A Case study of Implementing Value Creation Strategy in a Chinese Manufacturing Firm

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ABSTRACT
Value creation is a fundamental concept for business organisations. Recently, academics, consultants and practitioners have advocated to re-examine this concept to better understand competitive advantage in business organisations. However, little empirical study has been conducted on the value creation implementation. This paper focuses on the value creation implementation at a Chinese manufacturing firm, the first company in the Chinese steel industry implementing value creation strategy, to illustrate how value has been created in the firm from a managerial perspective. It describes a rich account of the implementation process of value creation, discusses its theoretical and managerial implications, and presents the challenges faced by practicing managers in such a process.

Key words: *value creation, strategy implementation, China*

INTRODUCTION

The quest for competitive advantage has been the dominant theme in strategic management field. To achieve competitive advantage, business organisations have been advised to ‘strategise’ their market position or ‘economize’ their product or service offerings in Williamson ‘s terms (1991). In other words, business firms can successfully compete through occupying a competitive market position (Porter, 1979, 1996), or leveraging their resources and capabilities (Barney, 1997; Wernerfelt, 1984).

Recently, academics, consultants and practitioners (Dillon, Lee, & Matheson, 2005; Kim & Mauborgne, 1997, 2004; MacMillan & MaGrath, 1997) have advocated the idea of gaining competitive advantage through re-examining the very foundation of business, notably value creation and value innovation. Value creation is the business of business as being argued by Elkington, Emerson, & Beloe (2006). Kim and Maubougne (1997; , 2004; , 2005) have elaborated the importance of value innovation to create an untested market space – ‘blue ocean’ in their terms, and provided action framework for stimulating innovative thinking for creating value. However, they have not provided any comprehensive and detailed example of how business organisations actually implement value creation, particularly as a business strategy that requires an organisation-wide efforts and changes. Making strategy work can be more difficult than strategy making (Hrebiniak, 2005).

This paper attempts to describe how a Chinese manufacturing firm implements value creation and focuses on its process. Such a detailed description is warranted for several reasons. First, it can help the development of theory relevant to value creation. The details provided in this paper for implementing value creation strategy can be used to inductively refine the concepts and theories proposed so far in this area. This is also consistent with the perennial emphasis on bridging theory and practice in the field of strategic management. Second, it can offer practitioners detailed guidelines for implementing value creation in their organisation and alert them to the potential problems and challenges in implementing such a strategy. Thirdly, this paper can help academics in teaching, and students in learning, strategic management and other relevant topics as the paper can be used as a teaching case study materials. Finally, this paper can enhance our understanding of strategy management in emerging economies as it concentrates on the strategy implementation in the Chinese context.

This paper is organised as follows. We first describe the concepts of value and value creation. Next is a brief description of the background of the firm studied. After this, we outline the research methods used in this study. Then, we describe the process of implementing value creation as a business strategy in the firm. Finally, we discuss the problems and challenges encountered in the implementation process.

REVIEWING THE CONCEPTS OF VALUE AND VALUE CREATION

Value. Value is a buzz word in the fields of strategic management and marketing. Several scholars in these fields have defined and provided a typology for classifying components of value. For example, Zeithaml defined value as representing “a tradeoff of the salient give and get components” (1988, p.14). Similarly, Kotler and Ketter (2006) use the term “customer perceived value” and define it as “the difference between the prospective customer’s evaluation of all the benefits and all the costs of an offering and the perceived alternatives” (p. 141). Based on the discussion above, therefore, for a product (or service), its value can be broadly expressed as the differences between the benefits and sacrifices.

It is important to understand that value resides with customers. Thus, it should be examined from a customer's perspective (Kim & Marbougne, 2000; MacMillan & MaGrath, 1997). For example, MacMillan & MaGrath (1997) suggested that firms can focus their effort on their customer's "consumption chain", or entire experience, with their products or services. Kim and Mauborgne (2000) offer a narrow, but practical framework, "the buyer utility map", for identifying customers' value proposition.

A firm carries out a bundle of activities that directly or indirectly create and deliver values to customers (Porter, 1985) and, at the same time, captures economic rent from the production factors used for its stakeholders. Porter (1996) further stressed the importance of the relationships among a firm's value chain activities. He argued that a competitive strategy is about deliberately selecting a unique set of activities to "deliver a unique mix of value" (p.64) and that "strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage" (p. 73). He then suggested that there are three types of fit among business activities: simple consistency, reinforcing and optimisation of effort.

