



Global Entrepreneurship Monitor Hong Kong 2002



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Global Entrepreneurship Monitor
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Executive Summary

- Hong Kong has one of the lowest entrepreneurial participation rates (as measured by the total entrepreneurial activity index) in the world.
- Higher education and wealth and lower age are associated with higher entrepreneurial activity in Hong Kong.
- Below the age of 33 women in Hong Kong have approximately the same entrepreneurial activity as men in Hong Kong.
- Working people are far more likely to start a business than those not working.
- Young Hong Kongers in the upper third of incomes have high rates of entrepreneurial activity.
- Entrepreneurial activity is in large part motivated by confidence.
- Worldwide, entrepreneurial activity dropped 25 percent from 2001, a fact which can be explained by deteriorating business sentiment.
- Hong Kong's low entrepreneurial activity may be partially explained by the greater extent to which we have experienced falling confidence than the rest of the world.
- Experts cited among Hong Kong's greatest strengths:
 - Rule of law and clean government.
 - Strong work ethic, entrepreneurial culture, adaptable population.
 - Economic freedom, laissez faire government and a competitive market.
 - Well-educated populace with a good knowledge of business practice.
 - Ease with which one can set up a new company.
 - Location in China and the Pearl River Delta (PRD).
- Experts cited among Hong Kong's greatest weaknesses:
 - High cost of land and labor.
 - An education system that emphasizes rote learning.
 - Erosion of traditional entrepreneurial values.
 - Capital unavailability.
 - A get-rich-quick mentality.
 - A Government lacking in direction and increasing amount of "red tape".
- Relative to the ratings given by Experts in the rest of the world, the following entrepreneurial framework conditions are strengths:
 - Financial support.
 - Government policies.
 - Government programs.
 - Access to commercial and professional infrastructure.
- Relative to the ratings given by Experts polled in the GEM study in the rest of the world, the following entrepreneurial framework conditions are weaknesses:
 - Education and training.
 - R&D transfer.
 - Market openness and barriers to entry (mainly because of cost).
- Although Hong Kong's access to physical infrastructure was rated highly, other GEM countries' Experts rated their own access higher.

Recommendations

To government

- Implement no policy change that will cause substantial increases in government spending.
- Reduce barriers that protect large companies.
- Strengthen intellectual property protection.
- Simplify application procedures for small businesses.
- Review entrepreneur assistance programs so they meet needs.
- Do not attempt to prop up property prices.
- Increase democracy.
- Focus on entrepreneurship in services.
- Increase access to and links with the PRD.
- Do not direct financial institutions concerning start-up financing.
- Study industry - government partnerships in other countries.
- Permit Chinese from the mainland with tertiary education to work in Hong Kong.
- Implement unemployment insurance after the budget improves.

To financial institutions

- Reform small and medium-sized enterprise lending policies.
- Be open-minded toward financing ventures from incubators.

To entrepreneurs and small and medium sized enterprises (SMEs)

- Increase exposure to the PRD.
- Build strategic alliances among yourselves.

To the education sector

- Improve communication and sharing research with entrepreneurs.
- Make your resources available to businesses.
- Redesign school curricula to promote entrepreneurship.
- Let students work in businesses and increase business mentors.

To the community at large

- Become more active in community building.
- Teach young people to improve society through their own efforts.

To two influential sectors of the community

- Hong Kong's successful business people have the responsibility to provide others with knowledge, skills and inspiration.
- The media has a responsibility to educate the population by featuring stories of the everyday entrepreneur.

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We value greatly the interest that the Trade and Industry Department of the Government of the Hong Kong SAR has taken in our study and are indebted to the keynote speaker at the forum, Mr. Kevin Ho, Director-General of Trade and Industry. We wish to thank the participants in the forum panel discussion, Mr. Chang Sun, Managing Director, Warburg Pincus Asia, Mr. Roy Chung Chi Ping, Managing Director, Techtronics, Mr. Adrian M.K. Li, General Manager and Head of Corporate Banking, Bank of East Asia and Ms. Christine Loh, CEO, Civic Exchange. We also appreciate the efforts of The Hong Kong Productivity Council, The SME Centre, The Hong Kong Chamber of Small and Medium Business Ltd. and The International Institute of Management in helping us to organize the forum.

We thank the 40 leaders of Hong Kong's business, financial, service, research and government communities whose work concerns entrepreneurship - our Experts, listed in Appendix II - who took the time and effort to think deeply about the entrepreneurship and its environment of Hong Kong. We are indebted to them for much of our understanding of the issues that led us to form our recommendations. Those recommendations, however, are our own. We also thank the 2000 Hong Kong residents and citizens who took part in the adult population survey.

The research team is grateful to Emmeline Mok and Jenny Lam for their advice and action in organizing the forum and preparing this report. Their patience and professionalism make us proud. We thank Professor Kenneth Young, Pro-Vice Chancellor for his continuing support of our entrepreneurship education and research efforts, and Professor Lee Tien Sheng, Dean of the Faculty of Business Administration for his encouragement.

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Professor Chua Bee-Leng
Project Coordinator, GEM Hong Kong 2002

Foreword

What is entrepreneurship? Management guru Peter Drucker once said that “innovation is the specific instrument of entrepreneurship ... the act that endows resources with a new capacity to create wealth.”

There is plenty of evidence to show a definite link between entrepreneurship and the creation of wealth, and entrepreneurship's critical role in our economy. The United States National Commission on Entrepreneurship has noted that some of the 20th century's most revolutionary industries are attributed to entrepreneurs: the airplane, the heart valve, the helicopter, the high capacity computer, soft contact lenses and prefabricated housing. In the United States, entrepreneurs create some 600,000 to 800,000 businesses each year and are responsible for 5-15 per cent of the new jobs created.

In the case of Hong Kong, it was entrepreneurs that turned a small, resourceless territory into the 10th largest trading entity in the world and an international financial and business center. A large number of Hong Kong's multinational companies now trading on the key Stock Exchanges around the globe were started by entrepreneurs. Hong Kong thrives on entrepreneurship. In this competitive and knowledge-based economy, it is crucial that every effort should be made to ensure that we have the environment to nurture it and help it flourish.

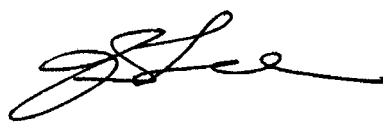
I would like to congratulate Professor Bee-Leng Chua and her team - Professors Hugh Thomas, David Ahlstrom, Kevin Au, Dr. Cheung-Kwok Law, Professors Shigefumi Makino and Chee-Keong Low — on their initiative to undertake this important project. The Hong Kong SAR Government has, in recent years, embarked on a territory-wide strategy to reinvigorate entrepreneurial activity in Hong Kong. A number of entrepreneurial promotion programs were launched and administered by various Government bureaux, business organizations and statutory bodies. This is a good time to review the impact which these policies and programs have made on the level of entrepreneurial activity and economic growth in Hong Kong.

With the Hong Kong Study, a baseline reading of the level of entrepreneurship is established and it would be possible, over time, to track and assess the Total Entrepreneurship Activity (TEA) in Hong Kong. Hong Kong will then be able to view its own progress as compared with other countries in the GEM program.

Hong Kong is currently facing a need for significant economic restructuring, including how it can reposition itself to take full advantage of the opportunities in the fast developing Pearl River Delta region. The Hong Kong Study will, therefore, provide timely and valuable input for decision-makers in the public and private sectors.

Entrepreneurship and enterprise have been responsible for Hong Kong's success to date, and will continue to be the key driver of Hong Kong's success in the days to come.

The Faculty of Business Administration takes pride in leading this very meaningful project, and wishes to express its deepest appreciation to the Hong Kong SAR Government, the Asia-Pacific Institute of Business, the Chinese Executives Club of the Hong Kong Management Association, the Bank of East Asia and Cathay Pacific Airways for their invaluable support, without which this project would not have been possible.



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Introduction to GEM Hong Kong 2002

The Global Entrepreneurship Monitor (GEM) is an international project aimed at annual measurement of entrepreneurial activity. GEM examines the factors that contribute to an entrepreneurial climate and the links between entrepreneurship and economic growth. It brings together multi-discipline researchers interested in entrepreneurship from all over the world, to study the complex relationships between new venture creation, economic growth, culture, government policies, and national prosperity. The central aim of GEM is to assemble the world's leading scholars to address these compelling questions:

- Does the level of entrepreneurship activity vary between countries?
- Is entrepreneurship activity related to national economic growth?
- Why are some countries more entrepreneurial than others?
- What can be done to enhance entrepreneurial activity?

Each team of scholars from each GEM economy conducts its own independent investigation of domestic entrepreneurship but every team uses exactly the same investigation methods across the globe. This allows the construction of a unique database. In each year that GEM is conducted, scholars can compare entrepreneurship between economies. And because GEM keeps the methodologies consistent from year to year, GEM builds up a longitudinal data set.

Scholars from Babson College and the London Business School, sponsored by the Ewing Marion Kauffman Foundation developed and launched GEM in 1999 with ten countries taking part during the first year. Recognizing the benefits of benchmarking entrepreneurship internationally, scholars from a growing numbers of economies have joined GEM in subsequent years. In 2002, 37 economies participated, including, for the first time, China, Chinese Taipei and Hong Kong.

The Hong Kong Team is made up of scholars from The Chinese University of Hong Kong's Faculty of Business Administration. We joined GEM to investigate entrepreneurship in Hong Kong. We did so because we recognized that GEM is the most comprehensive country-by-country comparison of entrepreneurship in the world.

We believe it is important to study entrepreneurship and start-ups because:

- Vigorous entrepreneurial activity creates new jobs and contributes to economic growth;
- New and small firms are an integral part of innovation and change;
- Entrepreneurship is the origin of all high growth firms;
- Not enough is known about entrepreneurship in Hong Kong.

GEM research is summarized annually in the Global Entrepreneurship Monitor: Executive Report. This year, the Executive Report was published on November 13, 2002 and is available on the GEM website www.gemconsortium.org. Working with both the international and economy-specific data, each team in the 37 GEM economies also has submitted or will submit a written report outlining the findings specific to its economy and the policy implications of its research.

The Hong Kong Team began research in March 2002. On December 4, 2002, we presented our findings in a public forum Revitalizing Entrepreneurship in Hong Kong. The program of that forum and three speeches from it is given in Appendix I to this report. This report is the formal presentation of our research.

In the rest of this report, we first outline the GEM conceptual model and research methodology. This is followed by the quantitative and qualitative findings of the research. We then discuss the findings, giving background material and insights that help place our research in context and reconcile incongruities. Finally, we conclude with 25 recommendations that we believe should be implemented to improve entrepreneurship in Hong Kong.

Conceptual Model

GEM is based on an underlying conceptual model of the major causal mechanisms affecting national economic growth. This model has three primary features. First, it focuses on explaining why some national economies are growing more rapidly than others. Second, it assumes that all economic processes take place in a relatively stable political, social and historical context. Finally, and perhaps most unique to GEM, it considers two distinct but complementary mechanisms to be the primary sources of national economic progress.

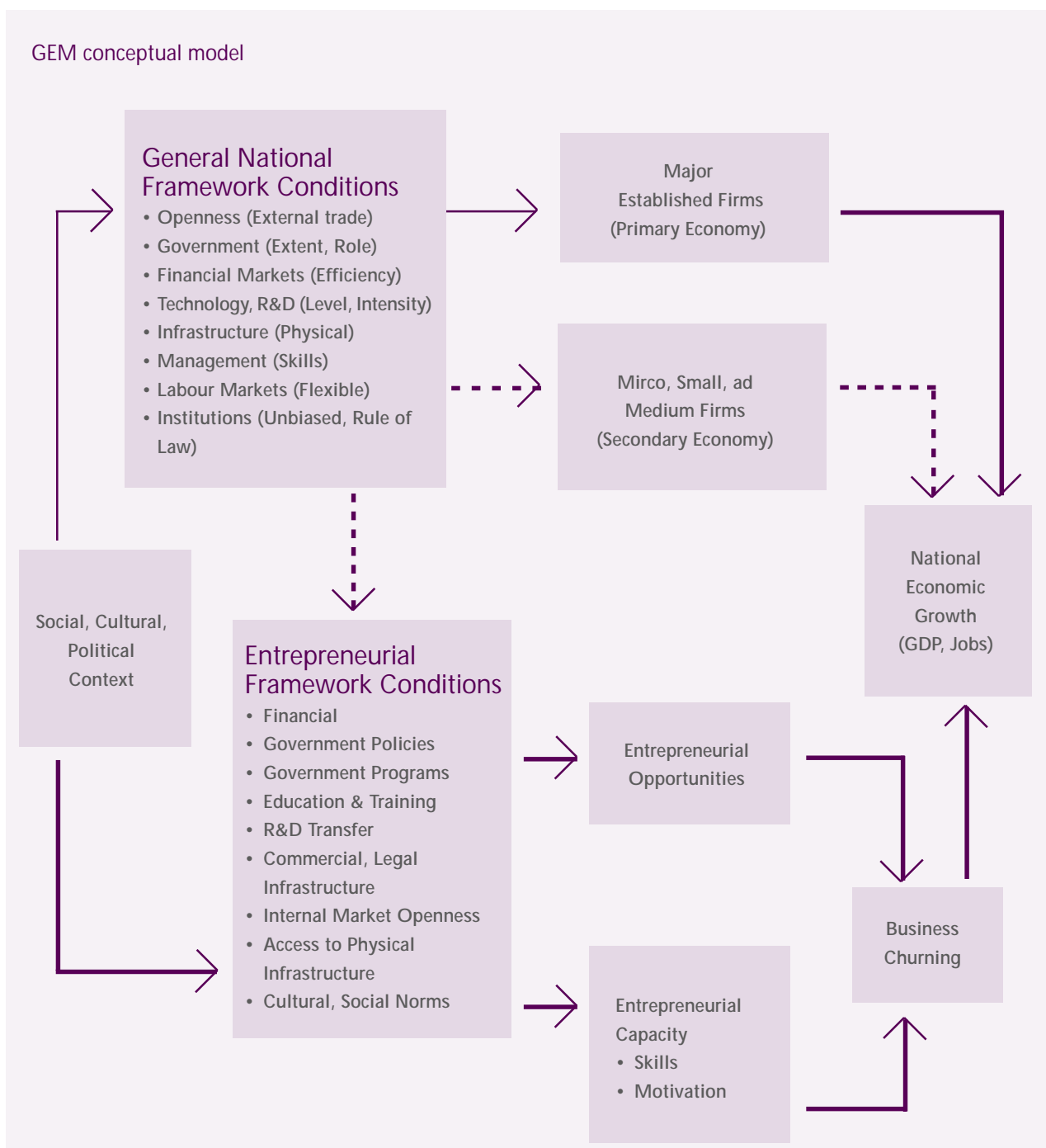


Figure 1

The first major mechanism, as illustrated in the top portion of Figure 1, reflects the role of large established firms that provide national representation in international trade. The assumption behind this part of the model is that if the general national conditions are appropriately developed, the international competitive posture of large firms will be enhanced. Then, as these firms mature and expand, they will create significant demand for goods and services in their host economies. The increase in demand will, in turn, produce market opportunities for many micro, small, and medium-sized firms. This scenario is particularly robust when international exchanges are restricted to stable commodities with little change in markets or production technology.

The second primary mechanism driving economic growth as illustrated in the lower portion of Figure 1, emphasizes the role of entrepreneurship in the creation and growth of new firms. According to this portion of the model, another set of contextual factors, referred to as Entrepreneurial Framework Conditions (EFCs) intervenes between the social/cultural context and the emergence and expansion of new firms. The EFCs are outlined in Figure 2 below.

