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Taiwan's Yacht Industry: A Tale of Two Entrepreneurial Firms

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Abstract

This paper studies the evolution of Taiwan's yacht industry in general, and in particular we focus on two entrepreneurial firms, the Horizon Yacht Company and the Jade Yacht Company. Our purposes are two-fold. First, most research studies on Taiwan's economic success are based on the neoclassical economic model, which uses a proportional input-output production function, and emphasizes aggregate data to explain economic growth. We instead emphasize the role of entrepreneurship, which allows us to investigate closely how each individual firm discovers opportunities, exploits profits, and accumulates its capabilities to create perpetual wealth. Second, Taiwan is a very entrepreneurial society and its entrepreneurial spirit permeates into every corner with successful stories not just confined to some champion industries, such as integrated circuits (ICs), personal computers (PCs), etc. Taiwan's yacht industry, though it sailed through stormy periods in the late 1980s, has learned to grow to be a much more

competitive player on the world stage. We show two cases of yacht corporations, Horizon and Jade, to shed light on how the firms use variant strategies to build their continuous competitive advantages, to meet challenges, and to galvanize their capabilities on their pathway to growth.

Keywords:

entrepreneurship | Competitive advantages | strategic entrepreneurship | entrepreneurial learning | fiber-reinforced plastic (FRP) yacht | metal yacht | vertical integration

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Notes

1. World Bank (1993) states that the superior performance can in large part be explained by having achieved six “fundamentals” better than other economies: (a) stable macro-economy, (b) high levels of human capital, (c) an effective and secure financial system, (d) productive agriculture, (e) limited price distortion (getting the price right), and (f) openness to foreign trade, investment, and technology. However, how the entrepreneur organizes the resources, takes risk, and calculates and judges the benefit while making decisions under the world with uncertainty were assumed away.

2. OEM refers to making products which are sold abroad and bear the brand name of another company, while the term OBM refers to producing and selling products with the firm's own brand.

3. Although Taiwan is a yacht manufacturing kingdom, there are hardly any luxury yacht buyers in Taiwan. This is mainly due to the Emergency Decree, imposed when the

KMT retreated to Taiwan at the end of the 1940s, which was not lifted until 1987. During that time period, no citizen had a chance to conduct any potential water activities along the coastline. Even until now, although there are some surfing and windsurfing groups or clubs that have emerged, there is no yacht club yet in Taiwan.

4. Taiwan's shipbuilding industry includes shipbuilding and marine equipment manufacturing. According to the hull material of the newly constructed ships, it can be classified into three categories: steel hull, aluminum hull, and fiberglass-reinforced-plastic (FRP) hull. Vessel types include military ships, merchant ships, large fishing vessels, fast ferries, small fast craft for military and police, yachts and small fast patrol boats, and parts repair industry (DoIT, 2006). Yacht production generally can be divided into power boats and sail boats. Taiwan's yacht production is mainly for power boats.

5. In the 1960s during the Vietnam War, the US navy commonly parked their ships in Keelung Harbor, located in the northern part of Taiwan, as a short-term vacation venue. Sailing yachts were constructed by the yards near the Tamshui River close to Taipei. Tachou and Chen Chien-Chi were two prominent yacht producers at that time. Both yacht builders were taken over by the young generation and Tachou is still active in the market. Tachou Shipbuilding Company (http://www.tachoushipcom/) began in 1919 and has built hundreds of yachts, including military patrol boats, ferries, and the 112-foot super yacht. It is run by the third generation of the Chen family.

6. Ocean Alexander began as a debt repayment between Taiwanese friends in the 1970s. In 1978, Alex Chueh, a Taiwanese yacht lover, and Ed Monk, Jr, a naval architect, cooperated to seek out the best craft and Ocean Alexander was born. Currently, Alex's son, John Chueh continues the long partnership with Ed Monk, Jr. In the past 30 years, Ocean Alexander has made boats ranging from 48 to 130 feet. See the website: http://www.oceanalexander.com/ (accessed 4 November 2008). Kha Shing Enterprises Co., Ltd. is one of the biggest fabricator of FRP boats in Taiwan, and during 20 years it has sold 1500 motor yachts, ranging from 40 feet up to 130 feet in a variety of models and sizes. See the website: http://www.khashing.com.tw/index.asp (accessed 4 November 2008).

