



## Case report

# The role of institutional entrepreneurship in building digital ecosystem: A case study of Red Collar Group (RCG)



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## ABSTRACT

Institutional entrepreneurship has increasingly played a critical role in successfully achieving organizational transformation, especially one that involves building a digitally enabled ecosystem. However, despite fruitful research on institutional entrepreneurship, it is still not clearly understood how one might successfully achieve organizational transformation. Thus, our study aims to disambiguate this black box by examining the case study of Red Collar Group (RCG), a market leader in making custom made suits. The findings of this case highlight the significant role played by institutional entrepreneurship in achieving organizational transformation. It highlights that institutional entrepreneurship is evident in different modes of action in the transformational process of building the digital ecosystem.

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## 1. Introduction

This case analysis considers the role of institutional entrepreneurship (Shepherd and Patzelt, 2011) in implementing organizational transformation. The main purpose of our study is to shed light into the evolution process of a digital ecosystem (Tan et al., 2015). In an ecosystem, companies co-evolve capabilities around a new innovation: they work cooperatively and competitively to support new products, satisfy customer needs, and eventually incorporate the next round of innovations (Moore, 1993). We posit that an ecosystem gradually moves from a random collection of elements to a more structured community.

We define institutional entrepreneurship as offering one possible solution to the apparent contradiction between the observed tendency for organizations in a given field to converge around a dominant set of norms and practices and the continual emergence of new norms and practices within fields. Institutional entrepreneurship includes processes at individual, organizational, and societal levels (Tracey et al., 2011).

As the business environments in China become increasingly complex and turbulent, research on institutional entrepreneurship is particularly pertinent and valuable in this context (Huang et al., 2012). Against such a backdrop, we conducted a qualitative study

of Red Collar Group (RCG), China to investigate the process of building a digital ecosystem. Following a case study approach (Pan and Tan, 2011), our study reveals that institutional entrepreneurship helps to enhance the firm's ability to deal with various problems encountered in the transformation. We examine the firm's transformation from its traditional approach of making customized suits to deploying latest technologies including customer data analytics and computer-aided design (CAD). The evolution of a digital-enabled business ecosystem includes birth, expansion, and leadership stages (Moore, 1993).

## 2. Case background

Red Collar Group, established in 1995, specializes in manufacturing personalized-customized high-grade suits series, including suits, trousers, shirts, and coats. In the process of rapid development, RCG faced a myriad of complex challenges which are commonly faced by peer manufacturers. For example, some of the challenges included large inventories, increasing production costs and thinning profit margins. Against this backdrop, since 2003, RCG embarked on a major revamp aimed at building a new digitally enabled business process, replacing most of its old manual operations. In 2013, RCG established its online portal for customized apparel and named it Red Collar Made To Measure (RCMTM).

The RCMTM platform was designed to remove intermediaries or brokers thereby helping its customers to save money and engage

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with RCG directly. This is also known as Customer to Manufacturer (C2M) platform in that it serves as the online system linking C and M with digitally intelligent global supply chain. With RCMTM, customers worldwide are able to upload their personal measurements and place orders online. Customers would be able to receive their customized suits within 7 days as compared to 21 days previously when they had to work through a local tailor shop as an intermediary broker. In other words, C2M, as a digital platform, provides one-stop direct service from M to C, and engages customers with one-stop online support from C to M, as explained by CIO of RCG.

### 3. The digital transformational journey at RCG

We will examine how RCG successfully achieved organizational transformation in building a C2M business model, enabled by advanced digital technologies in the subsections that follow. We will describe the process of organizational transformation as it evolved in three stages (birth, expansion, and leadership).