In addition, two critical features in the entrepreneurial process are specified: 1) the emergence or presence of market opportunities and 2) the capacity (i.e., motivation and skill) of the people to initiate new firms in pursuit of those opportunities. The entrepreneurial process is particularly robust in dynamic market settings where success is dictated by higher levels of creativity, innovation and speed to market.

Perhaps the greatest value in the GEM model is its focus on the complementary nature of the underlying mechanisms, both of which have been empirically linked to economic growth. Indeed, large established firms, through technology spillovers, spin-offs and increasing demand for goods and services, often provide opportunities for new business initiatives. Entrepreneurial firms, on the other hand, provide a competitive advantage for established firms - their major customers - in global arenas, through lower costs and accelerated technology development. Though previous GEM findings have supported this complementary perspective, it is also clear that these processes are extremely complex. The GEM model will continue to be adjusted to reflect insights derived from the research in an effort to better understand the impact of these mechanisms on economic growth.

Entrepreneurial framework conditions

The GEM research model identifies nine dimensions that are considered to have a direct and immediate impact on entrepreneurial activity within an economy. These nine entrepreneurial framework conditions (EFCs) directly influence the condition under which new ventures are created and grow. These entrepreneurial framework conditions are:

1. Financial Support
2. Government Policies
3. Government Programs
4. Education and Training
5. Research and Development Transfer
6. Access to Commercial and Professional Infrastructure
7. Market Openness and Barriers to Entry
8. Access to Physical Infrastructure
9. Cultural and Social Norms

Figure 2

Research Methodology

GEM employs three main sources of data:

- Adult Population Survey
- Expert Interviews
- Standardized economic data from external sources

We describe these data below.

Adult population survey

Teams in each of the 37 GEM economies selected randomly from 1,000 to 15,000 adults whose responses to up to 40 questions each were used to measure the entrepreneurial behavior and attitudes of the population. In 2002, GEM sampled 113,282 adults worldwide. In Hong Kong, the GEM team supervised Consumer Search who sampled 2000 adults by telephone interviews conducted in the evenings during the months of April and May 2002. The survey produced a measure of entrepreneurial activity that is called the Total Entrepreneurial Activity (TEA) index. Because the TEA index is computed identically for each of the 37 GEM economies, it provides an objective basis for international comparisons. In the study, we used three types of TEA: "Opportunity-based," "Necessity-based," and "Total". Opportunity-based TEA reflects the voluntary nature of participation (pursuit of a business opportunity for personal interest). Necessity-based TEA reflects the involuntary nature of participation (pursuit of a new business because of no other choices for work). Total TEA is the sum of Opportunity-based TEA and Necessity-based TEA.

An entrepreneur, for the purposes of calculating the TEA indices, is a respondent in the survey who is currently participating in either

- A business start-up where work has been done to effect the start-up¹ but wages have been paid for less than three months or
- A new firm where the firm is less than 42 months old at the time of survey.

The respondent can participate in the business start-up or the new firm either privately or as a part of his employment, but in either case, the respondent must have an equity stake.

TEA is the percent of the respondents in the study who met either or both of these criteria.

In addition to finding out who the entrepreneurs are, what are their characteristics and calculating the TEA index, the adult population survey polls the random sample for informal investors. These individuals, often called "angel investors" make informal investments in business start-ups and new firms.



¹ The following questions were asked to determine whether work had been done, "Over the past 12 months, have you done anything to help start this new business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, beginning to save money, or any other activity that would help launch a business?"

Experts interviews

A second type of data was provided by wide-ranging personal interviews conducted by scholars with from 20 to 70 Experts in each GEM economy. Across the 37 GEM economies, about 1,000 Experts were interviewed. In Hong Kong, we interviewed 40 Experts.

Selecting Experts of the entrepreneurial sector was a critical activity. A standardized selection procedure was applied. GEM defines an Expert as a person directly involved in delivering a major aspect of the economy's EFC (see Figure 2). Experts can be politicians, university professors, entrepreneurs, government officials, or other professionals in the field of entrepreneurship. They have considerable knowledge of the entrepreneurial phenomenon and have or could have contributed to policy debate.

The Hong Kong Research Team identified at least four Experts representing each of the nine EFCs. When selecting Experts, we ensured that three of the Experts were directly involved in delivering a major aspect of the relevant EFC. We strove to select three different Experts within each EFC according to the principle that their work should not overlap but instead should complement each other. The fourth Expert in each EFC was ideally someone who was not directly involved in delivering the EFC but who had a deep knowledge and broad overview. These could be academics or consultants.

Many Experts had interests and expertise in more than the one EFC. We did not require any Experts to restrict themselves to their own EFC in presenting their views. Instead we encouraged them to present their views on what they felt to be critical EFCs, even if they were different from the one they had been selected to represent.

Each Expert was asked to complete:

- A one-hour face-to-face interview. With reference to the EFCs, the Experts were asked to identify and discuss three strengths and three weaknesses of the economy in stimulating entrepreneurship. Experts were also to give at least three recommendations on how the EFCs should be addressed to stimulate entrepreneurship.
- A structured ten-page questionnaire which reflected the status of the entrepreneurial framework conditions in his or her economy.

Each interviewer wrote up a summary of the interview. GEM subjected the summaries of the 37 economies' Expert interviews to content analysis to capture the issues and trends. And the GEM Hong Kong team analyzed in detail the summaries of the interviews of the 40 Hong Kong Experts.

The content of the ten page questionnaire was consolidated for the 37 economies to facilitate cross-economy comparisons.

Standardized economic data from external sources

National economic data were collected from sources that included the World Bank, the United Nations, the World Competitive Index and the International Monetary Fund. These sources provided comparable data of basic features such as economic growth, population structure, educational attainment, institutional and technical infrastructure.

Adult Population Survey Findings

Our research shows that if we measure Hong Kong's entrepreneurship by the TEA index, Hong Kong is one of the least entrepreneurial countries in the world. Hong Kong's entrepreneurial prevalence rate as measured by the total TEA index is 3.4 percent of the adult population.

Total entrepreneurial activity (TEA) in the 37 GEM economies

Economy	Total TEA index	Opportunity TEA Index	Necessity TEA index
Argentina	14.20	6.80	7.10
Australia	8.70	6.70	1.50
Belgium	3.00	2.00	0.30
Brazil	13.50	5.80	7.50
Canada	8.80	7.40	1.10
Chile	15.70	8.50	6.70
China	12.30	5.60	7.00
Chinese Taipei	4.30	3.30	0.70
Croatia	3.60	2.20	0.80
Denmark	6.50	5.90	0.40
Finland	4.60	3.90	0.30
France	3.20	2.80	0.09
Germany	5.20	3.90	1.10
Hong Kong	3.40	2.20	1.20
Hungary	6.60	4.00	2.10
Iceland	11.30	8.60	0.90
India	17.90	12.40	5.00
Ireland	9.10	7.80	1.40
Israel	7.10	5.20	1.40
Italy	5.90	3.30	0.50
Japan	1.80	1.20	0.50
Korea	14.50	8.60	4.10
Mexico	12.40	8.30	2.70
Netherlands	4.60	4.00	0.50
New Zealand	14.00	11.60	2.20
Norway	8.70	7.40	0.40
Poland	4.40	2.80	1.30
Russia	2.50	1.90	0.60
Singapore	5.90	4.90	0.90
Slovenia	4.60	3.30	1.40
South Africa	6.50	3.30	2.40
Spain	4.60	3.40	0.10
Sweden	4.00	3.29	0.70
Switzerland	7.10	6.00	0.90
Thailand	18.90	15.30	3.40
U.S.A.	10.50	9.10	1.10
United Kingdom	5.40	4.40	0.70
Average	7.98	5.60	1.92

Figure 3

Only Japan, Russia, France, and Belgium are ranked lower than us among the 37 economies studied in GEM. As shown in Figure 3, several less developed Asian economies have relatively high TEA indices. Thailand, India, PRC, and South Korea are higher than the US. Taiwan and Singapore have somewhat higher scores than Hong Kong.

Columns two and three of Figure 3 recalculate TEA making the distinction between entrepreneurs who are involved in the start-up to take advantage of a business opportunity (Opportunity-based TEA) and entrepreneurs who have no better choices for work (Necessity-based TEA). In the US, opportunity entrepreneurs (9.1 percent) outnumber necessity entrepreneurs (1.1 percent) by about eight times. Asian economies tend to have a lower opportunity-to-necessity entrepreneurs ratio. Thailand, Taiwan, and Singapore each has about five times more opportunity entrepreneurs than necessity entrepreneurs. However, Hong Kong (2.25 percent vs. 1.2 percent) and the others have just about two times more of the former than the latter.

Demographic Differences

We calculated the Hong Kong TEA rates for different gender, age, education, and personal income groups. Figure 4 shows that men have a higher participation rate than women. Considering men and women together, the youngest age group (18-24) has a higher participation rate than older age groups (see Figure 5). The general population of GEM economies is different from Hong Kong. The most active age groups are 25 to 34 and 35 to 44. Furthermore, Hong Kong women in the younger age groups of 18 to 24 and 25 to 34 have a participation rate almost as high as men of the same age groups. Young men are far more active than young women in the general population of other GEM countries.

Figure 6 shows that higher education is associated with higher entrepreneurial participation in Hong Kong. This differs from elsewhere in the world: people with only a secondary school education are the most active in the general population of GEM countries. Figure 6 also shows that post-secondary educated people tend to be opportunity entrepreneurs. Among the post-secondary educated group, the youngest age group (18-24) and the middle age group (35-44) are more active than other groups.

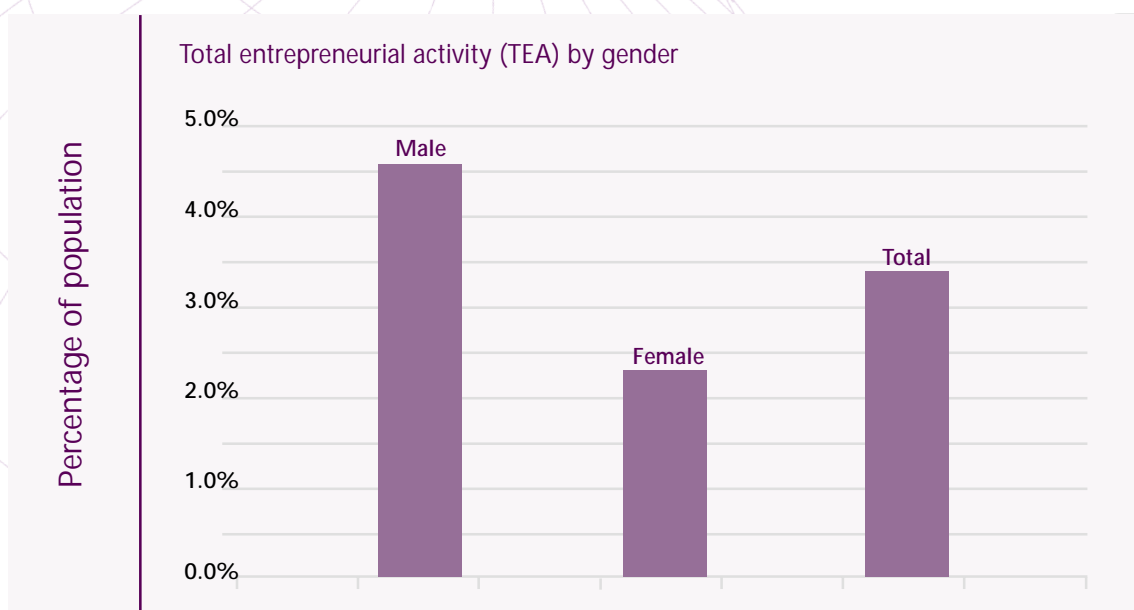


Figure 4

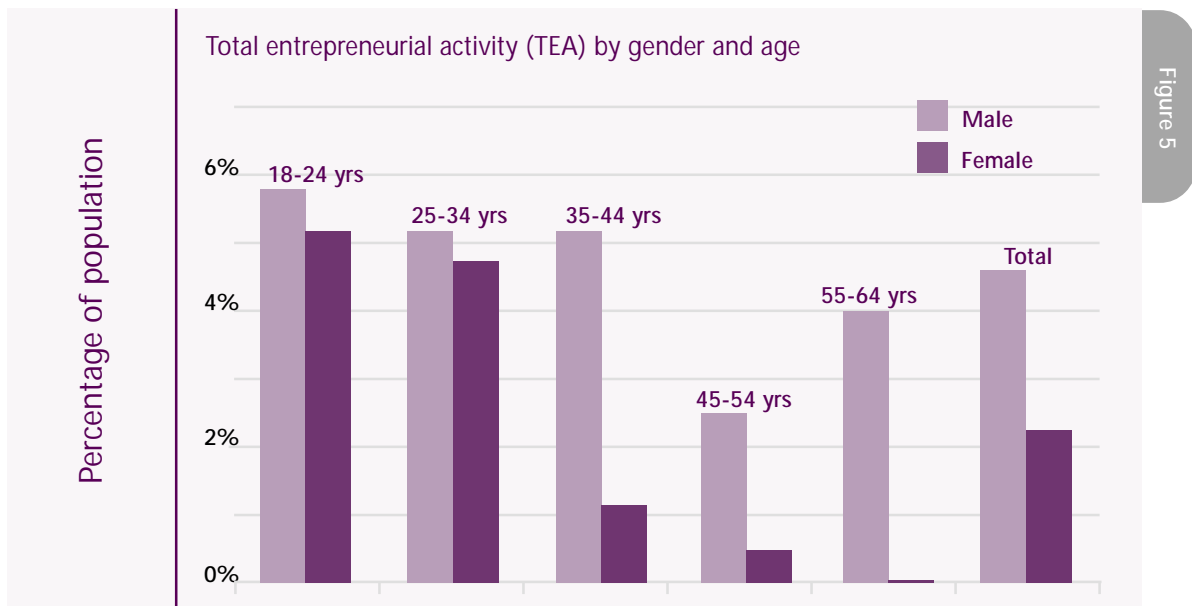


Figure 5

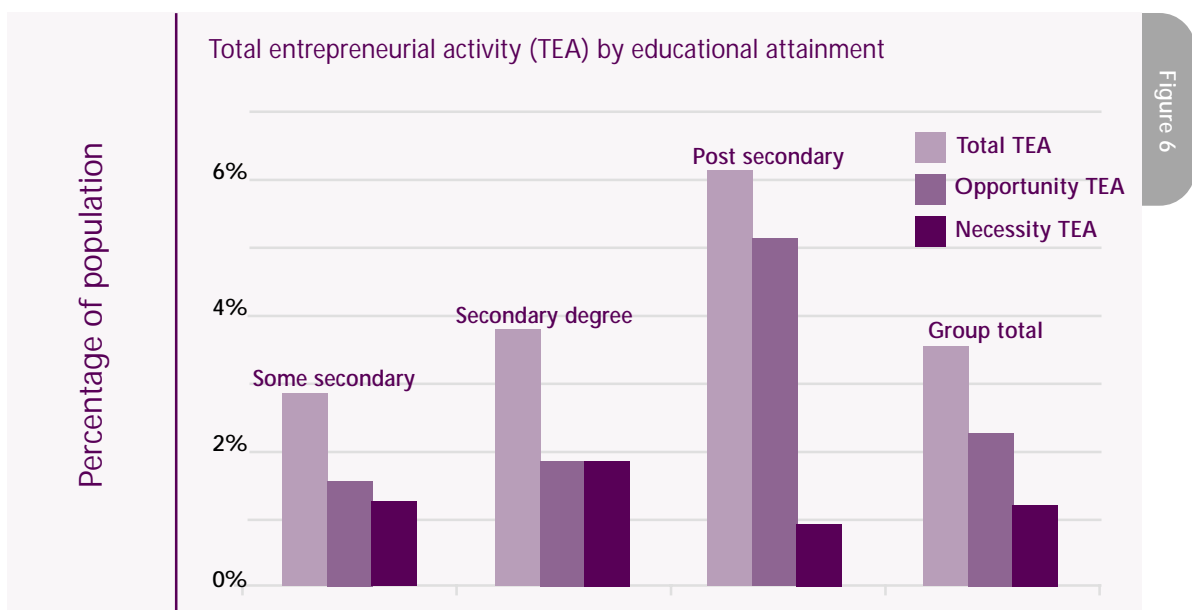


Figure 6

Entrepreneurs are most common in the high personal income group as shown in Figure 7a. A distinguishing finding is that the youngest age group in the high income group are very keen in entrepreneurial activity (Figure 7b). Almost one out of three are entrepreneurs (31.9 percent). Different from other groups, most of them are entrepreneurs looking for opportunity (28.3 percent)

rather than out of necessity (4.0 percent). Youngsters in other income groups have low participation. Figure 7c, for example, shows the situation of the middle income group.

