

Norman T L Chan: Black Bear – Blue Ocean – Wanton Noodle

Speech by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the Hong Kong Management Association Fellowship Award Dinner, Hong Kong, 26 November 2013.

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Dennis (Sun), Alfred (Chan), Victor (Lee), Ladies and Gentlemen,

1. I feel very honoured to have been invited to speak at the HKMA Fellowship Dinner tonight. This is not only because the Hong Kong Management Association has been a forerunner in enhancing the standards of management and governance in Hong Kong, but also because the Hong Kong Management Association and the Hong Kong Monetary Authority share the same initials “HKMA”! Hence, attending the Fellowship Dinner tonight has double meanings for me as the Chief Executive of the HKMA.

2. Management is crucial as it embraces knowledge, skills, culture and leadership that would guide and shape the future of an organisation, whether it is public sector or private sector body or whether it is profit-seeking or non-profit-making entity. There is no doubt that, with increased globalisation and technological innovation, markets in different geographical localities have become more interconnected. One author has described the phenomenon as the “World has Become Flat”.

3. An important outcome of the interconnectedness of markets is that competition has become much more intense and ferocious. Talking about competition, let me share with you this story.

4. One day two men went together hiking in the mountain. While happily walking and talking, they bumped into a giant black bear which was apparently in a bad mood and in need of some nutritious food. Even though this was their very first encounter of a big bear in the wilderness, the ferocity displayed by the bear cast no doubt in their minds that their lives were at stake. So the two of them ran as fast as they could downhill and soon they reached the flat land at the bottom of the hill. Unfortunately the bear appeared to be quite determined to get the catch of the day and was chasing them from 50 yards behind. Suddenly one man stopped running and took out his running shoes from his knapsack to put them on. The other guy was very puzzled and asked: “What are you doing, you stupid? I don’t think you can run faster than the bear even with your running shoes on!” The other guy replied: “Yes, I know this. But it would be good enough if I can run faster than you!”

5. What is the moral of this story? One, the world can be very dangerous and unpredictable risk may crop up from nowhere. So be prepared. Two, the world is a very competitive place. It is not about how fast you can run, but whether you can outrun your competitors. The marketplace is a wild jungle in which only the very fit or the fittest can hope to survive or succeed.

6. Therefore it is natural that in the field of management science a great deal of research and study on how one can be successful in a highly competitive marketplace has been undertaken. I am no expert in this specialised field and thus not qualified to comment on a wide spectrum of management theories on the path to success. However, I have noticed that in recent years the “Blue Ocean” theory has gained a lot of popularity and support. I too have found considerable merit in this theory because, as the world has become more globalised and interconnected, capital, information and talent flows within and between markets have become much more efficient than ever. A profitable business would attract new participants or entrants, which would result in very fierce competition and the squeezing out of profitability. The Blue Ocean theory suggests that we should try to avoid a crowded marketplace by looking for new lines of business, new products and new markets. In taking the lead in a new market or new horizon, the enterprise can enjoy the first mover and

associated advantages, at least for a period of time. That theory encourages managers and entrepreneurs to think outside the box, and to innovate and explore new lines of business and products. This is all very well, but there is, in my mind, an important catch. We can all see what Bill Gates has done in creating Microsoft and what Steve Jobs did to the success of Apple. These are great examples of the success under the Blue Ocean theory. However, not all of us can become Bill Gates and Steve Jobs. And there is a limit on how often companies can innovate new products or lines of business. So the Blue Ocean theory is good but has its own limitations. Most people and companies would find it hard to create blue oceans in the day-to-day life. So what is the alternative route to survival and success? In this connection, let me share with you another story. It's the story about a noodle shop in Wanchai.

7. In the 1970s, a young couple decided that they should start their own business. They borrowed money from their parents and relatives to set up a small noodle shop in Wanchai. They worked very hard and the noodle shop's business was doing well after several years. In the 1980s the couple used the money they had saved up to buy the shop space of their noodle shop. However, the business of the noodle shop began to decline in the 1990s. A friend of the couple offered help by giving the following advice: "The noodle shop is too old-fashioned. People's eating habit has changed and they prefer a wider variety of food in the form of a local cafe (茶餐廳)." This sounded sensible and the couple took the advice and converted the noodle shop into a local cafe. The business improved initially but worsened again several months later. Deeply disappointed, the couple consulted another friend and sought advice on what went wrong and what could be done. They were told that the food variety was still too limited. They should offer hot pot rice (煲仔飯) and hot pot meals (火鍋) as well to attract a wider clientele. The couple thought it was a good advice and immediately launched the new products. In the first winter, the business went quite well but in the summer months it was dreadful. What was more surprising, in the second winter, the business fell even further. After two years of struggle, the couple felt that they had run out of new ideas and that there was no point to hang on. So they decided to close down the business and sell the shop space. So the couple went to see the branch manager of the bank to settle the outstanding mortgage payments. The branch manager, who was also an old customer of their noodle shop living in the neighbourhood, asked why they had to close their shop. The couple complained that the market environment, including people's taste and eating habits had changed but they simply could not cope with these changes fast enough. The branch manager was astonished to hear this and said: "I used to like your noodle shop very much in the earlier years, but for reasons I don't understand, the quality of the noodles kept deteriorating. When you introduced the cafe, the food was even worse. The hot pot business is just out of place as there is not even space in the shop to serve this kind of food."

8. The couple suddenly realised at that very moment they had misunderstood the true reasons why their business had kept on falling. When they first set up the noodle shop, they were very serious about every minor detail – they scouted the New Territories to source the best quality flour to ensure that noodles were chewy. The husband went to the fish market at dawn to buy the fresh shrimps for the wonton and the wife woke up at four in the morning to make sure the soup base (湯底) was properly prepared. But they both had ceased doing that when the noodle shop business was doing well and such daily routines were no longer practised. So the noodles were no longer as chewy as before and the wontons were no longer tasty. As for the cafe and hot pot meals, they had very little idea on how to do them well and eventually their customers, one by one, turned away from the shop.

9. The takeaway of this story is that very often that market conditions or customer needs have changed and so we have to adapt. If a company does not or cannot adapt, then bad outcomes would ensue. However, it is more often the case that the formula and values leading to success in the past have been inadvertently eroded, if not forgotten totally. The couple in Wanchai should not have forgotten what drew customers to their noodles in the first place. They had failed not because their customers had decided to eat sandwiches rather than noodles but because they forgot that it was quality that made the noodle shop

successful in the first place. Very often we become complacent and take things for granted after we have been successful, just like the Wanchai couple did. Shifting to a new product line in which we have no real expertise or niche was a recipe for disaster. The same holds true if we look at what made Hong Kong tick twenty or thirty years ago. Many good qualities such as can-do spirit, never-say-die, openness and versatility that were cherished by Hong Kong people in the past seem to have faded away. Keeping these good qualities, Hong Kong can hope to maintain its competitive edge even when the goings get rough.

10. Ladies and gentlemen, the message I have for you is: while an entrepreneur should always strive to expand and grow his business, it is equally important that he should resist complacency and continue to excel in what he is doing or what he is good at. To venture into an unfamiliar universe in which one has no expertise or advantage is risky. The market is fiercely competitive and no doubt customers' preference may change, but the market is generally fair and always rewards quality and consistency handsomely. So if we are not hopeful that Hong Kong can produce many Bill Gates or Steve Jobs in the future, don't be disillusioned as it is still within the reach of all of us to uphold the values or formula that has transformed Hong Kong into the most vibrant and successful centre in trade, commerce, tourism and finance in Asia in the last two to three decades.

11. Thank you.