Value creation and innovation. Value creation can be broadly regarded as a process that innovates, produces, and delivers products to customers (Mizik & Jacobson, 2003). Regarding value innovation, Kim and Marborgne (2004) suggested that companies need to reject the fundamental tenet of conventional strategy that trade-off has to be made between value and cost to achieve a leap in value. Value can also be created from a wider perspective – the value network as Porter (1985) termed it. To be able to effectively and efficiently create value, a firm needs to integrate its value chains with those of its suppliers, channels, and customers, particularly in business-to-business markets that are becoming more fragmented and increasingly impacted by globalisation and the development in the Internet communication and technology (Sharma, Krishnan, & Grewal, 2001). Prahalad and Hamel (Prahalad & Hamel, 1996) also strongly advocated co-creating value with customers.

From a firm's standpoint, it uses resources and capabilities to create value for customers. Thus, value needs to be created for both customers and the firm itself. To do so, firms need to properly price what they offer to market (Dutta, Zbaracki, & Bergen, 2003; Kim & Marbougne, 2000). The drivers of value creation are the interlocked values of key customer value with firm value (Dillon, Lee, & Matheson, 2005). Creating value for customers and appropriating value have been regarded as two fundamental processes in resource allocation within a firm (Mizik & Jacobson, 2003).

RESEARCH METHODOLOGY

The case study approach has been widely used to in strategic management literature because it can be used to "investigate a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident." (Yin, 2003).

The selection of Zhujiang Iron and Steel Co,.Ltd (ZISCo) was based on the following reasons. First, it has performed extremely well over the past two years, with the profit increasing from US$0.2 millions in 2003 to near 40 millions in 2005. It can be interesting to both practitioners and academics what has been driving such a success. Second, ZISco is a state-owned enterprise. The strategic management and performance in the Chinese state-owned enterprises have been of great interest both to policy-makers and managers in China and to Western investors (Boisot & Child, 1996; Nolan, 2001; Tan & Tan, 2005). Thirdly, ZISCo is a manufacturing firm in China. With the global dominant role the Chinese manufacturing firms play now, this case can illustrate how Chinese firms compete.

We have collected the data from multiple sources. The primary sources of data collected were personal reflection and interviews. The personal reflection was from one of the authors who was the President of ZISCo from March 2003 to February 2006, with a series of conversations and communications with the other author of this paper between December 2005 and July 2006. The interviews were carried out at ZISCo. With the assistance of the Deputy Head of the Company's administration Office, We interviewed four middle managers individually (Head of the Steel-rolling Division, Head of Procurement and Supply Division, Head of Energy and Power, and Deputy Head of the Steel-making Division) in their field office. Moreover, we also had two group interviews with middle managers, the first one consisting of four people (Head of HR division, Head and Deputy Head of Planning and Finance Division, and Manager, Planing and Statistics) in ZISCo's headquarters, another one having two middle managers (Head and Deputy Head of Production Division) in their office. Each interview lasted from 45 minutes to one-and-half hour. Notes were taken during these interviews.

The other sources of information included documents, such as annual and half-year company reports between 2003 – 2005, which documented major events and achievements over the periods, documents relevant to the implementation of value creation strategy, and several documents at the Division level for implementing the strategy within the division. We have also accessed the company's website for tracking the major strategic development in the company.

Although single case study has several limitations, particularly in theory building and finding generalisations, it can be appropriate under certain research circumstances, such as representing a unique case or a typical case (Yin 2003). Another consideration is that single-case study can provide detailed information about the case, which is important to strategic management research as it focuses on a firm as a whole (Johnson, Scholes, & Whittington, 2005).

A BRIEF DESCRIPTION OF ZISCO

As one of the national key projects, ZISCo was established in 1997 as a SBU of Guangzhou Iron and Steel Enterprises (Group) LTD(GISE). It was the first compact strip plant in China with most of manufacturing equipment imported from Germany.

Production and technology. The first production line was put into operation in August 1999 with the production capacity of 1 million tonnes of crude steel and sheet products. With the second production line completed in Feb 2003, the company's annual production capacity reached 2 million tonnes. Its major finished products are hot-rolled steel sheet that can be used for manufacturing containers, gas bottles, steel pipes, white good appliances, and automobile parts.