Percentage of population

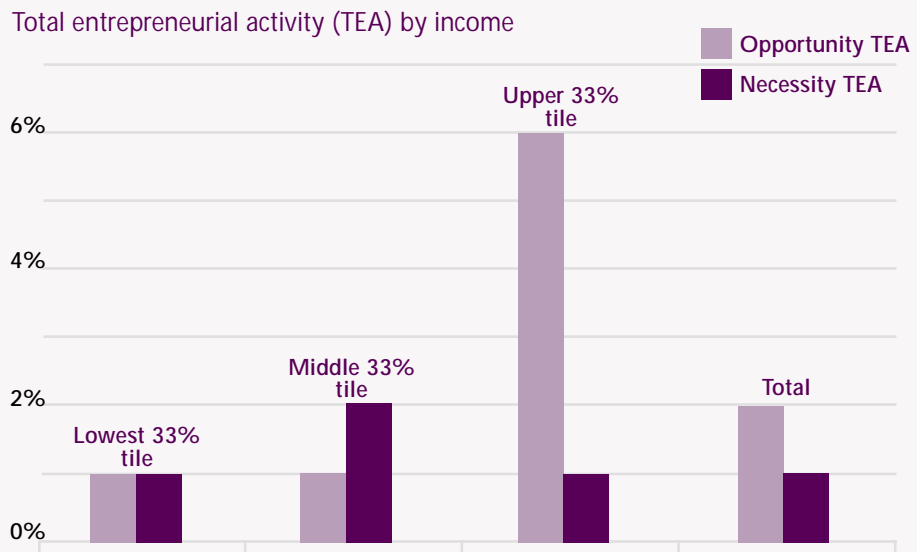


Figure 7a

Percentage of population

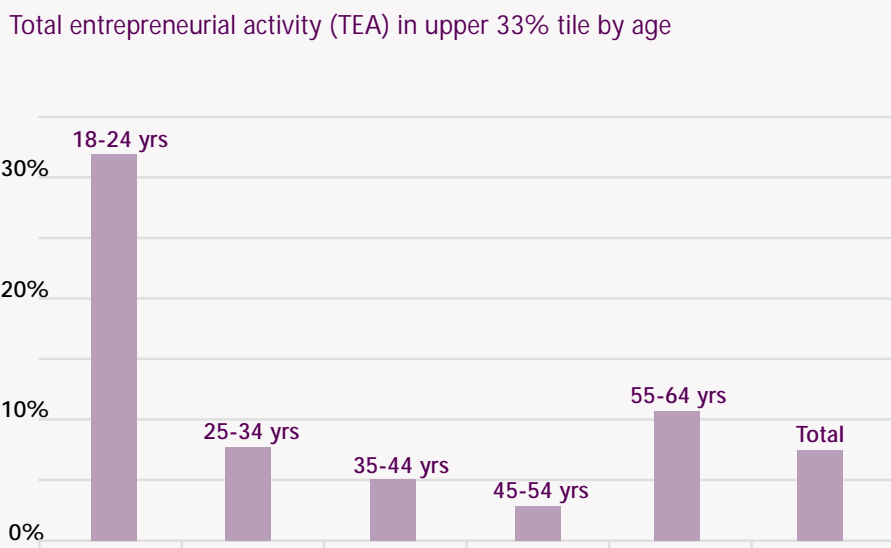


Figure 7b

Percentage of population

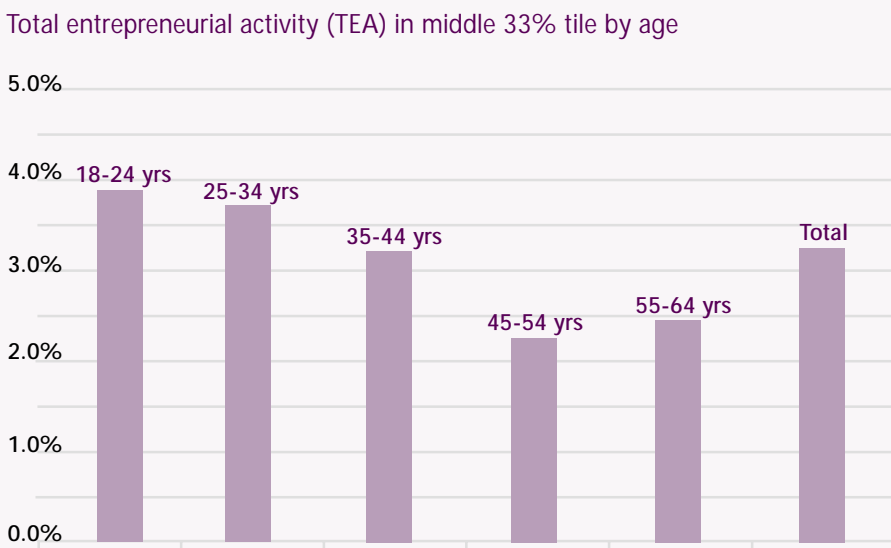


Figure 7c

What facts may contribute to the above differences? We may make some informed guesses based on several potential reasons studied in the survey. We found that when young entrepreneurs of low income are compared to those of high income, the former group reported lower levels of personal knowledge of entrepreneurs and skills and knowledge to do start-ups. On the other hand, when high income entrepreneurs of young age are compared to those of older ages, the groups are similar except that older entrepreneurs claimed to have better skills to do start-ups. Hence better-off entrepreneurs are more likely to know other entrepreneurs.



Characteristics of Start-Up Firms

The survey data gives us a glimpse into how entrepreneurial activities in Hong Kong can contribute to economic growth. About 48 percent of entrepreneurs say that their businesses involve some market expansion, that is, serving new customers and using new technology. This ratio exceeds the average of all entrepreneurs in the GEM economies² (see Figure 8), but is approximately the same as the average of the GEM economies². In terms of promoting international competitiveness, about 67 percent of entrepreneurs export part of their products and services to overseas customers. Small size and internationalization may have put Hong Kong above the GEM country average of 25 percent. Indeed, as high as 26 percent of Hong Kong entrepreneurs do more than half of their business serving overseas clients compared to just about 10 percent of the GEM country average.

² The reason for the difference between the average of all GEM entrepreneurs and the average of GEM economies is that, overwhelmingly, in the large population countries of India and China, start-ups involve replicating goods and services of the other producers rather than some market expansion into new products and services.

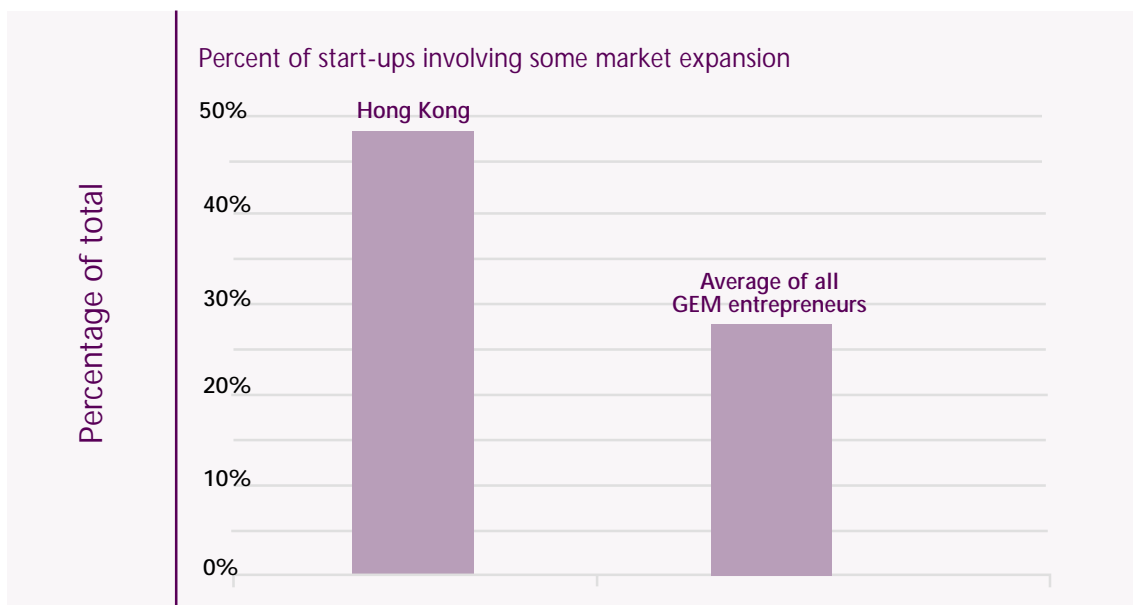


Figure 8

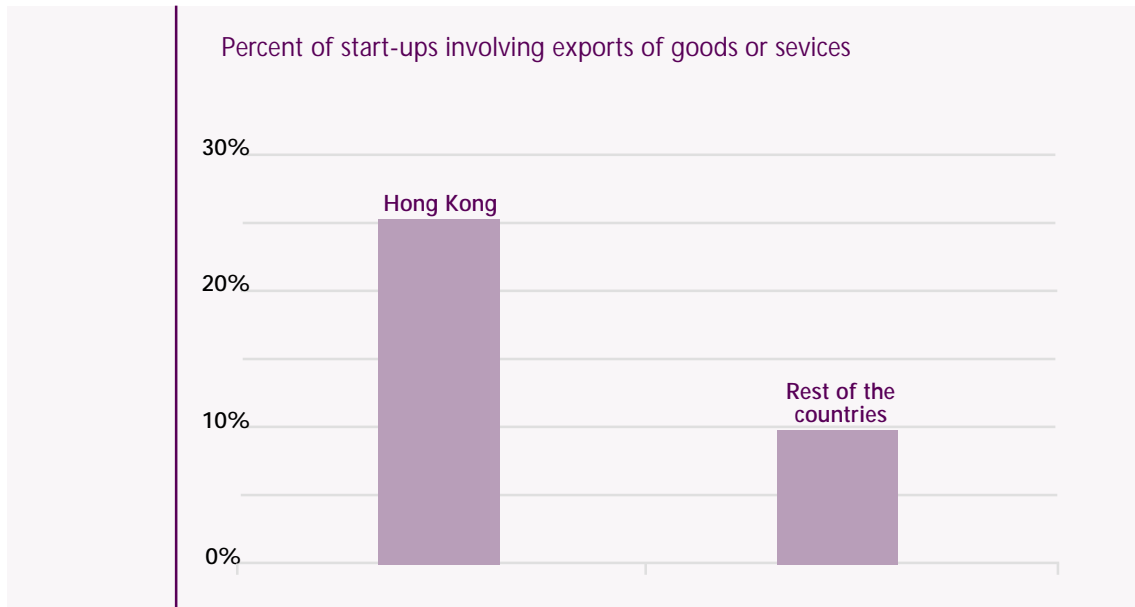


Figure 9

Figure 10 shows that about 45 percent of entrepreneurs in Hong Kong say that their new businesses would create new jobs in the next five years. This is not particularly encouraging comparing to the GEM economy average of 75 percent. We also found that 8.5 percent of the

respondents said that they would start new business in the next three years. Although this is lower than the GEM economy average of 15 percent, it shows that more people in Hong Kong may become entrepreneurs in the near future.

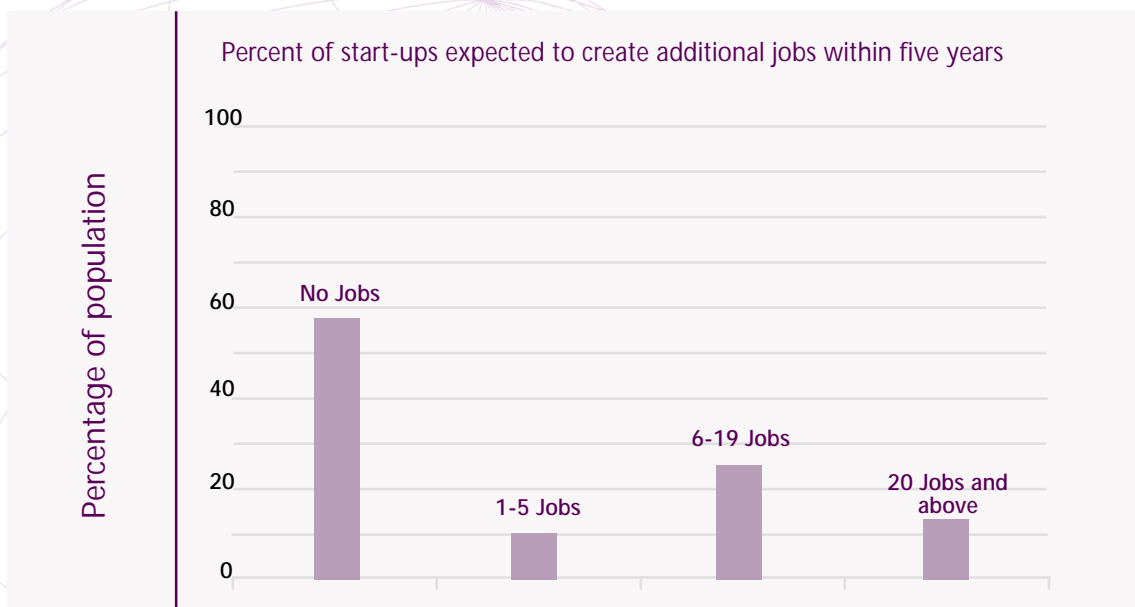


Figure 10

As you may expect, more start-ups occurred in the retail/hotel/restaurant sector than in any other sector in Hong Kong. Figure 11 illustrates this. It shows further that entrepreneurs doing business in this sector can be earning any level of personal income. That is to say the profitability of operating restaurants varies highly. The

Figure 11 also suggests that high-income entrepreneurs operate business in several sectors that lower income entrepreneurs do not operate. These include manufacturing, business and personal services, such as insurance, drama and music.