7. According to Show Boat International, the ranking is recorded by different criteria (number of yachts, total sales, or total length of the yachts) used. The one used most often is the total feet of order that a yacht builder received. Italy, by any criteria, is the biggest yacht production country.

8. As noted by Kirzner (1979), knowledge is the alertness leading to the discovery of opportunities. Kirzner (1979, p. 8) defines entrepreneurial knowledge as “a rarefied, abstract type of knowledge-the knowledge of where to obtain information (or other resources) and of how to deploy it.” Ireland, et al. (2001) predicate that entrepreneurial actions are a behavior of firms by which they move into new markets, seize new customers, and/or combine (existing) sources in new ways, while strategic actions are taken to select and implement the firm's strategies.

9. The Austrian market process theory emphasizes that normally a market is not in equilibrium. It is through the entrepreneur who discovers the profit opportunity and through his profit exploiting process that a market can move toward equilibrium and an efficient utilization of resources can be warranted. See Kirzner (1973).

10. With the endeavor of Austrian economists, theories linking entrepreneurship with the firm have been blooming since the 1990s. Yu (1999), Lewin and Phelan (2000), and Foss and Klein (2004), among others, present a similar or at least a conformable theoretical Austrian view, although with differences in stress.

11. Tangible assets refer to the fixed and current assets of an organization that have a fixed long-run capacity. Intangible assets include intellectual property such as trademarks and patents as well as brand and company reputation, company networks, and databases. Capabilities essentially encompass the skills of individuals or groups as well as organizational routines and interactions through which all the firm's resources are coordinated.

12. Alvarez and Busentiz (2001) stipulate that resource-based logic tends to focus on the heterogeneity of resources while entrepreneurship theory tends to focus on the heterogeneity of beliefs about the value of resources.

13. Smilor (1997) remarks that entrepreneurs learn from customers, suppliers, and especially competitors. They also learn from employees and associates, and other entrepreneurs, and they learn from what works, and more importantly, from what does not work.

14. Exploitation refers to how to organize and act on opportunities (Ronstadt, 1988; Shane & Venkataraman, 2000), and exploration is akin to overcoming traditional obstacles when organizing and managing new ventures, i.e. handling liabilities of newness (Shepherd et al., 2000; Starr & Bygrave, 1992).

15. Horizon's dealers locate in the US (both west and east coast), Germany, Spain, the UK, Australia, Hong Kong, Japan, Singapore, and Thailand. See the website at http://horizonyacht.com/Service.asp (accessed 4 November 2008).

16. See the profile of the Horizon Yacht Company at its website: http://horizonyacht.com/.

17. The Bureau of Foreign Trade (BOFT) has commissioned a Branding Taiwan campaign executed by the Taiwan External Trade Development Council (TAITRA) in cooperation with the international brand consulting firm, Interbrand. Since 2003 the Taiwan Superior Brand Contest has been organized as part of the campaign with the goal of reinforcing and strengthening Taiwan's international competitiveness by encouraging industries to develop quality and innovative brand products. In 2007, there were 15 global brand award-winning companies,

18. Vertically integrated companies are united through a hierarchy and share a common owner. Each member of the hierarchy usually produces a different product or service, and the products combine to satisfy a common need.

19. As it is well-acknowledged, European yacht builders do not easily surrender to the request of the yacht buyer to build a yacht without following a design, while Taiwan's yacht builders are quite flexible in this matter.

20. See the description of “Why Horizon” at the website: http://horizonyacht.com/whymusthorizon.asp

21. See the global local dealers for Horizon Yacht at the website: http://horizonyacht.com/Service.asp.

22. Since its establishment in 2000, the Vision Yacht Company expanded its operations from 45 employees to 250. Building Horizon yachts from 50 feet to 73 feet in length, the Vision Yacht company is also devoted to the continuous development of a brand new model line, named Vision Series. The latest Vision series, Vision 68’, first debuted at Seattle in 2006.