Organisational structure and employees. The company employs about 600 people. Over 70% of them have received university education and most of them have engineering background. Except the chief economist, all senior managers have earned their first degree in engineering. Some of them have completed their MBA studies over the last 3-5 years. The organisational structure is illustrated in Figure 1.

Insert Figure 1 about here

IMPLEMENTING VALUE CREATION STRATEGY AT ZISCO

Before implmenting value creation strategy in 2003, ZISCo was struggling with its financial performance. Its profitability between 2000 – 2003 was marginal or close to break-even. The SARS in 2003 further exaggerated its financial position because of the evacuation of the foreign engineers during the crucial trial production of its second production line and a slump in the market demand. The poor financial performance had significantly lowered the employee's confidence in the company and made management dubious about its viability in the future.

Facing such a challenge, the parent company, GISE, appointed a new President (one of the authors) to ZISCo in March 2003. The following sections focus on the implementation of value creation since 2003 when the value creation strategy was launched.

Reviewing Business Strategy

As one of the first step in developing its value creation strategy for the company, a series of meetings were called on to investigate the causes for its poor financial performance. After five month discussion and analyses, it was found that there were problems in five areas: business strategy, production, sales, procurement, and HR.

ZISCo had been implementing a focused differentiation strategy until mid of 2003 for the following reasons. The cost leader or focused low cost strategy seems unworkable for ZISCo for several reasons: Since it started operation in 1999, the production process used by ZISCo has a high cost structure because of the high cost of electricity and steel scrap in China. Additionally, ZISCo was a new entrant in the steel sheet market with a large output - 2 million ton of products. Therefore, developing channels for such a large output was very difficult at the early days of ZISCo. Thus, ZISCo had been pursuing a (over-) focused differentiation strategy, concentrating on niche markets through providing a wide variety of products, or new products. Although such a strategy can offer ZISco competitive advantage, such as charging high premium prices, and providing high barrier of imitation, it has several limitations in the company's context. First, this strategy had resulted in the difficulties of obtaining economies of scale for the company because typical orders from niche markets were normally very small, thereby increasing its production costs. Moreover, new product development is usually a costly and lengthy process and need to be recapped with a certain amount or production. Therefore, the production cost at the early stage was very high, compounded by the small-sized sales orders.

Second, the focused differentiation strategy also imposed very high demands for production coordination. The over-large variety of products ordered requires frequent changes in production. This, coupled with teething problems in coordinating two production lines, had not only increased the production costs, but also lifted the number of break-downs of the equipment during the production process, thus lowering the product quality and affecting adversely on-time delivery. Another problem caused by the focused differentiation strategy was the difficulties in coordinating sales and distribution channels because of the large number, but small-sized, of sales orders. Consequently, selling costs were quite high.

The last, but not least, problem caused by the focused differentiation strategy, was procurement costs. Too much differentiation in products had generated a very large variety and small-sized orders of raw materials, increasing the inventory costs and lowering the company's bargaining power in negotiating prices. In addition, because of the small-sized orders and large variety of supplies needed, the company had been buying from small intermediary supply agencies, rather than directly from manufacturers. Consequently, it paid high prices for its procurement.

Therefore, the advantages provided though pursuing focused differentiation can be largely offset by the high costs in production, sales and distribution, procurement, and insufficient orders if it is not properly integrated and implemented. The challenge to the senior management was that how to implement a new strategy that can improve its long-term competitive advantage.

The process of implementing value creation strategy

The implementation of value creation strategy at ZISCo has been focusing on two areas: creating value for customers and lowering the cost within the company. This strategy has been leveraged with the organisation's human resources and has been implemented through the following major steps: 1) Motivating the employees to create a solid foundation for value creation; 2) Integrating supply value chains; 3) Improving the efficiency of the production processes; 4) Collecting customer intelligences; 5) Analysing business model; 6) Integrating customer value chain with ZISCo's value chains; and 7) Cultivating a new organisational culture that supports this new value creation strategy.

Motivating Employees to Create a Solid Foundation for Value Creation

The first step of creating value at ZISCo was to motivate the employees to tap out their potential for value creation. This was appropriate to ZISCo due to the particular organisational context at that time as described as follows.

ZISCo started implementing value creation in the mid of 2003. It was a difficult time for ZISCo because the German engineers, responsible for trail production of the second production line, evacuated from China due to the SARS. This not only affected severely the trial production of the second production line, but also created many problems in coordinating two production lines at ZISCo. Thus, the normal production order was broken, faulty products increased as the production incidents increased. Consequently, it encountered many problems, such as low production output, unstable product quality, increased customer complaints, and low employee's morale.