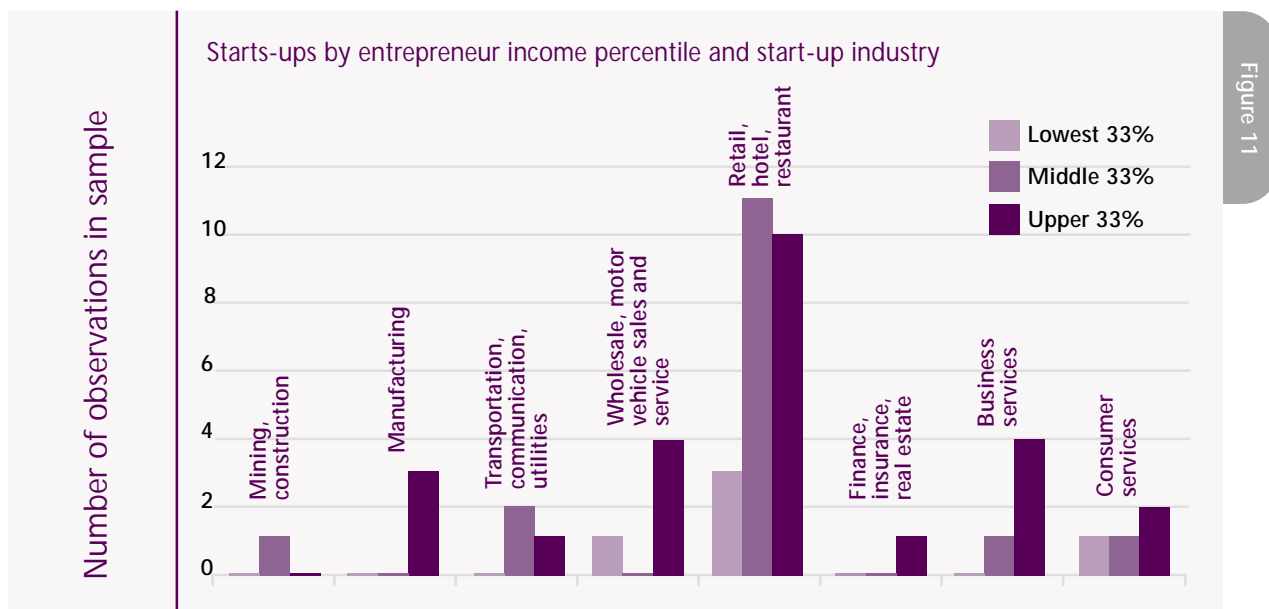


Figure 11

Figure 12 shows the relationship between entrepreneurial activity and work status. People having part-time jobs are most active in entrepreneurial activity. They are closely followed by people with full-time jobs.

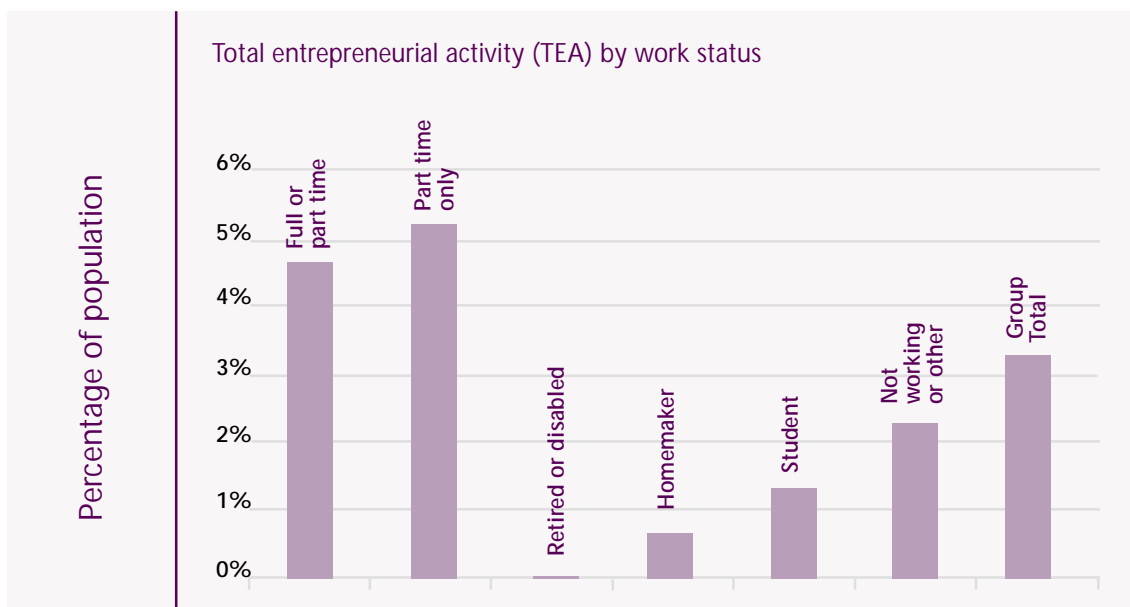


Figure 12

A Brief Note on TEA

In interpreting the above data on entrepreneurship, it is useful to reflect on the measure that we use: TEA. Although TEA is, to our knowledge, the only internationally accepted and implemented measure of entrepreneurship available to date, it is nevertheless a limited measure. Entrepreneurship is an attitude that predisposes a person to action. A person with an entrepreneurial attitude ceaselessly searches for potential value creation. Having found that potential, the entrepreneurial person organizes businesses to create that value and, in the process, to retain some of the new wealth for him- or herself. TEA, on the other hand, is the percent of the population who have actually been involved in setting up a new business over the past 42 months.

Our results indicate that Hong Kong's TEA - i.e., the percentage of the adult population involved in setting up new businesses over the last 42 months - is low relative to other economies. This evidence does not necessarily mean that Hong Kong is less entrepreneurial than other economies.

First, some individuals in Hong Kong may apply their entrepreneurial spirit by working as employees for established large companies. As an advanced economy with low government intervention strategically situated in a rapidly growing part of the world, Hong Kong is host to the regional headquarters of many reputable firms. Individuals who have a desire to explore new business opportunities in Asia or China may make full use of established corporate resources and reputation, rather than starting businesses by themselves from scratch. Start-ups are expensive in terms of time and money. Given the alternatives, many entrepreneurial individuals may see start-ups as a less attractive career option.

Secondly, the timing of starting a new business is important. Most new enterprises fail, so the entrepreneur wisely minimizes the probability of failure. If by delaying until economic, political or social conditions become more stable the entrepreneur can decrease the probability of failure, then the entrepreneur will delay. Thus TEA in general and opportunity-based TEA in particular are partially lagging indicators of confidence. TEA measures start-ups from November 1998 to April 2002, 42 months during which the level of confidence in Hong Kong was

remarkably low. Worldwide, GEM 2002 saw a decline of 25 percent in the TEA index across the 28 economies that were in both GEM 2001 and GEM 2002. The decline almost certainly reflects falling confidence, occurring as it does, after 9/11, the bursting of the Internet bubble and corporate scandals that have caused rethinking of the optimism that characterized the late 1990s. Hong Kong was not in the GEM 2001 study. But our low opportunity-based TEA probably reflects in part the depressed confidence of Hong Kong's potential entrepreneurs. If this is the case, then once that confidence is restored, TEA will rebound.

Thirdly, a high necessity-based TEA is not good for a developed economy such as Hong Kong. High TEAs of necessity may be associated with poverty, income disparity, low education, lack of business competitiveness and lack of protection of intellectual capital. Hong Kong's TEA of necessity (1.2 percent) is approximately the same level as in other developed economies such as Germany (1.1 percent), the US (1.1 percent) and Australia (1.5 percent). High TEAs are often associated with major and painful economic restructuring. The high TEAs of Korea, Thailand and Argentina - both TEAs of necessity and opportunity - flowed from massive corporate bankruptcies that cleared the economy of many large companies, creating both the opportunity and the necessity for start-ups.

Finally, the link between TEA and economic growth has been investigated at length in the annual global GEM studies from 1999 through 2002. In this study, we do not repeat that investigation. But we do note that, while we believe that entrepreneurship in its widest sense (defined above) stimulates economic growth, the nature of the link between TEA and economic growth is subject to debate.

Expert Interview Findings

The Experts were asked to identify the three most important weaknesses restricting entrepreneurship development in Hong Kong and the three most important strengths that can help further entrepreneurship development in Hong Kong.

We obtained 201 Hong Kong responses from the Hong Kong Experts and 5111 responses from the Experts in all 37 GEM economies. Each response was classified into one of the EFCs. We constructed an EFC strength measure as follows:

$$EFC \text{ Strength Measure} = \frac{\text{number of times cited as strength}}{\text{total number of times cited}}$$

Figure 13, which derives from Global GEM content analysis, summarizes the assessments by the 40 Hong Kong National Experts of EFCs relative to the rest of the world.

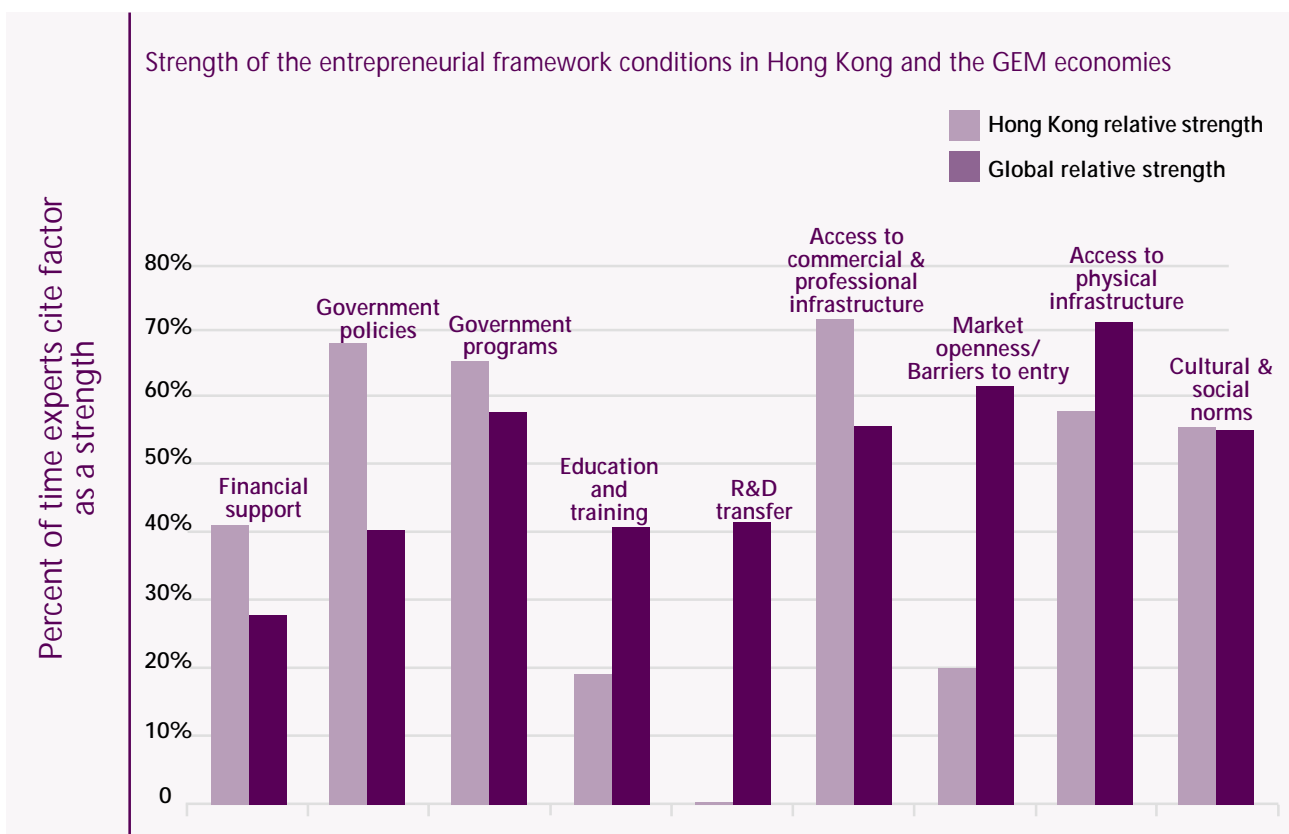


Figure 13

The Hong Kong interviewees perceived that for five of the nine EFCs, Hong Kong was strong. The EFC for government policies, government programs, access to professional infrastructure, access to professional infrastructure, access to physical infrastructure and cultural and social norms was mentioned as a strength rather than as a weakness more than 50 percent of the time. In five EFCs, financial support, Government policies, government programs, access to commercial and professional infrastructure and cultural and social norms, Hong Kong displayed strength relative to the rest of the GEM economies. And in three areas, education and training, research and development transfer and market

openness, Hong Kong was weak, both in terms ranking as a weakness by our Experts and being ranked relatively lower than the rest of the world.

Figure 14 summarizes qualitatively the assessments of the same 40 Hong Kong Experts by grouping the comments by specific content. We only report the top ten entries in each of the three categories. There is more agreement on strengths than weaknesses and more agreement on weaknesses than on recommendations. Ninety-four percent of comments on strengths are represented in the top ten. Eighty-two percent of comments on weaknesses are represented in the top ten. But only 73 percent of recommendations are recommended in the top ten.



Hong Kong Experts' opinions concerning Hong Kong's top ten strengths, weaknesses and recommendations

Strength

- 1 Rule of law and clean government
- 2 Strong work ethic, entrepreneurial culture, adaptable population
- 3 Economic freedom, laissez faire government with low interference, competitive market
- 4 Well-educated populace with a good knowledge of business practice
- 5 Ease with which one can set up a new company
- 6 Location near China and in the Pearl River Delta (PRD)
- 7 Good physical infrastructure
- 8 Good formal financial system and access to informal capital
- 9 Low taxes
- 10 Global outlook and melting pot of ideas

Weakness

- 1 High cost of land and labor
- 2 Poor education system that emphasizes rote learning
- 3 Eroding entrepreneurial values, risk aversion, managers and graduates wanting security, people unwilling to invest, growing reliance on government
- 4 Capital not available, VC funding not available, bank lending not available for start-ups, poor investment capital availability for some industries / technologies
- 5 Get-rich-quick mentality, focus on making money rather than generating value, shallow approach to business analysis
- 6 Government lacks direction and is increasing the amount of "red tape"
- 7 Large conglomerates dominate the economy, oligarchies have undue influence over policy, anti-SME favoritism in procurement
- 8 Avenues for implementation of research are poor, R&D tradition is lacking
- 9 Poor English language skills, poor Mandarin skills and the limited role of Cantonese in the world
- 10 No government incentives for entrepreneurs to start business

Recommendation

- 1 Increase entrepreneurial education in schools by reducing rote learning and stimulating creativity and community links with the schools
- 2 Subsidize SMEs more by giving incentives to startups, rental breaks, fostering biotech companies, encouraging technical startups through grants
- 3 Open the border with China more rapidly and fully to increase the integration with the Pearl River Delta (PRD)
- 4 Do not subsidize SMEs or entrepreneurship any more
- 5 Reduce regulations, reduce application procedures for businesses, reduce anti-competitive aspects of regulation
- 6 Increase learning in languages, liberal arts and fine arts
- 7 Reduce government indecisiveness; set a firm government policy on entrepreneurship
- 8 Provide more SME training, vocational training, upgrading of unemployed and lifelong learning
- 9 Increase respect for and celebration of entrepreneurs
- 10 Increase R&D links between universities and industry

Note: The above strengths, weaknesses and recommendations are a summary of the 40 Expert interviewees' response to the open-ended questions asking for the interviewees' assessment of the "... three most important weakness restricting entrepreneurship developing...", the "... three most important

strengths that can help entrepreneurship develop..." and "...at least three suggestions made ... about what technical and/or social and cultural factors should be addressed to increase and/or encourage entrepreneurship."

Financial Support

Figure 13 shows that 41 percent of the time the Hong Kong Experts cited entrepreneurial financial support, they said it was a strength. Hence, 59 percent of the time, the Experts said it was a weakness. This assessment of the financial support in Hong Kong takes on a slightly different light when compared with Experts worldwide.

Worldwide, discussing their domestic economies, only 26 percent of Experts cited financial support as a strength. Although the Hong Kong Experts saw considerable room for improvement, the situation in terms of entrepreneurial financial support in Hong Kong appears better than it is in the average GEM economy.