#### 3.1. Birth stage (2003–2007)

During the birth stage, entrepreneurs focus on defining what customers want, that is, the value of a proposed new product or service and the best form for delivering it (Moore, 1993). In 2003, there were major struggles in China's traditional garment industry due to the Internet bubble burst in the early 2000. As a result, many manufacturers suffered from high inventory and were in the danger of going bankrupt. In a bid to stay afloat, RCG repurposed itself into a personalized-customized model as opposed to the mass production model which was common back then. "It was by no means easy as it required very different set of skills as each order was highly customized. The change in business model required RCG to undergo a complete revamp of its entire manufacturing process and develop into a more efficient group enabled by digital technologies including Computer Aided Design (CAD), Radio-Frequency Identification (RFID) and e-commerce platform thus forming a complete digital ecosystem", as recounted by Mr. Li, the executive vice president of RCG.

Initially, few employees understood the need for and the scale of reform proposed by Mr. Zhang, the chairman of RCG. They were of the opinion that RCG was already a modern factory and did not see the need for a major revamp. Some even resisted to the proposed change worrying about their own job security. To overcome the resistance, RCG management had to inculcate entrepreneurial spirit among the factory workers who were used to working in a mass production set-up and not comfortable with individualized-customized approach to making suits. The management started to promote and develop a digital culture, allowing employees to learn and adapt to the new enterprise culture, identity, and values.

On the factory floor, RCG introduced changes gradually, commencing from one team and finally spreading them to the entire plant. Initially, the only information technology system that RCG had was an enterprise resource planning system. In fact, there were only a few employees in the IT department. Most of them could only perform basic maintenance work and were not capable of performing advanced levels of IT work or whatsoever.

By 2005, RCG continued with its digitalization process by establishing a new business strategy of MTM (Made-to-Measure), which is aimed at developing a high-end online personal tailor. After implementing MTM and CAD systems (CAD-aided design), anyone could design a personalized suit using design functionalities provided by MTM. With these systems in place, RCG began to progress

rapidly from a mass production to mass-customized production mode.

#### 3.2. Expansion stage (2008–2012)

As RCG continued to accumulate large amount of customer data over the past five years, by 2008, it began to explore the idea that it could benefit from data standardization and analytics. The IT team began to explore data about its materials, measurement patterns and production process. A group of master tailors took the lead to explore business rules and developed critical know-how needed in the data standardization process. This data standardization process was further enhanced with help from specialized data experts to perform data modeling which later formed the core of the intelligent system. As explained by Miss. Zhang, the R&D manager:

"In order to standardize the various types of data we have, we invented a tailoring-specific 16-bit coding composed of customer's critical data including body measurement as well as special customized requirements. With this coding, our workers could read from an attached digital label and understand the customer's requirements of a particular suit. Each bundle of clothing has a piece of RFID chip. Upon receiving the garments through assembly line, workers would first scan the label using the computer terminal installed at each worker's workstation to know what needs to be done with each order and get these soon-to-be-sown clothing pieces, according to the information embedded in the code assigned."

By revamping the production processes and introducing digitalization, RCG successfully developed mass customization capability. Customers could enter their body measurements through the RCMTM platform, connect with RCG factory and place orders directly. RCG's customers could expect to receive their customized suits within 7 working days, which would easily take 21 days previously.

In revamping the production process, according to Mr. Yan, the supply chain general manager:

"The entire production process was reorganized into an assembly line with tasks decomposed into various sectors assisted with sensor technology, such as RFID. The revamped production process achieved a pipelined mode of production (i.e. manufacturing personalized suits) enabled by digital technologies integrating traditional assembly lines and individually customized production."

To tie in with the disruptive change of business and manufacturing model, RCG also had to rearrange its management functions around customers' requirements, making it a customer-centric management model. As Miss. Sun, the director of human resources described:

"As part of our transformation plans, we integrated and eliminated redundant departments. In fact, more than 30 departments were reorganized into six centers: the supply chain center, the production center, the customer service center, the financial center, the information center, and the human resource center. After the transformation, RCG management model looks more like a customer-centric, hub-and-spoke model allowing easy accessibility point (functionality) to point (functionality)."

By 2012, after more than ten years of organizational transformation and digitalization, RCG achieved more than 150% year-on-year growth among production, sales and profit targets. As the personalized-customization model and the RCMTM online platform matured, a digitally enabled ecosystem was evolved and triggered further innovation at RCG.

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