Faced with these problems and recognising that over 70 percent of the employees are with a university degree, a number of HR policies were first developed and implemented to motivate the employees, including remuneration policy, performance appraisal system, promotion policy, and innovation incentive policy. These new HR policies and systems aim to stress the role of value creation in the company, and link employees' performance and promotion to the value they create and the overall financial performance of ZISCo. Such changes in HR policies and systems have significantly reduced the number of production incidents and problems in coordinating production between the departments within the company. These HR policies had been refined until July 2005.

Improving the Efficiency of the Production Processes at ZISCo

While motivating employees, ZISCo's major driver for value creation at the early stage was to improve its production processes and product quality to increase its production efficiency. At the same time, it continued its effort in developing new products, particularly those more technologically sophisticated ones.

Improving the rate of on-schedule production was the first step to undertake. This was achieved by better maintaining production equipment and reducing production faulty. Such improvement in production efficiency is strategically important as it increases the production output and enhances the production flexibility. Thus it can reduce the production cost either through economics of scales or scope, and better meet the customers' needs and quickly respond to market changes. The second step was to improve product quality to maximize customer satisfaction and to minimize their complaints. Product quality was identified as a key area that has huge potential for enhancing customers' value, because it is crucial to the customers' products as it can significantly affect their reputation and sales. The third step was to overcome technological difficulties in producing some technologically sophisticated products. Such products are usually high-value-added. They are also important part of the products required by the container manufacturers. Therefore, ZISCo has spent much effort in developing its technological know-how to produce them and eventually become a market leader in this area.

Integrating Supply Value Chains

ZISCo was a new entrant into steel markets and needed to build up its supply base. Many key maintenance parts for its production technology were imported at the early days. Supplies of raw materials and parts had become a bottleneck as the firm's production increased. Thus supply value chain integration, improvement and optimization, have become another key component of its value creation.

Incidentally, the Vice President in charge of procurement and sales at ZISCo was appointed to a senior position in another company. His move has left opportunity for the President to take over that position. The President had taken a number of actions to integrate supply chains. For example, the number of part suppliers has been consolidated based on their size. Long-term relationships have been built with these suppliers. In addition, bidding processes were introduced in procuring the maintenance parts, so was the zero-inventory policy.

Collecting Customer Intelligence

Value creation strategy stresses both the importance of reducing internal costs and creating value for customers (Kim & Mauborgne, 2004). To create value for customer, a firm first needs to know its customers. Several steps have been undertaken at ZISCo to better understand customers' needs. First, market intelligence was collected through visiting customers to identify target market, clients and their needs for products at both the industry and individual client levels. Based on market intelligence collected, ZISCo has identified that the Chinese container manufacturing industry has much market potential in the future as major players globally and most of the Chinese container manufacturers are located geographically close to ZISCo. In addition, the range of steel sheets used by the container manufacturing industry well matched with ZISCo's technology.

Second, detailed customer needs were further collected and analysed to understand the leverage points for value creation. The customer intelligence was gathered by both the sale department and senior management. Field visits were made to major container manufacturers by senior management and the sales team. A better understanding has been achieved of the customers' value chain and their current concerns with the steel sheets as crucial inputs to their manufacturing processes. For example, container manufacturers use a large variety of steel sheet products and usually purchase them from several suppliers. They also have a quite long lead time for scheduling and thus need a stable and particularly reliable on-time delivery. Moreover, the container manufacturing industry requires a large proportion (over 50%) of thin steel sheet, which require technology know-how to produce it, thereby increasing the difficulties for a single steel manufacturer to supply all specification of steel sheets for their production. However, this also provides an excellent opportunity for ZISCo to become a one-stop-shop for Chinese container manufacturers, and thus achieve competitive advantage.

Business Analysis and Modelling

The business analyses were undertaken based on the analyses of market and internal factors, and undertaken by taking into consideration of a number of internal and external strategic factors. ZISCo has considered several external environmental factors, including the global demand for containers, the specifications of steel sheets used in the container manufacturing industry, and the geographical locations of major container manufacturers in China. Internally, it considers the technological capacity to produce these products and respond market needs, which, as mentioned above, are ZISCo’s strength. In addition, many container manufacturers in China, both the Chinese or foreign-owned manufacturers, were importing a significant amount of container-used steel sheets. This offered opportunities for ZISCo due to its low production cost and geographic proximity to these container manufacturers. At the same time, there is also big potential in services and delivery for ZISCo to create value for customers. If ZISCo can put extra effort in service and delivery, it can significantly enhance ZISCo’s competitive position in the container-used steel product market.

