

Case Analysis and Interpretation of

# **Sunny Optical Technology Company Limited**

*Abdulrahman D Alshammari*

*Indra Adhikari*

*Juan Matute*

*Thi Thanh Van Pham*

*Tianji Jiang*

July 2013

**Question:** Case Analysis and interpretation of Sunny Optical

**Paper type:** Critical Analysis

**Keywords:** Sunny Optical, life employment policy, leadership style, human resource development, talent shortage, optical industry,

### **Introduction**

This case study is about the progress made and challenges faced by Sunny Optical Technology based in China. This paper primarily looks into human resources development practices and leadership culture in China, which are in contrast to the theories developed in west hemisphere.

This paper will also look at how the looming talent shortage in China affects Sunny Optical Company in Shanghai.

### **Background**

Initially established in Taiwan, Sunny Optical Technology had established itself in Taiwan by 1981. After merging with smaller companies, it changed its name from Yuyao Second Optical Instrument Factory to Sunny Optical.

With the growth in business, Sunny ventured to China mainland in 1997. In September 2006, the company was formally registered overseas and one year later went public on the Hong Kong Stock Exchange. It operates in the People's Republic of China, Korea, Japan, Taiwan, Singapore, United States and Europe.

Sunny Optical is one of the leading integrated optical and optoelectronic component manufacturers in China. With about 28 years of experience, the company is one of the leading integrated optical and optoelectronic component manufacturers in China. It is mainly dedicated in the designing, researching, developing, manufacturing, and selling of optical components (such as glass/plastic lenses, plates, prisms and various lens sets); optoelectronic products (such as mobile phone camera modules and other optoelectronic modules); and optical instruments (such as microscopes, surveying instruments and other analytical instruments). (King Eng 2013)

According to its 2007 and 2012 annual reports, the company has three main categories, namely: Optical Components (37.3% of total revenue in 2007 and 32.9% in 2012), Optoelectronic Products (53.4% of total revenue in 2007 and 62.5% in 2012), and Optical Instruments (9.3% of total revenue in 2007 and 7.1% in 2012). The company has invested an important amount of money in research and development. Currently, Sunny possesses 128 patents.

The company produces and sells its products mainly to suppliers and manufactures of consumer electronic products. The top five customers of the company are Huawei, Lenovo, Coolpad, Oppo and Samsung. Major lens suppliers in Asia include: Largan Precision, Asia Optical, Kinko Optical, and Genisu Electronic Optical in Taiwan; Enplas, Kanto Tatsumi Electronics, Konica Minolta, and Hoya in Japan; and Pheonix Optical in China. (Sunny 2007). The major competitors of Sunny are Largan Precision Company Limited of Taiwan (in 2012 sales of US\$680.24 million of which 100% was Optical Lens), Nidec Copal Corp of Japan (US\$576.31 million of which 89% was Optical/Electronics Equipment), and Asia Optical Company Incorporated which is based in Taiwan (US\$700.47 million of which 49% was Optical Components). (King Eng 2013)

It is good for the company to expand its business in growing economies such as India, Russia, South Africa and other South American countries.

### **Leadership Style**

The case study mentions that Sunny has flat organisational structure and operates with open door policy. For years, the company inherited the social and economic culture of Taiwan – more open compared to China.

We realised that leadership style in Taiwan would not function effectively in China. Taiwan shared Chinese cultural traditions but China lags behind Taiwan in economic development and contact with the Western culture (Hsu & Chen 2011). The western leadership theories have influenced Taiwan's leadership culture but China's leadership system still operates under the influence of traditional Chinese values. In traditional Chinese values (Farh & Cheng 2000), CEOs have supreme authority and domination over the organisations. Primary decision makers and all employees look to top leaders for guidance and approval. That would be an issue for conflicting leadership style and results in ineffective productivity and even employees resign because of poor relationships with their leadership. We suggest companies should be using local language and tools to develop unique transformational leadership style. Traditional transformational leadership emphasises the importance of leaders' relationships with followers. The favourable effects of transformational leadership behaviour on followers include generating followers' confidence in the leader, making followers feel good in the leader's presence, and obtaining strong admiration or respect from employees (Bass & Riggio 2006). As a result, leaders have been constructing intimate relationships and mutual trust with their employees. Relationships with employees would be helpful to show trust and confidence in employees, being friendly and considerate (Yukl 2002).