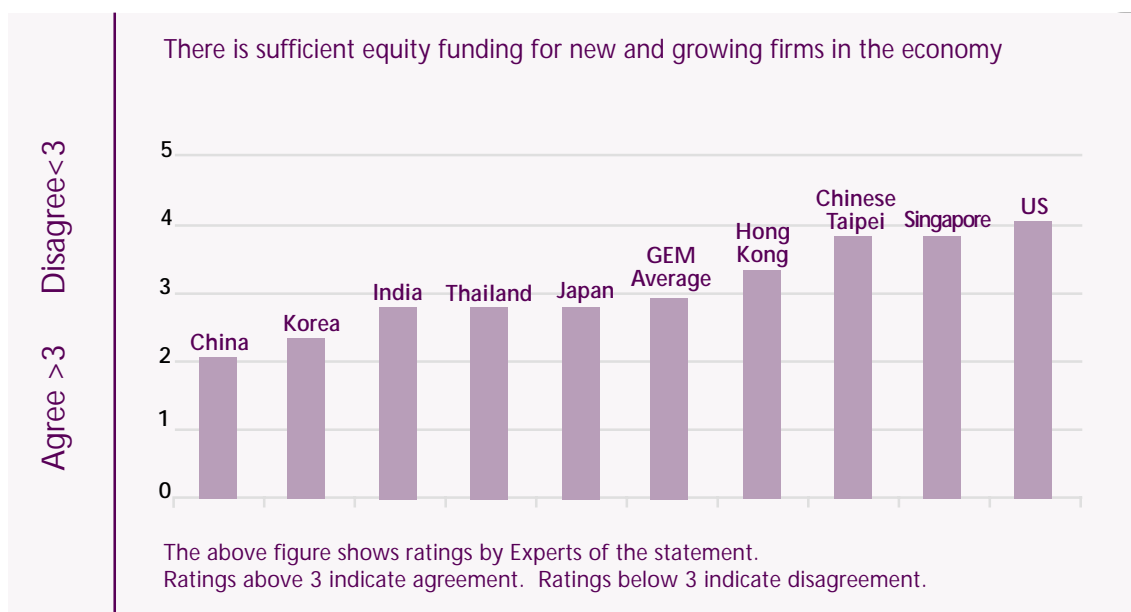


Figure 15

Figure 15 compares the responses of the Experts in Hong Kong with those in the other Asian GEM economies and the US concerning the availability of equity funding. It shows that, although Hong Kong lags the US, Singapore and Taiwan, the majority of Experts agree there is sufficient equity funding for new and growing firms in the economy. Figure 16 ranks Hong Kong against other Asian economies concerning the availability of debt capital. Here the Hong Kong Experts are evenly split, neither agreeing nor disagreeing with the statement that sufficient debt capital is available.

Hong Kong Experts cited capital unavailability as the fourth ranked weakness in Figure 13 above. Different Experts expressed this in different ways. Some stated that capital was not available for startups and that venture capital funding was not available for early stages. Others stated that banks tended to lend to start-ups only if the entrepreneurs were able to pledge real estate as collateral, but that the real estate crash had reduced substantially the supply of such collateral and, in turn, debt financing availability. Several said that banks should be encouraged to lend against cash flows, not collateral. And three cited lack of capital for specific different industries - the IT industry, biotech, and non-high-tech industries. Two experts criticized venture capitalists in Hong Kong for being unwilling to lend to start-ups and for setting their sights on China.

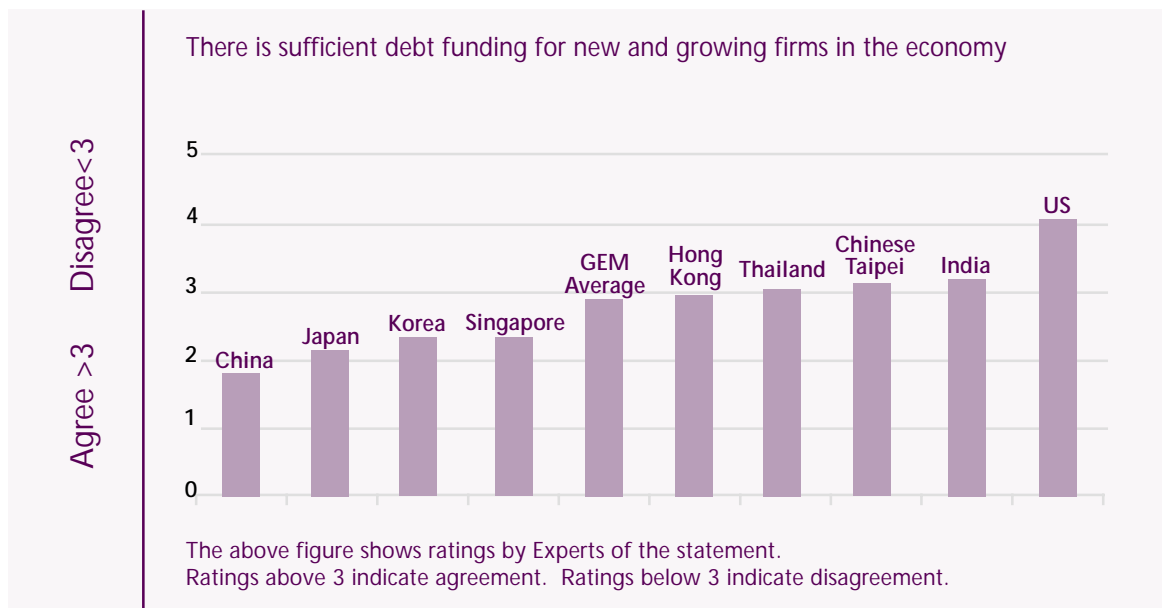


Figure 16

But the negative comments concerning financing should be balanced by the positive comments. The eighth most cited strength of Hong Kong was its good financial system and access to informal capital. One Expert qualified this appraisal saying that the availability of informal capital

was for traditional, not high technology businesses; another said that, while startup capital was available, informal expansion capital was less so.

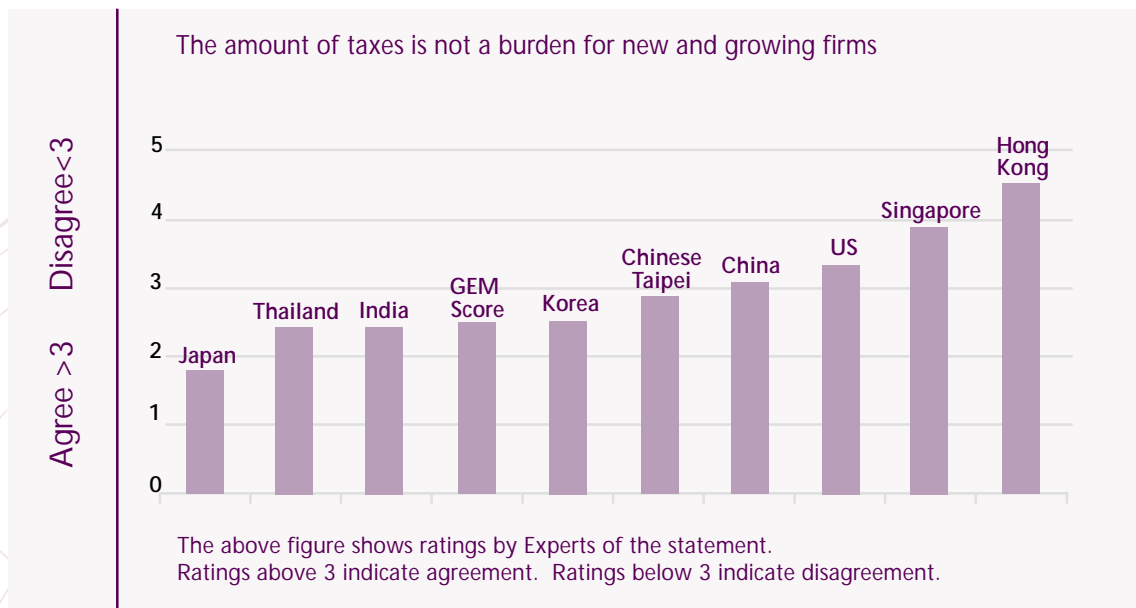
Government Policies



Figure 13 clearly shows that government policies are among Hong Kong's greatest strengths. Sixty-eight percent of the time that the Hong Kong Experts cited a government policy, they cited it as a strength. This is in stark contrast with the other GEM economies, where only 40 percent of the time were government policies cited with approval by the Experts.

This overwhelming approval of government policies flows from the following:

- Rule of law and clean government (Strength # 1 in Figure 14)
- Laissez-faire policies committed to low government interference in the competitive market (Strength #3)
- Ease with which one can set up a new company (Strength #5) and
- Low and simple taxes (Strength #9)



As Figures 17 and 18 indicate, Hong Kong is outstanding compared to the rest of the GEM economies with respect to its tax regime and the consistency and predictability with which regulations are applied to new and growing firms.

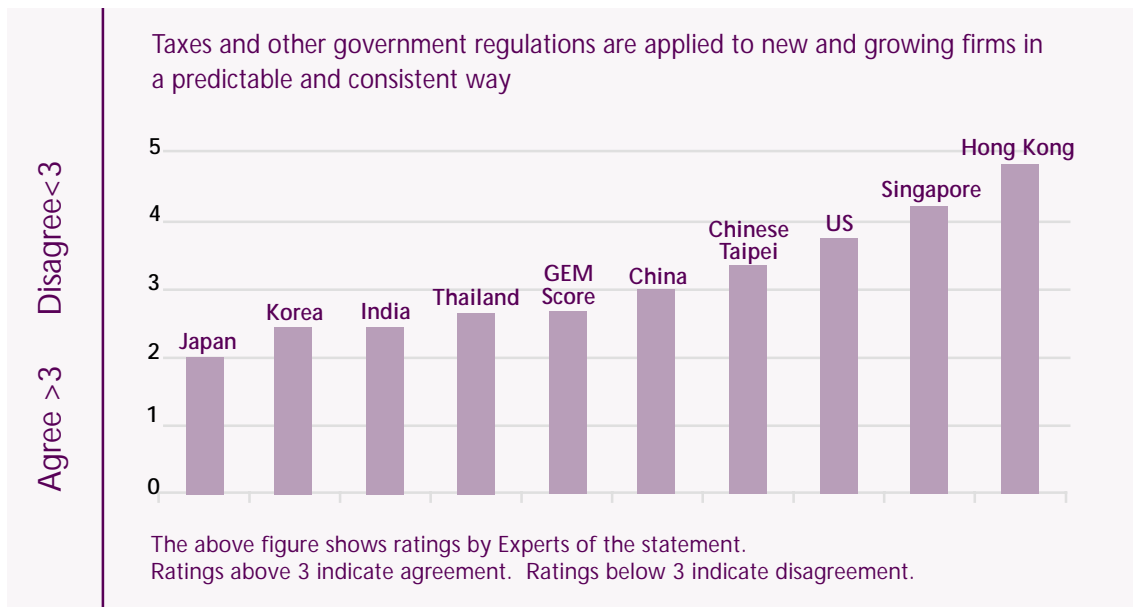


Figure 18

Hong Kong government policies came in for criticism, however: the current lack of government policy direction, policy reversals and the increasing red tape was cited as the sixth most serious weakness of Hong Kong.

Turning to how government policies affect entrepreneurship, 64 percent of the time, Experts said that government policies supported entrepreneurship. This support is general, however, and not specific to entrepreneurs. Figures 19 and 20 show that government policies do not consistently favor new firms; moreover, support for new and growing firms is not a government priority.

The seventh ranked weakness of Hong Kong was the large and increasing role of big conglomerates. A recurring theme among the Experts was that this dominance reduced competitiveness by adversely affecting smaller firms. The following industries were particularly mentioned: restaurants, supermarkets, law firms and suppliers to government under procurement policies. Several Experts believed that the government did not understand or were unsympathetic towards entrepreneurs.

Experts' opinions were divided concerning how government policies should be changed to encourage entrepreneurship. Whereas the second most common recommendation in Figure 14 involved introducing policies to subsidize small and medium-sized enterprises (SMEs), the fourth most common recommendation specifically warned against subsidizing entrepreneurs. In addition, the fifth most common recommendation was that regulations should be simplified and the anti-competitive aspects conglomerate dominance of the Hong Kong economy should be addressed.

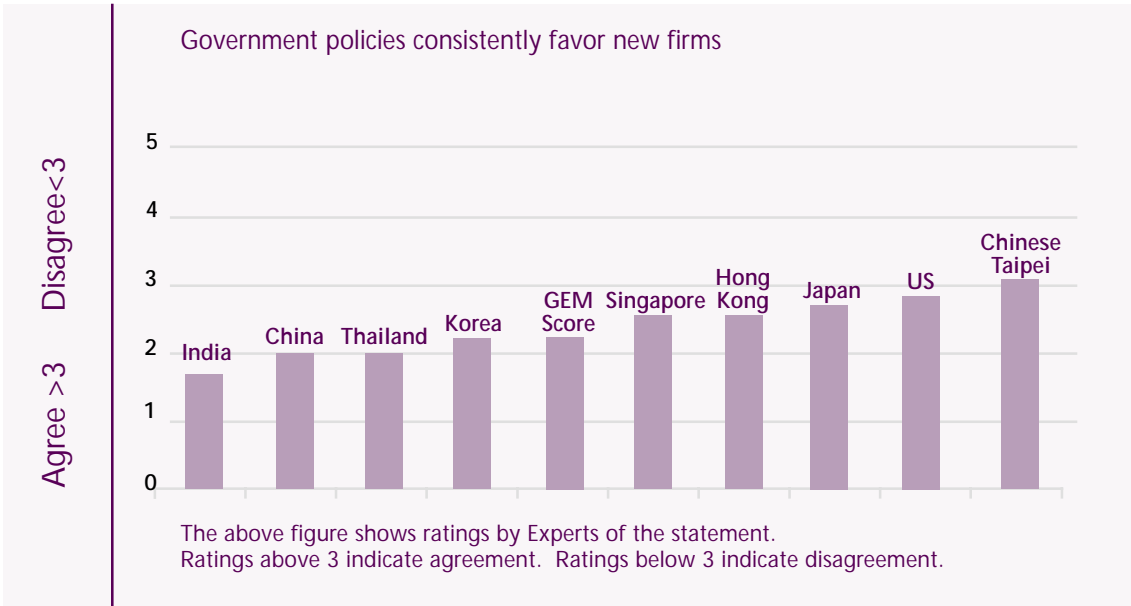


Figure 19



Figure 20

Government Programs

Figure 13 shows that the accessibility of specific government programs that support new and growing firms is one of Hong Kong's strengths. Moreover, the Experts in Hong Kong rated government programs that support new and growing firms higher than the Experts from the average of the GEM economies. As Figure 14 shows, however, these programs were not listed among the top ten strengths or weaknesses of Hong Kong concerning entrepreneurship. Although not reported in the tables, in only seven instances did Experts actually refer to government programs as either a strength or a weakness.

Among the Asian GEM economies, the Experts from Singapore and Taiwan rated government programs higher than Hong Kong Experts especially in these areas:

- A wide range of government assistance through a single agency
- Science parks and business incubators for new and growing firms
- Adequate government programs
- Competence of staff in government agencies in supporting new and growing firms

While the programs are available, one Expert criticism of the programs was that the screening and decision process was complex and could take too long.

As Figure 14 shows, the Experts were divided in their recommendations concerning government programs. Recommendation # 2 was that SMEs should be subsidized, implying that programs should be expanded. Yet Recommendation #4 specifically said that SMEs should not be subsidized.