Based on the above analyses, ZISCo has targeted its market on the container manufacturing industry, particularly the Chinese container manufacturers, and decide to focus on the production of container-used steel products. Although the market demands primarily determine the prices of steel products, it was very clear that ZISCo can be a market leader in supplying container-used steel products, and can be very competitive and perform financially well if it can provide a full range of steel products to Chinese container manufacturers.

Integrating Customers' Value Chains with ZISCo's Value Chains to Create Value for Customers

To create value for customers, customers' value chains need to be well understood. As a supplier of key materials to customers, it is important for ZISCo not only to provide products to them, but also to offer a whole set of solutions to their problems, and to create value further for both the customers and ZISCo. A number of important steps have been taken in integrating customers' value chains with those used by ZISCo, focusing on product quality, new product development, delivery, and after-sales services.

First, ZISCo has dedicated to its product quality through improving its production processes. Container manufacturers require both high quality of products, reliable supply, and on-time delivery. They also need a lengthy lead time for scheduling. Therefore, ZISCo has concentrated its efforts on the improvement of production processes as the first step in delivering value to its customers. At the same time, it also streamlined its business (ordering and sales) processes and production scheduling to make sure it delivers products on time. Such improvements in product quality and business processes has significantly reduced the customers' procurement and uncertainty in production scheduling.

Second, ZISCo focused on tackling technological know-how in developing new products, particularly those import substitutes, in order to be able to provide a full range of products to its clients and become a one-stop-shop supplier for its major clients. After several months of efforts during 2003 - 2004, ZISCo has successfully developed those products with the quality and specification equal to the imported. This has substantially created value for customer through reducing the price they pay for the import, lowering their costs in transportation and procurement coordination. It has also created value for ZISCo because it can charge the customers with reasonably high prices and can generate economies of scale due to the increasing number of new customers.

Finally, based on the analysis of future demand for container-used products, ZISCo has also developed new products jointly with leading container manufacturers and aimed to set up new technological specification standards for the container- used steel products in order to strengthen its market position and its relationships with major clients since 2004.

Cultivating a New Organisational Culture

Value creation requires an organisational-wide efforts in understanding, creating and delivering value to customers (Anderson & Narus, 2004), lowering internal costs, integrating value chains with suppliers, channel members, and customers. It emphasises that *every employee* in *carrying out every activity at any time* can create value for ZISCo. Therefore, it demands the cultivation of a new organisational culture that shares this new value system and becomes a key control system for managing employees' behaviour and coordinating departmental activities at ZISCo.

Cultivating value creation supporting culture at ZISCo started with the launch of a new fundamental slogan – "Creating value for the accomplishment of yours and mine", launched in July 2004. Based on this new concept of creating value for both customers and employees, ZISCo stresses the importance of maintaining harmonious relationships with everyone involved in value chain activities, particularly the key stakeholders, such as customers, suppliers, channel members and employees as they can significantly influence the sales volume, procurement costs, financing, and core competence. This is consistent with leading Western business schools' stakeholder management approach (Donaldson & Preston, 1995; Freeman, 1984; Post, Preston, & Sachs, 2002).

Next, new HR policies for cultivating this new organizational culture, including motivation and rewarding, were established to encourage employees to identify potentials for value creation. Several campaigns that encourage employees' participation in value creation in their daily routines and their activities, such as "golden ideas" and "production output contest", have been launched to tap the value creation potentials in their daily routines and business processes. Consequently, many problems in the daily activities and processes have been identified and subsequently solved by the employees to create new value for the company. Because of the efforts in cultivating this new organizational culture, it is evident that the value system required to support such value creation strategy at ZISCo have emerged, including the learning, innovation, teamwork, and hardworking since the launch of value creation strategy.

DISCUSSION AND CHALLENGE

Since July 2003, ZISCo has been implementing value creation strategy. The outcomes so far from implementing value creation at ZISCo are very satisfactory with its annual profit being increased from US$ 0.2 M in 2003, to 38 M in 2004, and 40M in 2005, although it can be fair to estimate that 30 percent of these improvements in the financial performance came from a favourable external environment (market demand) in 2004 and 2005. Several issues warrant elaboration as follows.