The case study mentions that the CEO of Sunny Optical has great emotional intelligence and enjoys informal exchange information. We learned that Sunny Optical Company's CEO's leadership style was more likely to be a people-oriented transformational perspective leadership. People-oriented transformational leadership focuses on relationship with employees who are suitable for Chinese traditional culture. In Chinese traditional culture, people relationship or 'guanxi' is very important in the workplace. However, this would not help to increase the company's

productivity. To overcome people-oriented transformational limits, we suggest the CEO to implement task-oriented and relationship-oriented leadership at the same time, which would provide a suitable growth for the company. The recent study (Hui et al 2011) suggests that both task-oriented and relationship-oriented leadership behaviours are important for the CEO and CEO should be able to demonstrate both types of behaviours. “Organisations that have more satisfied employees are more productive and profitable than those with employees who are less satisfied” (Ostroff 1992).

We found out that “open-door policy” was not being effectively implemented in the organisation. More than 95 percent of research on leadership describes that North American leadership phenomena and nearly all leadership theories have been developed based on the Western context (Yukl 2010). We realised this was common and that in Western countries the policy was welcomed. However, it would be a different story in non-Western countries. In Chinese traditional culture, instructive behaviours always lead to downward communications (Cheng & Farh 2000). It would be difficult to require people educated in China and instructed by the land’s traditional phenomenon to adapt to the ‘open-door policy’ of communication with CEOs and provide their own opinion. The communication channel would be blocked by the traditional values developed based on the culture of social hierarchy.

To ensure ‘open-door policy’ of communication policy will work, we suggest CEO to create perceptions of organizational support, justifiable and fair for employees at all levels and encourage employees to speak up freely. Organisations need to create integrator role in each department to help ‘open-door policy’ of communication policy implement and employees’ suggestions would able to be heard.

### **Human Resource development**

Because of the growing competition in the industry, technological companies need to invest not only on research time and research finance but also in human resource to enhance their productions in order to attract their customers. In 2007 Sunny invested over RMB 10.6 million for research and development. (Sunny 2007)

Researchers state that human resource has an essential role in competitive business. China’s expanding workforce has produce less than 10 percent professionally skilled personnel required for jobs in global corporations (Chow et al. 2008). Given that Sunny Optical Technology concentrated more on developing learning perspectives. A study (Yan et al . 2006) has illustrated that traditional education of China requires people to remember theories instead of applying the practice, thus most of exams in China focus on remembering theories while they did not design practical problems for students to solve or encourage them to have critical thinking

Furthermore, Foreign companies and Chinese workers: employee motivation in the People’s Republic of China (Jackson & Bak 1998) stated that Western theories on organisation behaviour such as Maslow’s tends to identify the needs of the employees that companies have to address such as working conditions, participant decision making and payment. In contrast, Chinese social culture overshadows these theories. Chinese workers are under paid, over worked, and work under poor working environment. The difference in managers and workers, arisen out of social norms,

makes it hard to implement the human resource development theories developed and practiced in western countries.

While working condition plays a vital role in productivity of employees, the issue of poor working conditions has hardly been raised in China. Sunny Optical cannot be the exception to this phenomenon.

Many researches show that the behaviour of supervisors and managers has huge impact on employees because they are considered as good examples for staff to follow (Branine 2005; Wang & Wang 2006). One can infer that Sunny Optical sets up the performance of managers as one of the human resource strategies to build an effective organisation.