Education and Training

As Figure 14 shows, the Experts ranked as Hong Kong's fourth greatest strength its well-educated populace having a good knowledge of business practice. Yet as Figure 13 shows, Education and Training was Hong Kong's second weakest EFC. Moreover, by far the greatest unanimity of the Experts concerning improving entrepreneurship in Hong Kong centered on Education and Training.

The Experts said that, although Hong Kong has an educated workforce, they were concerned that the Hong Kong education system had not prepared its youth for a knowledge-based economy. They observed that young people who were entering the job market lacked independent thinking and creativity, and attributed that to a system which required rote learning, and a narrow curriculum geared towards passing examinations. Poor language skills in English and Putonghua (Mandarin) rendered young people ill-prepared for work and activity in a global economy. As Hong Kong has a small and well-developed domestic market, businesses must look for global customers. Experts shared the view that nurturing the spirit of entrepreneurship and building basic skills should begin at school. They acknowledged that it was good that the government has taken steps to reform the education system and address these same issues.

The Experts offered the following assessments of how Hong Kong scored in developing entrepreneurs with education and training.

Hong Kong's examination-oriented education requires students to learn by rote and memorization and does not develop the basic skills and attitudes for being entrepreneurial:

- Independent thinking and self-reliance
- Critical thinking in identifying and understanding problems
- Creativity in solving problems

Communication and presentation skills are also needed for effectively asking questions and getting vital information from clients. Experts said that the education system reinforces conformity and has bred a mentality which is less willing to take the kinds of risks that entrepreneurs would need to take to start new businesses.

Low levels of the English language proficiency remain a problem as schools have been seen as unable to teach English effectively. English remains the language of business and English fluency is a prerequisite for full participation in global business. Hong Kong people who are reluctant to use a language other than Cantonese may find themselves professionally isolated, for example, at international conferences where language is the medium through which knowledge is exchanged and conveyed.

Students must appreciate that hard work is an essential part of success. As one Expert put it, young people " ... should be taught to realize that successful singers put a lot of effort into their careers instead of believing that anyone with luck and a mike can become a millionaire artist."

One Expert said, "In schools, students are not taught to manage their own money, finances and businesses. Few are aware of things like "income" and "expense". They think that to start a business, you must have a lot of money. Not so, it starts with having an idea and not having a lot of money. This mindset has to change. One way is to get people to start small projects and see how things happen".

Some Experts observed Hong Kong may have insufficient people trained in mathematics, the sciences and information technologies to achieve its aim to become a technology-driven economy. In the past, these fields of study were not considered as career opportunities for earning higher wages and landing jobs in big companies, within a relatively short time. As a result, there are now insufficient software engineers and people skilled in information technology, let alone people who have become specialists in their areas of engineering expertise. For a technology start-up, it would be difficult to find these skilled people.

Research and Development Transfer

The only EFC about which no Hong Kong Expert had any positive comments to make concerned the transfer of research from universities to firms such that entrepreneurs can take advantage of that research in producing goods and services for the market. The relative strength of zero in Figure 13 for R&D transfer reflects the fact that it was mentioned on 12 occasions and in each case was cited as a weakness. This reflects the paucity of mechanisms for facilitating R&D transfer in Hong Kong.

One Expert contrasted the situation in Hong Kong with that in the UK. There a PhD student can leave studies to start a business and finish the degree later. He might set up a firm with a venture capitalist and the university would likely retain 50 percent of the firm. In Hong Kong, this would not happen because Hong Kong academics are well paid and secure, but their security depends on publication of academic research, not implementation of that research. Another Expert noted that Hong Kong has no defense industry. Other economies' defense industries have laboratories where R&D is carried out and manufacturing facilities for transferring that R&D into military products and services. From these applications, commercial spin-offs frequently occur. Another stated that there is difficulty in developing certain high tech ventures because Hong Kong lacks an adequate infrastructure to encourage growth in this area. Another commented that in R&D there should be a strong linkage between academic institutions and the new ventures.



One Expert noted that there is a lack of national research support mechanisms outside of the higher education field. Countries such as China have government agencies like the Academy of Sciences and the Ministry of Science and Technology that concentrate on implementing research in the economy. Another commented that the US has an "alphabet soup" of government agencies such as the NIH (National Institute of Health) and the DOE (Department of Energy) that ease transfer. Hong Kong's Research Grants Council is only interested in scholarly research. Hong Kong is not a full economy, but is more like a (US) state - this could prove an impediment towards having a national policy about research and technology.

Access to Commercial and Professional Infrastructure

The EFC on which Hong Kong scored the highest, as Figure 13 shows, was access to commercial and professional infrastructure. Experts agree that new and growing firms are able to obtain these services with ease as Hong Kong has a large pool of private service providers that comprised legal professionals, marketing consultants and accountants. They also assessed that Hong Kong has a high quality of commercial and professional infrastructure and that these new firms can afford the cost of these consultants, as well as subcontractors and suppliers.

Figure 13 shows the Hong Kong Experts rated this EFC higher than the Experts in the other GEM economies.



Market Openness and Barriers to Entry

Market openness and barriers to entry is Hong Kong's third poorest EFC as revealed in Figure 13 - after education and training and R&D transfer. Eighty percent of the Experts' references to macro and micro economic conditions in Hong Kong were weaknesses, not strengths.

These ratings came not from lack of openness of the Hong Kong economy. The third-ranking strength of Hong Kong in Figure 14 cites economic freedom, laissez-faire government and a competitive market, but that is classified by GEM with government policies. The low score of this EFC is almost entirely due to the Experts citing Hong Kong's high cost of land and labor as Hong Kong's number one weakness (see Figure 14). One Expert summed up the cost problem by saying: "Hong Kong has no garages³."

The Experts, however, saw the high cost of business as affordable. Figure 21 shows that when the Hong Kong Experts were asked whether new and growing firms could afford the cost of market entry, they overwhelmingly said, "yes."

The small size of the Hong Kong market was cited as a barrier to entry by several Experts as was the hollowing out of Hong Kong traditional industries. On the other hand, Hong Kong's location in China and the rapidly developing Pearl River Delta (PRD) was cited by Experts as the sixth ranked specific strength, as Figure 14 above shows.

The Expert's third most commonly cited recommendation - open the border more fully with China and integrate more fully into the PRD - is partly directed at reducing these barriers to entry.

A far less important factor than cost was the role of the conglomerates seen by some Experts as dominating the economy. Although the influence of the conglomerates was the seventh most often cited weakness, the Experts on average did not consider that this influence constituted a serious barrier to entry, as Figure 22 shows.

³ Garages in private homes in North America are famous for being used as workshops whose marginal cost to entrepreneurs in early stages of a start-up company are near zero. Steve Jobs and Steve Wozniak started Apple Computer in Steve Job's parent's garage in Los Altos California, USA in 1976.



Access to Physical Infrastructure

Figure 13 shows that Hong Kong's Experts consider that our access to physical infrastructure on balance is a strength. Moreover, Hong Kong's Experts give higher marks to physical infrastructure than Experts of other GEM economies give to their economies.

Good access to physical infrastructure includes:

- Convenience of roads, utilities, communications and waste disposal
- Low cost of access to communications
- High speed with which phone and internet links can be set up
- Low cost of gas, water, electricity and sewage and
- High speed with which utilities can be connected

The high marks of Hong Kong's physical infrastructure is further corroborated by Figure 14 which lists it as Hong Kong's seventh listed specific strength.

Figure 23 shows that Hong Kong's physical infrastructure compares very favorably with both the US and the average of GEM economies. We do not show other Asian GEM economies separately simply because Hong Kong is rated consistently above all of them.

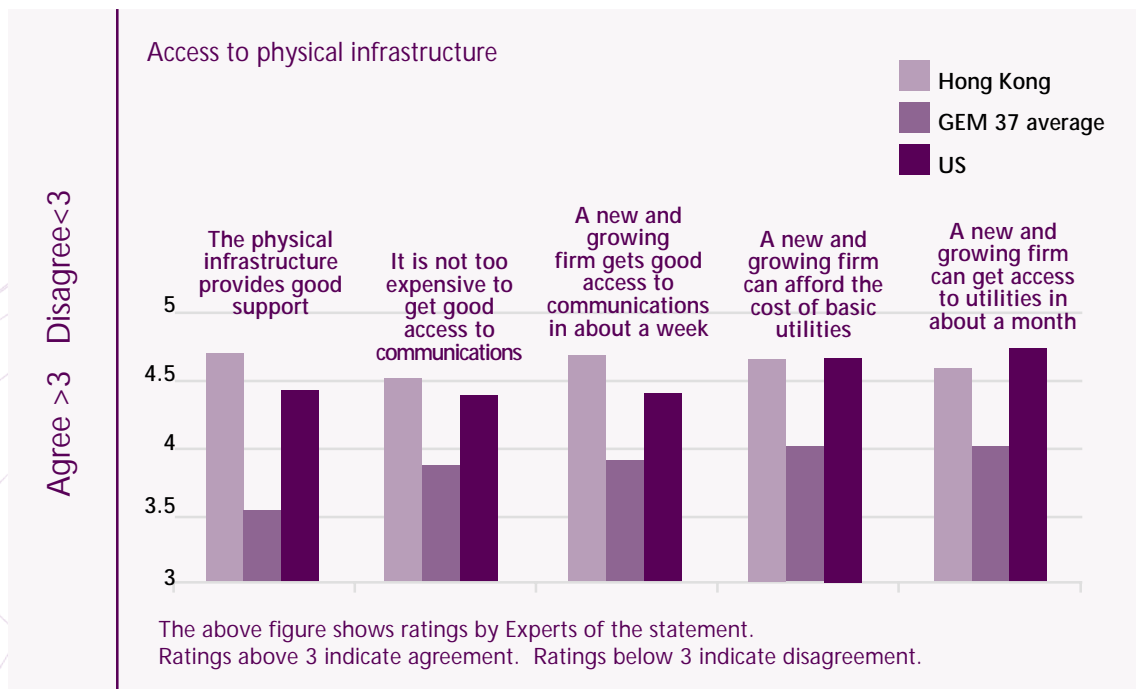


Figure 23

Cultural and Social Norms

As Figure 13 demonstrates, the Experts considered cultural and social norms to be roughly balanced between strengths and weaknesses. Interestingly, this fact holds true on average for the Experts of the other 36 GEM economies as well. In the rankings of Hong Kong's specific strengths and weaknesses in Figure 14, this ambiguity is also borne out. The second ranking strength, our strong work ethic, entrepreneurial culture and adaptable population and our tenth ranking strength, the global outlook of a society that is a melting pot of ideas are balanced by weakness numbers 3 and 5. The Experts together considered that there was erosion of entrepreneurial values and that risk aversion was growing as was reliance on government. Moreover, a get-rich-quick mentality, focusing on making money rather than value, retarded entrepreneurship.



Educational and social norms was the most discussed EFC after government policies. The strengths and weaknesses, however, tended to be less focused than the other EFCs.

Frequently, the Experts noted a contrast between a more entrepreneurial Hong Kong past and a less entrepreneurial present. On balance, the Experts considered that Hong Kong still has an entrepreneurial culture. If a person wants to start a business, after the initial resistance from the family in terms of security concerns, the outer circle of friends and associates will admire and encourage him.

Many Experts stated that in the past, Hong Kong people had to fend for themselves. There was no chance of a government handout and living conditions were difficult. Today, there is much less evidence of entrepreneurship as young people want to get an education and work in large companies and government bureaucracies.

Commented one Expert / entrepreneur

"I have opened and closed two businesses in two years. If you cannot survive, just close it and there is no embarrassment. Although there is sadness in failing to succeed (this time), there is no shame. The typical entrepreneur or SME has already taken a big risk and fully realizes that nobody can guarantee that you can make money from the business."

Several Experts commented that people in Hong Kong are more sophisticated concerning business than those in other large cities. They know about financing and, although they have not been schooled in entrepreneurship, they have exposure to small businesses. They react fast and think fast and they know and understand the "two worlds" of China and the west. SMEs have developed management abilities to coordinate trade and production globally.

Some referred to US MBAs who returned to Hong Kong and started small businesses as in the US. They want to be entrepreneurs. These people are particularly able to present their ideas, although they may lack management skills to develop the company.

One Expert spoke to the cultural norms of younger legal professionals, who have the vision and are willing to embrace new technologies and are more dynamic in venturing out to new practice areas. The level of prudence amongst the law professions has allowed it to continue to grow and service the demands of its clients regardless of the economic climate.

Several Experts referred to the highly competitive culture of Hong Kong that is reinforced by economic necessity. With a high cost of living, there is understanding that to afford this, you have to work hard. With a low safety net, people keep "job-hopping" to increase their income until they have to start their own businesses to continue their career advancement. Hong Kong people are generally very hardworking and willing to work long hours.

The culture encourages people to be their "own boss". People who have made themselves wealthy by setting up businesses are respected as being more admirable than most other people in society. This fuels the entrepreneurial spirit. There is little envy of people who are rich - they are assumed to have earned their money. There are many stories of entrepreneurs who have gone from rags to riches and people generally respect this.

Other comments: people are open to business ideas. English, the international language of business, is spoken here; there are few communication barriers. Hong Kong SMEs are highly independent in spirit. They can "smell" opportunity and are very fast and aware of where the opportunities are to be successful.

But the Experts we interviewed were concerned about recent unfavorable developments of cultural and social norms. Now, most people look for jobs in large companies like banks where the risk is low. The rise of professionalism has reduced entrepreneurship. Young people may have multiple degrees to ensure more secure and comfortable lives. They do not want to start firms or join start ups. They have become quite risk averse. One Expert gave the example of the law practitioners who start their own businesses, not wanting to go into new areas, which would require them to specialize.

People are becoming more reliant on government. In the past, Hong Kong had no safety net for its people. Now if you are in financial trouble, you can wait and hope for help. There is more protection for employees. Hong Kong people have fewer urges to start a business because their basic needs are being met such as subsidized public housing, an inexpensive public health system and increased welfare spending. This has affected their motivation to work hard to meet their own needs.

Some Experts blamed the erosion of the entrepreneurial spirit on the fast and easy wealth in the 10 years from 1987-97. That was a golden period when making money was easy. People took for granted the ease of making money and lost the chance to learn good practices during that time.

Because of a history of trading, most businesses in Hong Kong have a short-term orientation by preferring arbitrage and speculation to long-term investment. They expect the payback period on investment to be short (less than a year and a half). The property bubble exacerbated this orientation towards speculation.

Several Experts noted that Hong Kong manufacturers do not have a tradition of innovation. Many of them started their business as original equipment manufacturer (OEM) producers for foreign corporations. Except for a few of them, they only assembled parts provided by these overseas companies and have not been concerned about producing their own products or developing their own brand.

One comment was that Hong Kong people do not support each other by sharing ideas and helping each other grow in their respective businesses. Instead the community is critical and tends to focus on the negative, such as how things will not work, and “what the entrepreneur did wrong” as opposed to how things can be made to work.

Another Expert said that Hong Kong people do not warrant our international reputation as risk seekers. We are actually quite risk averse because we want to do things in proven ways. This is because we want to be quick and therefore do not want to try new ways: experimentation takes time.

Some Experts also argued that Hong Kong entrepreneurs had trouble asking the question of “what’s next?” As a result, when the fad fades, we just close shop or move into other areas, as we have not taken a long term or strategic view of the situation. The entrepreneurs in Hong Kong also have a short-term vision and commitment in business planning. For example, there is a tendency to design business plans to maximize short-term profits from investments. We tend to ignore the long-term development of business. As a result we are unable to build brand names and more lasting businesses, rather shifting from one business area to another.