Value creation can involve every activity an organisation undertakes, thereby calling for an organisational-wide effort to lower internal operational costs, to create benefits for customers, and to integrate value activities with suppliers and customers. This demands for an innovation-supporting culture, supporting that advocated by Dillon, Lee, and Matheson (2005). Without such a culture, value creation can become a management fad. ZISCo has also changed its organisational structure from functional to matrix to stress the importance of inter-functional cooperation in the value creation process. In addition, several HR policies have been also established.

It cannot be over-emphasised the role of understanding customers' value in value creation. Understanding customers' value is more important in business-to-business market because losing one major client can be a disaster. ZISCo has steadily developed its close relationship with its major clients, from delivering quality products on time, streamlining its business process, to becoming a one-stop supplier and jointly develop new products. Such efforts pay off as clients would like to pay a premium price for ZISCo's products.

With regard to the value creation process, ZISco has broadly followed the guidance offered by the concepts of value (Zeithaml, 1988) and value innovation (Kim & Mauborgne, 1997, 2004). However, the detailed steps it has undertaken are quite organisational context specific. For example, there could be more potential for creating value at a newly established firm like ZISCo because such organisations may have more problems in performing and coordinating various business functions. As mentioned previously, ZISCo was established in 1999 and the second production line was put into operation in 2003. There were many teething problems in coordinating the production processes and integrating supply chains. Thus, the reduction in the costs of production and procurement could be more evident and crucial in a new firm than that in a well-established one. In addition, the business model analysis in this case has been undertaken at a broad level.

Leadership is a crucial issue in implementing value creation strategy. the rich experience of its senior management at ZISCo has been the driving forces in identifying broad areas for creating value and the champion for such a strategy. A number of academics have stressed the importance of insights into value creation in strategically managing an organisation (Campbell & Alexander, 1997).

Finally, two primary tactics adopted at ZISCo for implementing value creation were: 1) setting up short-term objectives or “campaigns” in ZISCo’s terms, focusing on the improvement in a particular function, such as production, procurement, new product development, finance, and culture; 2) delegating major responsibility to middle managers; and 3) linking short-term performance improvement to employees’ rewards. Since the launch of value creation in July 2003, Zisco has implemented eight campaigns for value creation. Most of these campaigns lasted 3-6 months. Such short-term campaigns are important because they can provide visible short-term wins that demonstrate their success and win employee support (Johnson, Scholes, & Whittington, 2005). However, ZISCo also stresses the importance of continuous improvement after the program is completed.

The role of middle managers in implementing value creation strategy is extremely important in successfully implementing value creation strategy at ZISCo. They are the field commanders that actually execute the strategy. Their understanding of the concept of value creation, their leadership, and management skills are all crucial to the success of implementing value creation.

Challenges

Although the value creation strategy has been implemented at ZISCo since 2003 and has achieved a very satisfactory outcome so far, there are still several challenges in implementation value creation at ZISCo.

The first challenge is the cultivation of a new organisational culture that can support value creation at ZISCo. Employees need to understand the meaning of value creation in their daily operation and activities. Thus, they can understand how they can create value for both customers and the company. Traditionally, value about the cost-cutting and production expansion had been cultivated in most of the State-owned enterprises. There is nothing wrong with such traditional values. However, as China is transiting from a planned economy to a market economy, a market-oriented culture that emphasise customers' needs and innovation is required. How such a new culture can be successfully cultivated while reserving the element of cost-cutting value is a big challenge facing ZISCo now.

The second challenge that is related to the first is to secure a long-term employee commitment to value creation. It is not difficult for employees to understand the concepts of value and value creation. However, they need to distinguish value creation from the traditional concepts of cost-cutting and production-expansion. Making value creation as a strategy requires a long-term commitment from the employees. It is still a challenge for ZISCo to secure employees' long-term commitment to value creation.

The third challenge is how to continuously discover, understand and exploit insights about value creation at ZISCo. In the early stage of implementing value creation strategy, stresses have been placed to all activities undertaken at ZISCo as potentials for value creation. Such a comprehensive coverage at the early stage of value creation was effective and efficient as there were much potentials of value creation in all areas or functions. As the progress in implementing value creation, the business activities and processes have been improved or better coordinated. How to identify strategically important areas for value creation to further improvement organisational performance is a top issue on the management agenda.