Salary is one of the most important motivational factors among Chinese employees to retain talent workers and increase their loyalty towards the company they work for. (Jackson & Bak 1998). Sunny's human resource strategy considers each employee in the company as a strategic asset that is needed to invest in. To maintain and encourage Sunny employees, this group spends huge amounts of money in paying salaries. It can be seen in the financial report of Sunny that the percentage of expenditure on salary accounted for 2.1 percent in total revenue in 2007 while in 2006 this company just spent 1.3 percent of total revenue of its budget on salary. (Sunny 2007)

In the early 2000's, the company began to reinforce on human resources. Sunny started to retain and recruit technical people in order to strengthen its staff capacity. With 8,677 employees in 2007 and 11,693 in 2012, the company provided incentives and rewards to eligible participants who contributed to achieve the company's goals. In line with the Group's and individual performance, a competitive remuneration package has been part of the company policy to retain elite employees, including salaries, medical insurance, discretionary bonuses, and other fringe benefits. In order to develop talent inside the company, Sunny provides training facilities for its employees. The scope of the training programmes includes mainly management skill courses and technology training and other courses. (Sunny 2007)

A recent study (Berntal et al. 2006) has shown that in China, to maintain the best talents in company that decide the success of the organisation leaders need to make an effort for employees to encourage their loyalty with companies. As mentioned above in research of (Chow et al. 2008) China just has 10 % of qualified employees, thus the labour market in China is very competitive. This is because all companies want to hire the best professional employees for their companies, yet the employees just want to work for companies they can get as many benefits as they can. In the emerging economy, although social benefit and salary budget are considered as the main factors to remain the numbers of talents, nowadays employees need more than that, they also need chances to improve their professional skills and an active working environment. Therefore companies have to invest on building its own human resources by training and skills upgrading opportunities for existing employees rather than looking to recruit new talents.

### **Share Option Scheme**

On 25 May 2007, the Company adopted a share option scheme for the purpose of providing incentives and rewards to eligible employees who contributed to the success of the company. Eligible employees of scheme included, Directors and shareholders of the Group. (Irisa 2013)

### **Policies and strategies**

Over the past decades, China has emerged as a fast growing economy and the largest manufacturer in Asia. However, as the case study suggested, the country is facing talent shortage in the service sector.

In spite of the massive pool of university graduates in China, research has shown that there are fewer than 10 percent of graduates in average who are suitable to work in major companies in China. Additionally, the local market absorbs the majority of these qualified individuals. This alarming shortage of home-grown talents has a negative impact on the Chinese companies especially those with global ambitions (Scupola 2011, p. 280). Let us consider the case of engineering graduates as Engineering is a significant component of Sunny Optical. Approximately 33 percent of university students in China enrol for courses in Engineering. However, the main setback among applicants for engineering jobs is the bias in the educational system towards theory. Chinese students are exposed to little useful experiences in projects or teamwork.

This is a key drawback to the company, as it has to spend more time and resources to train new employees to make them more familiar with machinery used in the company (Chan et al 2008, p. 94). This in turn translates into decreased profits, as the marginal productivity of labour by these graduates is low. Additionally, less than one third of all graduates attend any of the top ten acknowledged universities. This is a further blow to the competencies that companies such Sunny Optical Technology Company would require.

In the past years, the unemployment rate in China has been increasing gradually. Hence, the Chinese government has implemented a number of measures to curb this sharp increase in unemployment: an example of such policies is the Life Employment Policy (Farrell 2006, p 48). This policy necessitates all companies to offer life employment contracts to employees after their second contract renewal. This policy is meant to guarantee employment opportunities to the vast number of the unemployed work force. However, this policy impacts negatively on companies since they are made to retain workers who may not be competent or whose credentials may have been rendered obsolete due to technological changes.

This means that a company such as Sunny Optical would have a high wage bill which eventually ends up eating into its revenues and profits. In addition, such a company would have limited resources for research and acquisition of new machinery that would improve production and service delivery.

In order to maintain its growth, expansion plans and ambitions, Sunny Optical could invest in employee retraining programs (Diana 2005, p.1). These programs would

ensure that employees' talents and skills remain relevant and that their marginal productivity of labour remains high. With a high quality workforce, service delivery is improved largely. Consequently, profitability of the company will be guaranteed.

China's alarming labour shortage could limit its economic growth and its progress up the value chain. The much-needed reforms in the educational sector such as putting more stress on practical work than on theory would help China address its skilled workforce gap.