23. The Horizon Group has announced the new Dynasty series compiling various Raised Pilot House yacht models under one name. The Dynasty series is the extended model series developed from the original Elegance Series. Retaining the stylish appearance, comfortable accommodations, great seaworthy ability and high quality of its siblings, all

vessels named under the Dynasty series will come with a Raised Pilot House structure. In all, the Horizon family now has a total of six series, including Elegance, Vision, Premier, Bandido, Sportfisher (June, 2006 finished the first Japanese design Sportfisher), and the newly introduced Dynasty series.

24. Officially formed in August 2005, Premier Yachts is dedicated to manufacturing customized mega yachts of 105 feet and larger. This yard will develop a new model series—the aptly titled “Premier Series”.

25. DoIT (2006) reports that Italy and the US lead in the FRP super yacht technology, and vessels exceeding 140 feet made from composite materials have already been launched in the market.

26. SCRIMP was originally developed by the US Navy seeking a new way to add strength and durability to a vessel's hull without adding weight or affecting its performance.

27. A milling machine runs on 90' long tracks, and the five-axis router comes equipped with a high speed of 1800 inches per minute and can stop at any precise position within a 0.01-inch range. Large-part manufacturing with the five-axis router starts with rough milling of low-density foam blocks. Next, fiberglass-reinforced material is applied to provide strength and rigidity. A layer of higher-density foam is then added and the entire piece is milled again to produce a perfect part.

28. In the shipping industry, classification societies set technical rules to confirm that designs and calculations meet certain rules, to survey ships and structures during the process of construction and commissioning, and to periodically survey vessels to ensure that they continue to meet the rules. The classification rules are designed to ensure an acceptable degree of stability, safety, environmental impact, etc. Lloyd's Register (LR) was established in 1764. Norwegian insurance societies established Det Norske Veritas (DNV) in 1864. For the last five years Horizon has completed projects that have been approved by the following classifications: eight DNV and two LR projects.

29. Many small businesses to Fortune 500 companies such as Hewlett-Packard Support Center and Boeing have implemented the 5S program and proven its efficiency by improving the levels of productivity and quality.

30. The entire manufacturing environment of the Horizon Group is monitored by 5S committee members. In order to maximize the performance of each department, a 5S contest is held every month. The winner of the 5S contest receives a reward from the committee.

31. Each term is about two years. Mr Han was elected three times as the chairman of Taiwan's Shipbuilding Association.

32. These six shipyards include Jong Shyn Plant, Singao Repair Plant, Linsheng Shipbuilding Plant, Sinchuan Shipbuilding Plant, Sintian Second Shipbuilding Plant, and Jade Yacht Plant with a total of 350 employees.

33. See the website of Jong Shyn Group at http://www.jongshyn.com/english (accessed 4 November 2008)

34. See note 28 for the purpose of classification society and the introduction of DNV. China Corporation Register of Shipping (or called CR) was founded on 15 February 1951 in Taipei, Taiwan, Republic of China as a non-governmental and non-profit technical organization.

35. Luo and Chung (2005) study the particularistic relationships in the inner circle of Taiwan's family firms.

36. The name is called Komet. It is a marine research ship and was built in 1968.

37. The US$30 million renovation contract was estimated unofficially. Given the policy of maintaining secrecy for yacht building, the cost of producing a yacht is not open for the public. The yacht was moved back to Europe to finish the last stage of renovation although Pi-hsiang requested that in three months more Jade could finish the final work with the requirement demanded by LVMH. With disparate consideration, LVMH rejected Jade Yacht's request. The contract ended in 2006 and Cavarelle left Kaohsiung harbor.

38. About 52 foreign technical engineers and consultants visited the Jade Yacht Company from abroad while working on the LVMH project. The consulting fees reached as high as US$4 million.

39. Cope (2003, 2005) argues that there is more entrepreneurial learning from critical events than the gradual accumulation of more routine and habitual “incremental” learning.

40. According to the investigation of DoIT (2006), Taiwan's yacht industry has the strengths of: technical superiority in ship design and construction, on-time delivery of new ships, high potentiality and professionalism, well-developed and wide use of computer systems such as CAD, CAM, and MIS, and self-discipline and high efficiency at private shipyards. The weaknesses include: inexperience in designing and constructing non-conventional vessels, a lack of automation at certain shipyards, a lack of skilled labor, rising wages and total costs, and land and capital shortages at private shipyards.

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