The final challenge is how to sustain the competitive advantage that has been achieved so far at ZISCo. ZISCo until now has gained first-mover advantage. For example, it introduced the first CSP technology in China, and thus accumulated experience curve in production and manufacturing. To our knowledge, it is also the first company in the Chinese steel industry implementing value creation strategy. Such learning and experience curve could be important sources of competitive advantages. However, as several competitors have also imported CSP technologies over the past 2-4 years, the competitive advantages from the experience curve could be diminishing.

Several areas have been targeted as the candidates for maintaining ZISCo's competitive advantage, including the organisational culture, capability in new product development, and its ability in providing a full range of products for customers and excellence in delivery and customer service. They can be regarded as ZISCo core competences. How to leverage these core competences and develop them to sustain long term competitive advantage is the biggest challenge facing ZISCo within the rapidly developing Chinese market for steel and allied products.

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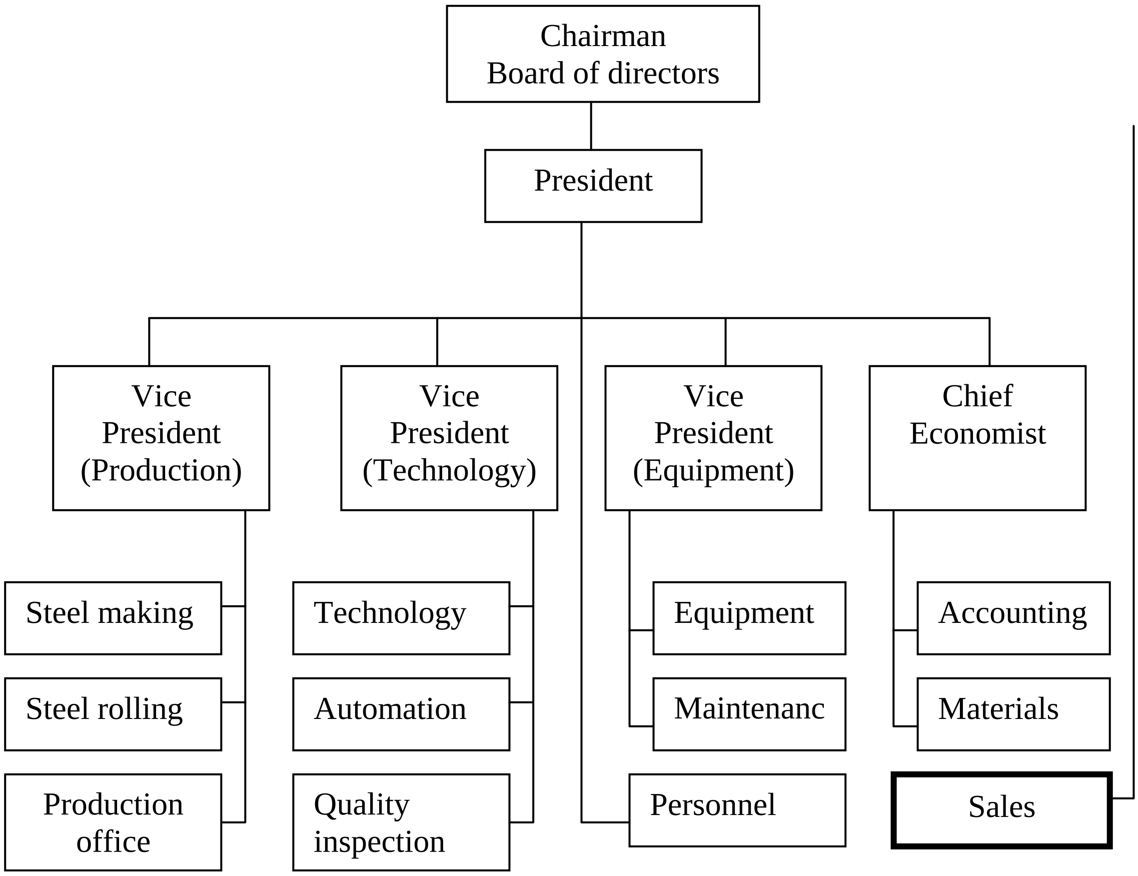

Figure 1 The organisational structure of ZISCo