Background Discussions

In the following sections, we provide some background to and discussion of the EFC.

Entrepreneurial Financial Support Background Discussion

In Hong Kong, the financial services industry is important, because it supplies essential services not only to the SAR but also to the national and regional economies. This export of financial services generates employment opportunities and income. Of the largest 100 banks in the world, 80 of them are represented in Hong Kong's banking sector. All of the major investment banks in the world have operations here. Hong Kong is also an insurance, asset management and venture capital center.

Hong Kong is a small open economy with a negative balance of trade in goods more than offset by a positive balance in trade-in-services. Producing and exporting financial services employs 14 percent of Hong Kong's labor force, almost three times the relative employment in finance in the US. Financial institutions – dominated by banks – make up 29 percent of the capitalization of the Hong Kong stock market, again substantially larger than the figure for the US. Preserving the integrity of Hong Kong as an international financial center is of great importance. A crucial factor in preserving that integrity is our regulatory regime: it must be consistent, clear and internationally benchmarked. Prospective policy changes must be evaluated in light of this reality.

Entrepreneurs are ambitious individuals, highly dedicated to the implementation of their plans. They need resources – particularly capital. They frequently need external capital to realize their ambitions. Yet external suppliers of debt and equity capital are aware of the very high mortality rates of new companies: most fail. Hence, suppliers of debt and equity capital tend to invest conservatively. Persons not trained in start-up investment analysis frequently interpret this conservative behavior as the lack of financial support – even when capital is available for the right projects.

Entrepreneurial financial support in the form of private equity capital for start-ups is available from two main sources

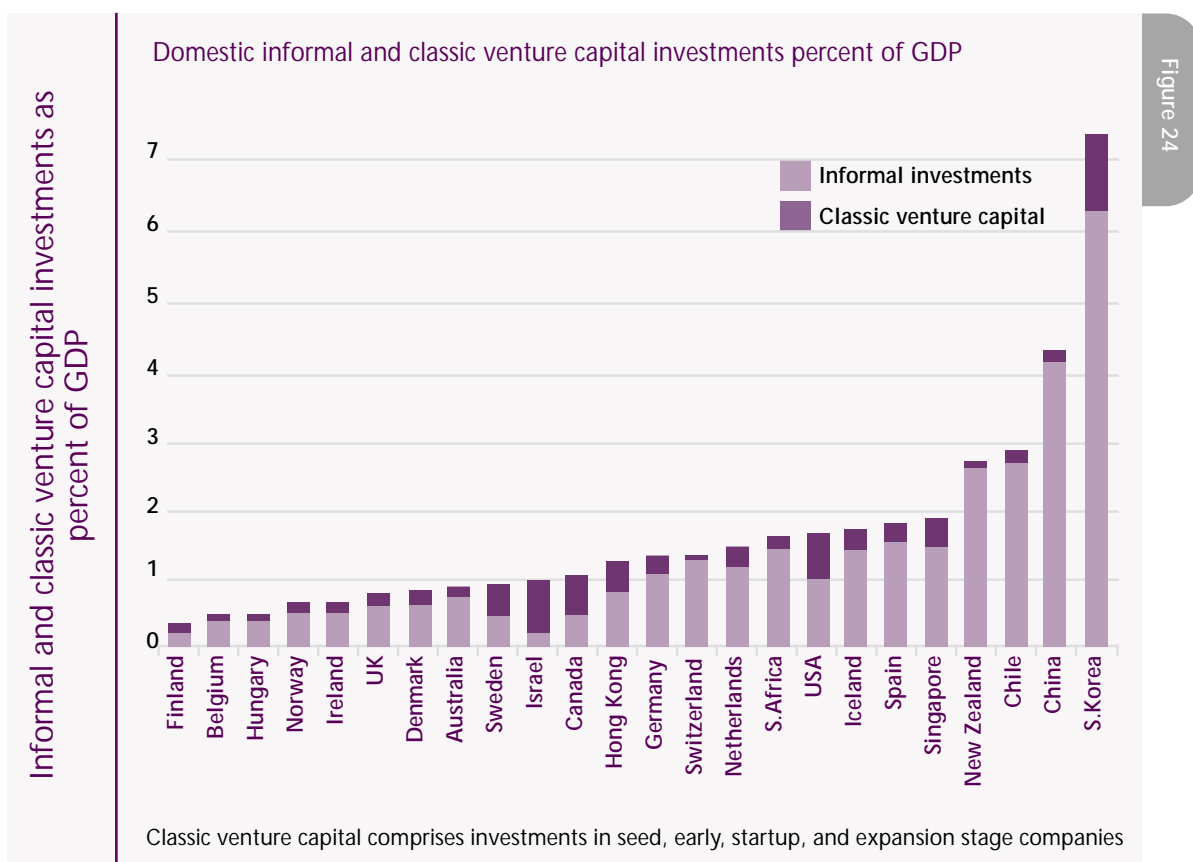
- Informal Capital
- Venture Capital

In addition, this section also briefly discusses

- Bank Debt Capital

Capital from government programs is considered below under “Government programs background discussion”.

Figure 24 shows that in terms of 2001 financing for new ventures as a percent of GDP, Hong Kong is a middle ranking GEM economy with informal capital investments of 0.91 percent of GDP and venture capital investments of 0.21 percent of GDP.



Informal Capital

In Hong Kong, as in the rest of the world, informal capital (often called “angel capital”) is by far the most important source of financing of new businesses. GEM estimates that informal investors finance 99.99 percent of start-ups in the world.

Informal investors are not widely studied because information on them is not systematically tabulated: informal investors have no industry associations and are not regulated by any government bodies. In our random sample of 2,000 Hong Kong adult residents, however, we identified 61 informal investors who in the last three years had invested in a startup. This number corresponds to a prevalence rate of 3.1 percent of the population, a rate slightly above the average of the 37 GEM economies, where it was 2.9 percent. Although Hong Kong is in the bottom ranks of entrepreneurship by TEA, it appears to be in the middle ranks by informal investments over the same period.

The characteristics of the 61 informal investors are shown in Figure 25. They are two thirds male and their average age 37 and are only slightly lower than the average of the population. They are much more likely to have primary and secondary education but are less likely to have gone beyond secondary school (i.e., matriculation, post secondary diploma or university degree) than the rest of the populace. They are confident in their business skills but claim to be slightly more cautious than the rest of the populace. The average size of investment for the 58 who gave the amount of their investment was HK\$167,810. Eighty percent of the investments of these informal investors are in Hong Kong itself.

Characteristics of Hong Kong informal investors

Item	Adjusted average of informal investors	Adjusted average of random sample
Average age	36.6	38.9
Sex:percent male	67.2%	49.4%
Percent permanent resident	96.4%	97.7%
Maximum educational attainment		
• Primary	7.7%	21.2%
• Secondary	62.6%	52.5%
• Matriculation, diploma & degree	29.6%	24.9%
• Masters and others	0.1%	1.4%
Monthly income		
• Below 4000	15.3%	33.0%
• 4000 – 20000	52.7%	51.8%
• 20000 – 60000	25.5%	13.2%
• Above 60000	6.5%	2.0%
Percent working full time	72.2%	57.1%
Employment		
• Self employed	24.4%	5.4%
• Professional	19.2%	9.6%
• Clerical	15.7%	19.2%
• Blue collar	14.4%	17.3%
• Housewife	8.8%	17.1%
• Retired	5.3%	6.0%
• Other	12.2%	25.4%
Has knowledge to run a business	53.8%	23.1%
Fear of failure would prevent starting a business	40.0%	36.2%
Average investment amount	HK\$167,810	--

Averages weighted by the age distributions known to characterize the Hong Kong population to offset over-representation of elderly

Figure 25

Contrary to the view of closely knit families providing the key to informal investing in Chinese society, only 18 percent and 8 percent of the investments of informal investors are with close family or other blood relatives respectively. The majority - 69 percent - invest with friends or neighbors while only three percent invest in the startups of business colleagues. Informal investors are slightly richer than the average household, but are by no means wealthy. Only 6.5 percent had monthly incomes over HK\$60,000. Informal investors are spread fairly evenly over the regions of Hong Kong with no apparent concentrations, with the possible exception of Yuen Long. Whereas only 11 percent of the sample came from Yuen Long, a full 16 percent of informal investors came from there. Most informal investors are employed, with almost one quarter running their own businesses and the next largest portion being professionals.

Figure 26 shows the average sizes of informal investments in the US and in Hong Kong. Looking at the middle two columns in the graph, one can see that approximately 60 percent of Hong Kong informal investments are below US\$10,000 while a lower 42 percent of US informal investments are below US\$10,000. Figure 26 highlights two problems. On one hand, the investment entry threshold for informal investing appears to be higher in Hong Kong than in the US. Whereas in the US, 16 percent of informal investments are less than US\$1,000, in Hong Kong, the figure is less than seven percent. Not only is the entry threshold higher in Hong Kong than in the US; the availability of larger principal amounts of informal expansion capital appears to be a lower proportion in Hong Kong than in the US. Only 27 percent of Hong Kong informal investments are more than US\$20,000. For the US, the figure is 42 percent.

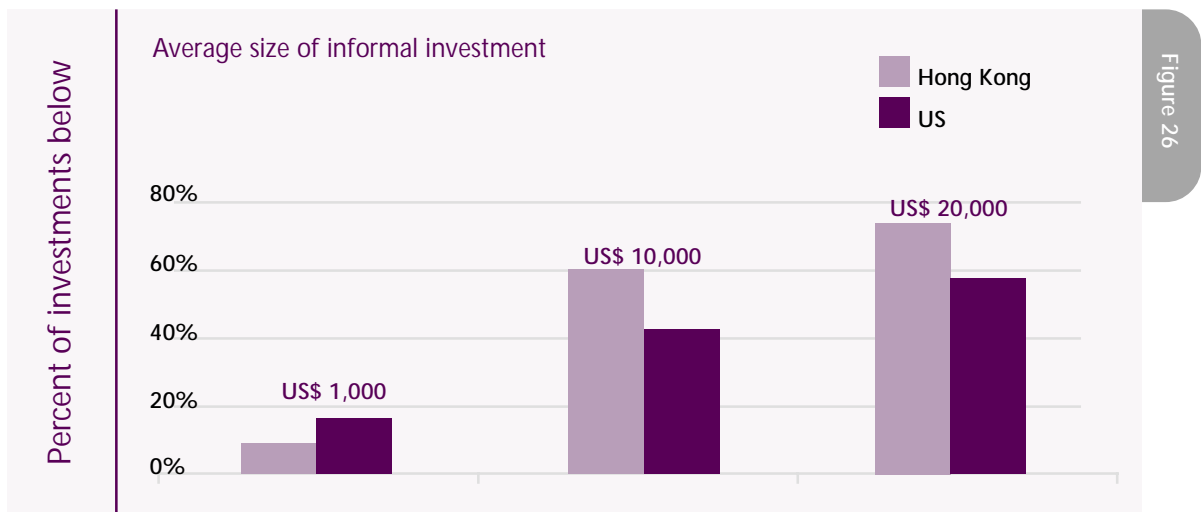


Figure 26

Venture Capital

Venture capitalists solicit commitments to invest capital from institutional investors. These commitments are pooled into limited partnerships or funds, each of which is run by a general partner - the venture capitalist. During a fund's early life, the general partner invests the money in private, young firms with good growth prospects. During its later life, the fund earns returns on its investments when the private firms realize their promise of growth and are either acquired by other companies or issue their shares publicly.

We use the term "venture capital" in its classic sense: capital for the seed, early start-up, and expansion phases of investment. Thus, as we use it, "venture capital" excludes later stage, pre-IPO, acquisition and buyout and other forms of "private equity" that are often included under the term by some analysts. Venture capital was virtually unknown in Asia prior to the 1990s. Today, a thriving East Asian venture capital industry is centered in Hong Kong (Japan's venture capital industry is domestic). The venture capital companies based in Hong Kong invest far more in other areas of East Asia (particularly in China) than in Hong Kong itself. The following statistics, however, relate to the venture capital investments in Hong Kong itself.

Hong Kong-based venture capital funds, through the late 1990s, obtained new capital commitments of about US\$4 billion per year, although that fell to about US\$1.6 billion in 2000-2001. Note that investments differ from commitments. Institutional investors make commitments to a fund when the fund is set up. The fund manager draws down commitments to make investments in young companies in the early years of the fund's life. Because the timing, use and even the availability of commitments is not certain, GEM focuses on investments not commitments in describing venture capital's role in financing entrepreneurship.

While the number of venture capital investments pale beside those of informal investors, the principal amount per venture capital investment is large. Moreover, because venture capitalists finance those projects that have high growth potential, their importance in capital and R&D intensive entrepreneurship is substantial. Figure 27 shows the average size of venture capital investments in the GEM economies.



US\$1,000 per company

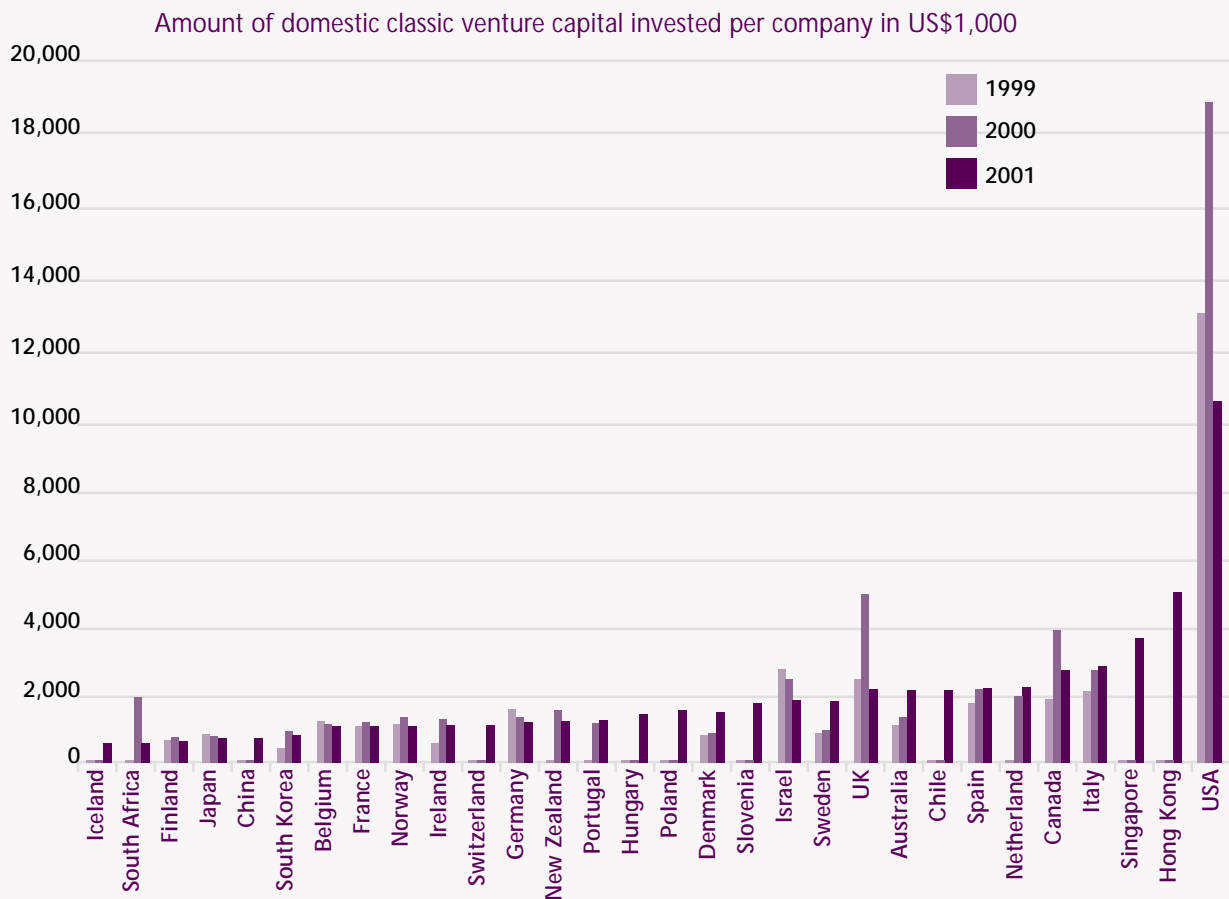


Figure 27

Classic venture capital comprises investment in seed, early, startup, and expansion stage companies.