### **Value system**

The case study states that Sunny Optical considered product quality, innovation and professional service to be the cornerstones of its business since the inception of the company. Its quality assurance system to ensure the highest technical standards is one of the advantages of the company to gain market share in the initial days when it entered into the Chinese market. The company expanded faster than expected when it entered into Chinese market from its original headquarters in Taipei in 1997.

Sunny has listed eight core values in its website for the company to prosper:

- People-oriented
- Honesty
- Working diligently
- Innovative spirit
- Strengthen the implementation
- Elimination of excuses
- Team spirit
- Rapid response

The list emphasises that the culture that values the innovation by individual and team and honouring the innovation still remains intact with the company. The company, however, has not mentioned anything whether such honour and value were bestowed to top-level managers, directors and influential people in the company or to lowest level employees as well.

The case study has claimed that the company was developing a new and unique product of product tracking system to link customers with the company. Its product tracking system is not extra-ordinary because most companies have such services across the globe (Pharmaceutical Technology Europe 2006).

The case study mentions the mission of Sunny Optical to become a world leader in the retailing industry for eye-care optical products and services. John Wu, CEO of the company in 2007, believed that the key to success was reliable service, high quality products and superior customer value. But almost six years later, the company has not performed to achieve that goal despite the rapid expansion of the company in terms of products varieties, marketing partners and raising profits. This raises questions as whether the philosophy and value system envisioned by the founders were sincerely and consistently implemented. On the other hand, the value system would have produced a boomerang effect due to the inefficiency of the leaders to mould it to suit the changing circumstances. This could either be the failure of the company managers

to encourage innovation among employees or retain the creative workers. Even Wu, who was interviewed in this case study in 2007, is no longer with the company.

Changing lifestyles and organisational culture can have immense impact on the perception of people and the value system they inherit. The value system charted out by the founders required changes to suit the changing circumstances. Chinese society is no longer the same as it was in 1997 when the company entered the Chinese market.

The annual reports of the company do not mention anything about structured employee learning and development programs to ensure continuous team innovation environment.

The case study mentions that the company accepted to implement the idea to use information technology and internet interfacing to allow customers to try on different spectacle frames from the firm's online catalogue (different styles, sizes, brands colours and so on), then submit orders to the nearest outlet for fitting and purchase. There has been no mention about this service in any of the reports of the company.

The case study mentions that Sunny Optical implemented a structured mentor system. Work teams were encouraged to hold informal functions to build up collaboration and support for each other. A special 'collaborator fund' (small seed money) could be used for any of these informal functions to enhance the company's networking capabilities.

Such informal groups are vital for enhancing creativity among employees by letting them work on their pet project. Their own informal functions are backbones in expanding businesses. Sunny Optical's adoption of this idea would have made positive impact on this business expansion. However, there has not been any report of significant progress made through such informal groups.

The firm had experienced three major downturns in its fifty-year history, and limited its redundancy rate to only 4 percent in total during these tough times. As the employment opportunities expand in China because of the unprecedented growth of businesses, it is very challenging for companies like Sunny Optical to retain creative and talented employees.

### **Conclusion and recommendations**

Revitalise the leadership style that adheres to the cultural and social practices in China.

Invest more on human resources and research to retain talented employees and be able to produce unique products saleable in the market.

There is a need for the company to revise its organisational culture inherited from its founders and mould it to fit the current needs.

In order to maintain its growth, expansion plans and ambitions, Sunny Optical could invest in employee retraining programs that would ensure that employees' talents and skills remain relevant and that their marginal productivity of labour remains high. With a high quality workforce, service delivery is improved largely. Consequently, profitability of the company will be guaranteed.

The much-needed reforms in the educational sector such as putting more stress on practical work than on theory would help China address its skilled workforce gap.

There is also the need for the company to expand in growing economies where demands for the goods are increasing. It is suggested that the company look into new and growing companies that have potential to be market leaders in the future but not just the conventional companies that have dominated the market so far.

## References

Bass, B. M., & Riggio, R. E. 2006. *“Transformational leadership”*, Mahwah, NJ: Lawrence Erlbaum Associates, Inc. Publishers.

Bernthal P, Bondra J, & Wang W. 2006 “Leadership in China: Keeping pace with a growing economy”. Development Dimensions International (DDI).

