no members of the Anderson family would consent to move to Hong Kong to run the business. Given that fact, could they effectively operate the firm from the U.S.? Should they even attempt this? Could (or should) the Anderson family hire Hong Kong locals to run the business for them? If they were to explore this path, would it make sense to offer the position(s) to members of the Ng family? It seemed to be the obvious choice, yet as mentioned earlier, none of them seemed interested in doing so. It occurred to McMillen that buying the business was really only the first of many tough decisions that would have to be made.

### **AUTHOR BIOGRAPHIES**

**Bob Eliason.** As a Management Lecturer at James Madison University, Bob Eliason teaches Management in a course that also includes marketing, operations, and finance. The faculty team integrates these disciplines to give business majors a realistic view of how business works. He also teaches courses in Interpersonal Skills, OB, I/O Psychology, and Human Resource Management using experiences learned while being a CEO, Career Counselor, and administrator. He has graduate work in Human Resource Management from Wilmington College and in Counseling and Career Development from Johns Hopkins University. He has walked about 10,000 miles including the Appalachian Trail and the Pacific Crest Trail.

**Fernando Pargas, M.B.A.,** was born in Uruguay and has established and managed businesses throughout the world. He served as Vice President of International for Time Warner Inc.'s Time Life International and is the author of *Stopping Big Business and Politics from Bleeding America—An Agenda for the New Generation*. He teaches Management at James Madison University. Fernando is also an Instructor for the Center for International Stabilization and Recovery (U.S., Amman, Jordan, Geneva, Switzerland, Hanoi, Vietnam and Lima, Peru).

**Mike Yankey, M.B.A.,** has been on the faculty at James Madison University since 2000. He teaches in the Management department, and has taught Principles of Management, Interpersonal Skills and Strategic Management. He has a strong background in retail management, having worked for several years in that field. He has co-authored several well received journal articles with his colleagues. In addition to teaching on the main JMU campus, he has also taught for the university at the University of Antwerp in Belgium. In addition to teaching, his other professional interests revolve around student advising and first-year student involvement.

**Suggested Courses:** Principles of Management, International Management, Global Management, Organizational Behavior, Strategic Management, Supply Chain Management, International Cultural Relations, Sourcing and Outsourcing, Managing Across Borders

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**Teaching Notes to Accompany the Lucky Dragon**

1. Cultural Issues – Instructors may want to stress the cultural differences between the two regions. For example, the U.S. tends to be more individualistic in nature, while Hong Kong tends toward focusing on the community.
2. Outlook on Medicine- The trend for many years in Hong Kong has been one of homeopathic remedies. The use of herbs and plants is well documented. While in the U.S., the trend has been on chemical-based medicines. This has led to the rise of several very large pharmaceutical companies that have become an oligopoly. Instructors may ask students to think about these companies and the power they hold.
3. Shipping Costs/Issues- Whether students like the idea of bringing homeopathic remedies to the U.S. or not, they should consider the shipping costs of doing so. These costs will certainly affect the cost to the consumer. This may lead to a discussion of moving production itself to the U.S.
4. Instructors also may wish to introduce the concept of paying for professional advice. In many small family owned firms, managers are unwilling to pay for expert advice. They may prefer, instead, to rely on experience. Will this position still work when moving overseas, or would these types of decisions be “over the head” of current members of the Anderson family?
5. Instructors may create an assignment for students to imagine that they are in Ed McMillen’s shoes.
6. Which option would they choose and why?
  - a. Keep both the retail store in Hong Kong and the sourcing business in China, using the Chinese connection to source herbs for the United States parent company.
  - b. Sell the retail store, but keep and expand the Chinese sourcing for the United States parent company.
  - c. The business is too foreign, too risky and too fragmented to make it work. Sell it and admit that buying it was a mistake.