Branine, M. 2005. "Cross-cultural training of managers: An evaluation of a management development programme for Chinese managers." *Journal of Management Development* 24(5): 459-472.

Chan, C. K., Ngok, K. L., & Phillips, D. 2008, *“Social policy in China: development and well-being”*, Bristol, UK, Policy.

Chow, I. H., Huang, J.-C. & Liu, S. 2008. “Strategic HRM in China: Configurations and competitive advantage”, *Human Resource Management*, 47, 687-706.

Corporate Information, 2012, viewed 4 May 2013<<http://www.corporateinformation.com/Company-Snapshot.aspx?cusip=C1568CF00>>

Diana F, Andrew J.G. 2005, “China`s looming talent shortage”, *Mckinsey & Company*.

Farh, J. L., & Cheng, B. S., 2000, “A cultural analysis of paternalistic leadership in Chinese organizations, in J. T. Li, A. S. Tsui, & E. Weldon (Eds.)”, *Management and organizations in the Chinese context* London: Macmillan Press Ltd.

Farrell, D. 2006, *“Offshoring: understanding the emerging global labour market”*, Boston, Mass, Harvard Business School Press.

Hsu, C.Y. and Chen W.Y., 2011, “Subordinates' perception of managers' transformational leadership style and satisfaction: A comparison of electronic manufacturing companies in Mainland China and Taiwan”, *The International Journal of Human Resource Management*, Vol. 22, No. 15, pp. 3097–3108.

Hui, W., Anne, S.T. and Katherine, R.X., 2011, “CEO leadership behaviours organisational performance, and employees' attitudes”, *The Leadership Quarterly*, issue 22 pp. 92-105.

Investor Relations Asia Pacific - Sunny Optical Technology (Group) Company Limited Annual Report 2012, viewed 4 May 2013.  
<<http://202.66.146.82/listco/hk/sunnyoptical/annual/2012/ar2012.pdf>>

Investor Relations Asia Pacific - Sunny Optical Technology (Group) Company Limited Annual Report 2007, viewed 4 May 2013.  
<<http://202.66.146.82/listco/hk/sunnyoptical/annual/2007/ar2007.pdf>>

Investor Relations Asia Pacific 2013, viewed 4 May 2013<<http://www.irasia.com/listco/hk/sunnyoptical/>>

Jackson, T and Bak M 1998, "Foreign companies and Chinese workers: employee motivation in the People's Republic of China." *Journal of Organizational Change Management* 11(4): 282-300.

King Eng 2013, viewed 4 May 2013, <<https://www.kimeng.com.hk/en>>

McShane, S., Olekalns, M. and Travaglione, T. 2011, "*Organisational Behaviour on the Pacific Rim*", 3rd Edition, McGraw Hill: Australia.

Ostroff, C 1992, "The relationship between satisfaction, attitudes, and performance: An organizational level analysis", *The Journal of Applied Psychology*, 77, 963–974.

Product-tracking certification, *Pharmaceutical Technology Europe* May 2006: 14. *Expanded Academic ASAP*. Web. 18 April 2013.

Scupola, A. 2011, *Developing technologies in e-services, self-services, and mobile communication: new concepts*. Hershey, PA, Information Science Reference.

Sunny Optical Technology (Group) Company Limited 2007, viewed 4 May 2013. <[http://www.sunnyoptical.com/en\\_US/index.jsp?kind\\_num=015](http://www.sunnyoptical.com/en_US/index.jsp?kind_num=015)>

Wang, J. and G. G. P. Wang 2006, "*Exploring National Human Resource Development: A Case of China Management Development in a Transitioning Context*." 5(2): 176-201.

Yang, B., W. Zheng and M. Li, 2006, "Confucian View of Learning and Implications for Developing Human Resources." *Advances in Developing Human Resources* 8(3): 346-354.

Yukl, G. 2010, *Leadership in organizations* (7th edition). Prentice Hall.

Yukl, G. A. 2002, *Leadership in organizations*, 5th Ed.) Upper Saddle River, New Jersey: Prentice Hall.