The average size of each venture capital investment in Hong Kong in 2001 was US\$7.1 million, a number roughly comparable to the average size of venture capital investment in the US (US\$10.7 million), and considerably larger than other economies in the GEM study. Figure 28 shows that only 41 firms were financed by venture capital investments in Hong Kong from mid year 2000 to mid year 2001. Given their high principal amount per company, however, these firms accounted for about 19 percent of the total investments in startup companies in Hong Kong.

Number of companies receiving domestic classic venture capital in 2001, 2000, & 1999

Figure 28

	1999	2000	2001
Asia			
Australia	257	312	154
China	NA	NA	225
Hong Kong	NA	NA	47
Japan	960	2328	2328
New Zealand	NA	25	18
Singapore	NA	NA	90
South Korea	1945	1863	4851
Europe			
Belgium	291	249	161
Denmark	99	132	164
Finland	215	262	306
France	1389	2139	1129
Germany	1286	2592	1627
Hungary	0	28	19
Iceland	NA	NA	26
Ireland	130	125	103
Italy	217	378	255
Netherlands	NA	332	250
Norway	92	183	183
Poland	NA	72	41
Portugal	NA	110	44
Slovenia	NA	NA	2
Spain	247	312	327
Sweden	491	471	340
Switzerland			81
UK	688	750	589
Middle East and Africa			
Israel	141	513	438
South Africa	0	119	175
The Americas			
Canada	757	1024	948
USA	3478	5250	3798
Chile	NA	NA	52
Total	12683	19569	18771

As Figure 29 shows, venture capital investments were not evenly distributed across industries. Seventy-nine percent were invested in computer hardware, communications and other electronics investments⁴

Money invested by industry of company in Hong Kong

Industry	Number of companies	Total amount invested in US\$ millions	Average investment per company in US\$ millions	Amount invested per capita of Hong Kong population in US\$ dollars
Computer software & services	0	0	0	0
Computer hardware	30	162.55	5.42	24.19
Communications	9	48.77	5.42	7.26
Semiconductor & other electronics	2	188.50	94.25	28.05
Biotechnology	0	0	0	0
Medical/health	1	3.62	3.62	0.54
Consumer related	1	NA	NA	NA
Industrial/energy	1	NA	NA	NA
Other	8	144.28	18.04	21.47
Total	52	547.72	10.53	81.51

Figure 29

Source: VE/Thomson and publicly available company data

Debt Capital

To reduce credit risk, banks will not in general lend to a start-up company unless the company has collateral (i.e., “asset-backed lending”) or is guaranteed by a credit-worthy third party. The situation tends to change after the company starts making steady sales. Then the new company can finance some of its working capital requirements with bank lines of credit for a portion of the value of receivables and inventories. A company that has been in business for several years and accumulates an audited history of stable profits may be credit-worthy in its own right. At this point, some banks will lend against expected future cash flow: they will practise “cash flow lending”, rather than simply rely on pledged asset values. But banks doing cash flow lending to SMEs do so with great care. They typically require first claims over the company’s assets and may continue to require owner guarantees. Bankers know that many successful bank loans yielding just a few percentage points over a bank’s cost of funds must be made to recover the losses from just one bad loan.

Bank debt financing for start-up companies most often is more accurately described as equity financing by the entrepreneur. The entrepreneur gives personal guarantees, and the bank relies on the credit-worthiness of the entrepreneur, rather than the start-up. Frequently, the bank takes collateral in the form of property or marketable securities owned by the entrepreneur. Because both property and share values have fallen in Hong Kong, the amount of bank loans, backed by entrepreneur assets, have also fallen. This however, is a reflection of the personal wealth of entrepreneurs falling, not a lowering of banks’ direct debt financing of start-ups.

⁴ Figure 29’s totals do not correspond with those in Figure 28 because Figure 29 defines venture capital more widely than Figure 28.

Government Policies Background Discussion

Hong Kong's rule of law, clean and transparent government, free market principles, low tax and ease with which companies can be set up are strong assets, the preservation of which is essential. Any change in government policy should be assessed in relation to its effect on these strengths.

Three potential risks involved in policy changes concern

- Increased taxation
- Decreased transparency and
- Reduced consistency.

Increased government spending must be financed by increased government revenue. At a time when government revenue is chronically insufficient to support existing expenditures, taxes must be increased to support any new programs or policies to subsidize entrepreneurs. This militates against implementing new, costly policies.

Government policies are only effective if they are understood sufficiently by those administering them and by those affected so that objective decisions can be made on the written word of the policies, not the opinions of the policy implementers. Increases in government policy complexity, even if implemented with the best intentions, increases red tape. SMEs are the companies least able to deal with red tape in the economy because they are small and most are unsophisticated. Hence clarity and simplicity are essential for SMEs. One of the fears leading up to 1997 was that the government might be overtaken by "PRC corruption". Corruption in government is a natural outgrowth of a system where regulations are not sufficiently clear to be effectively implemented. Any increases in policy complexity are likely to decrease government transparency and may increase favoritism, if not outright corruption. This would be particularly troubling now, as people in Hong Kong believe that transparency is already decreasing.



A recurring theme in the interviews was that the government should have a consistent policy with respect to the economy in general and entrepreneurship in particular. The government's wish to appear decisive, however, may cause an increase in the government inconsistency if today's "proactive policy decisions" are reversed following a future policy review, budget or market change.

The above considerations make us cautious in our recommendations for change.

We discovered in our research a growing gulf between policy makers and the populace. The Experts whom we interviewed gave high marks for government policy, but they were concerned that these policies were at risk. At the popular level, where most entrepreneurship takes place, we believe that the confidence in government policies is far less than among the Experts. There is a lack of popular "buying into" government policies, partly because the government is perceived as being overly influenced by large business interests, and lacking in consistency. Starting a new business is a statement of faith in the future. We believe that Hong Kong's low TEA score reflects a popular lack of confidence, not only in the economic prospects, but also in government policies. If this lack of confidence in the government and its policies is overcome, we believe that entrepreneurial activity will increase.

Government Programs Background Discussion

The SAR government has a number of programs to support entrepreneurship and SMEs. In this section, we will review briefly those programs.

The government launched a Special Finance Scheme for SMEs in August 1998, in which it acted as the guarantor for loans from banks or finance institutions of up to \$2 million, or for 70 percent of the loan value, whichever was less⁵. The purpose was to help SMEs that experienced credit loss during the 1997 financial crisis.

The government and its agencies operate a number of other funding support schemes and programs to help industries develop technology-related innovation, as well as to support the development of SMEs in Hong Kong. The programs are as follows.

- Applied Research Fund: This is a venture capital fund to support technology ventures that are undertaken by local companies.
- Innovation and Technology Fund: This fund supports projects that contribute to innovation and technology upgrading in local industry, as well as those that contribute to the upgrading and development of local industry.
- Small Entrepreneur Research Assistance Program (SERAP): SERAP is a “technopreneur” fund that awards seed funding to small, technology-based companies and entrepreneurs to carry out business-oriented research that could become commercially viable.
- Patent Technology Application: These grants aim to assist Hong Kong residents or permanent residents, as well as their companies, who have never owned any patents to apply for patents for their inventions. To place this in context, the number of standard patents that were applied for and granted increased from 147 in 1997 to 2,737 in 2000. There was a substantial increase in 1998, with the approval of 2,434 patents. However, the number of approved patents declined in 2001 to 1,146.
- Industrial Research Chair Scheme: This scheme assists industry and universities with research efforts in technology fields that are not yet developed in Hong Kong, but for which there is good development potential.
- Teaching Company Scheme: This scheme aims to foster university-industry partnerships by enabling local companies to hire graduate students from universities to assist in proprietary research and development work.
- Matching Grant for Joint Research: This scheme encourages private companies to collaborate with universities in proprietary research and development projects. The participating companies share half of the total project cost in cash.
- New Technology Training Scheme: This scheme provides funding support of 75 percent of the total training cost for staff who are trained in new technologies.
- SME Business Installation and Equipment Loan Guarantee Scheme: This scheme helps SMEs secure loans from lending institutions to acquire business installations and equipment, with the government being the loan guarantor. The aim is to help SMEs improve their productivity and capabilities.
- SME Export Marketing Fund: This scheme provides financial assistance to SMEs to encourage them to actively take part in export promotion activities in order to expand their overseas markets.
- SME Training Fund: This scheme provides financial assistance to SMEs to send both their employees and owners to training that is relevant to their business operations.
- SME Development Fund: This scheme awards funding to non-profit support organizations, trade and industrial organizations, professional bodies, and research institutes to carry out projects that will improve the competitiveness of SMEs in Hong Kong in general, or in specific sectors.
- TechMart: This scheme aims to assist start-ups in commercializing their technology by lining up potential strategic investors. It was established 18 months ago by the Hong Kong Productivity Council, which is a quasi-governmental body, with the task of promoting the development of would-be technology firms that are approaching the pre-IPO stage.

⁵ Staying Ahead: Smart, Motivated, and Enterprising. A Report on Support Measures for Small and Medium Enterprises. Small and Medium Enterprises Committee, June 2001, page 95.

Hong Kong Science and Technology Park

The Hong Kong Science and Technology Park was established in 2001 to offer “one-stop” infrastructure support services for technology-based companies. Its services address the needs of the industry, ranging from nurturing technology start-ups at its business incubation program, to providing land, premises and services in the Science Park for applied research and development activities. It also provides land and premises to companies in the industrial estates to build production facilities. Inco-Tech is one of its incubation projects that help technology start-ups prepare their products for the market. Approximately 60 firms are now in the program, which has a target of 100 firms.

Hong Kong Applied Science and Technology Research Institute

The Hong Kong Applied Science and Technology Research Institute Company Limited (HKASTRI) was established in 2000 to provide the research capability for technological development. The aim is to perform relevant and high quality research that can be transferred to industry for commercialization. ASTRI’s research programs initially focused on technology areas such as optical, wireless, Internet content and applications, and semi-conductor design.

Hong Kong Jockey Club Institute of Chinese Medicine

The Hong Kong Jockey Club Institute of Chinese Medicine Limited (HKJCICM) was established as a subsidiary of the HKASTRI in 2001. It aims to make Hong Kong a world center in developing health foods and pharmaceuticals based on Chinese Medicine. This process will involve evidence-based clinical studies, safety assessment and evaluation.

People-based Infrastructure (i.e. business advisory services)

Hong Kong has well-established and extensive services that provide professional support to new and existing businesses.

The Trade and Industry Department has been enlarged and renamed its SME Information Center as the Support and Consultation Center for SMEs (SUCCESS). Its mission states:

“Through partnership with various Government departments, licensing authorities, trade and industry associations, support organizations, and professional bodies, SUCCESS provides SMEs with a comprehensive range of information advice, and facilities under one roof. The aim is to help SMEs resolve problems at different stages of their development.”

The Hong Kong Productivity Council established its SME Center in 1997 with the aim of assisting enterprises with financial advice that included cash flow budgeting, setting up management costing systems, business plan writing and financial performance analysis. Its latest program, TechMart, aims to match innovative individuals with entrepreneurs and investors.

The Trade Development Council (TDC) operates a Customer Service Center to assist SMEs through trade consulting and advisory services, and also offers a venue for mini-exhibitions and networking opportunities. It reports an average of 1,500 visitors per month. There is also a virtual SME Center on the TDC’s trade portal that supplies up-to-date business information 24 hours a day.

The Vocational Training Council, Management Development Center houses a Business Start-up Center to help individuals in setting up their businesses. It provides accounting, marketing, management and legal advisory services to its registered users. Cubicles of varying sizes are available for monthly rental, and photocopy, fax facilities, and telephone and Internet services are provided. It has capacity for 400 users. The TDC recently launched a similar business service center for start-ups.

Education and Training Background Discussion

Rote learning, memorization, and an examination-oriented curriculum leave little room for other courses that will teach the youth about the methods of business creation. We agree with the Experts that the education system is problematic and that it should be reformed to stimulate independent thinking and self-reliance, critical thinking in identifying and understanding problems and creativity in solving problems.

To the extent that the education system is currently under review, we believe that the government is moving in the right direction. Educational reform is not a subject on which the GEM Hong Kong team has expertise. We recognize that the subject range necessary for entrepreneurship in an increasingly technological economy is wide but should include

- Basic financial skills
- Macro-economics issues that had important consequences for them and the society
- Mathematics, biology, information technology, etc.

In addition, emphasis on communication skills in English and Putonghua are essential.

Moreover, in pursuing these subjects, neither the liberal nor the fine arts should be ignored. The problem is one of allocating scarce education budgets and curriculum time to a broad spectrum of needs.

Continuing education is at least as important as formal education. We agree that "...the days of the unschooled entrepreneur are over," as one Expert put it. Although the work of entrepreneurs is hectic with little time for professional development, it is incumbent on entrepreneurs not to stop learning. They should invest in training for themselves and their staff to upgrade skills and business knowledge. Hong Kong enterprises should set aside the time and money for training. To make such investments in education, Hong Kong enterprises, especially smaller ventures, must change their priorities.



R&D Transfer Background Discussion

While the SAR government has invested considerable funds in research at Hong Kong's universities, the level of research in terms of spending as a percent of GDP is still low by developed economy standards.

But the real problem is not research spending. It is how to commercialize that research.

Hong Kong lacks R&D transfer arrangements that can facilitate university-based entrepreneurship. Areas that must be addressed include sharing of profits, ownership of new ventures and intellectual property. At present, collaboration with university staff is problematic because of government restrictions.

Professors in Hong Kong's universities have little incentive to risk their positions by spending time and energy transferring their research to the business world. If they did so, they would lower their research output and receive little reward in terms of intellectual property, royalties and equity ownership problems.

Government-funded R&D leaves the ownership of the intellectual property in government hands. Most university researchers see little advantage to becoming entrepreneurs although some academics are running their entrepreneurial projects part-time.



In terms of collaboration with universities and other research organizations, our observations corroborate the Experts' report that universities prefer to work with established corporations here as opposed to entrepreneurial firms. Think tanks, industry consortia and major philanthropic organizations are a relatively new phenomenon in Hong Kong and do not as yet play a significant role in grant giving and R&D. Universities are hesitant to encourage entrepreneurs because collaboration with established firms promises better assurance of funding, resources and eventual success. The universities do not want to take risks working with new ventures.

If the overall environment were favorable, the universities might focus on new areas where they could commercialize their research. However, there is uncertainty as to whether universities would be able to manage good business operations and provide proper staff incentives, as this is not their competency. For entrepreneurial ventures, universities need to look for entrepreneurs who can help bring the innovations to market. Quasi-government units like the Hong Kong Productivity Council have helped businesses in training and management skills for their employees. Helping SMEs and start-ups with R&D is not prevalent in spite of some new government initiatives. Though promising, it remains to be seen if these programs can be expanded and also can bear more fruit over time.

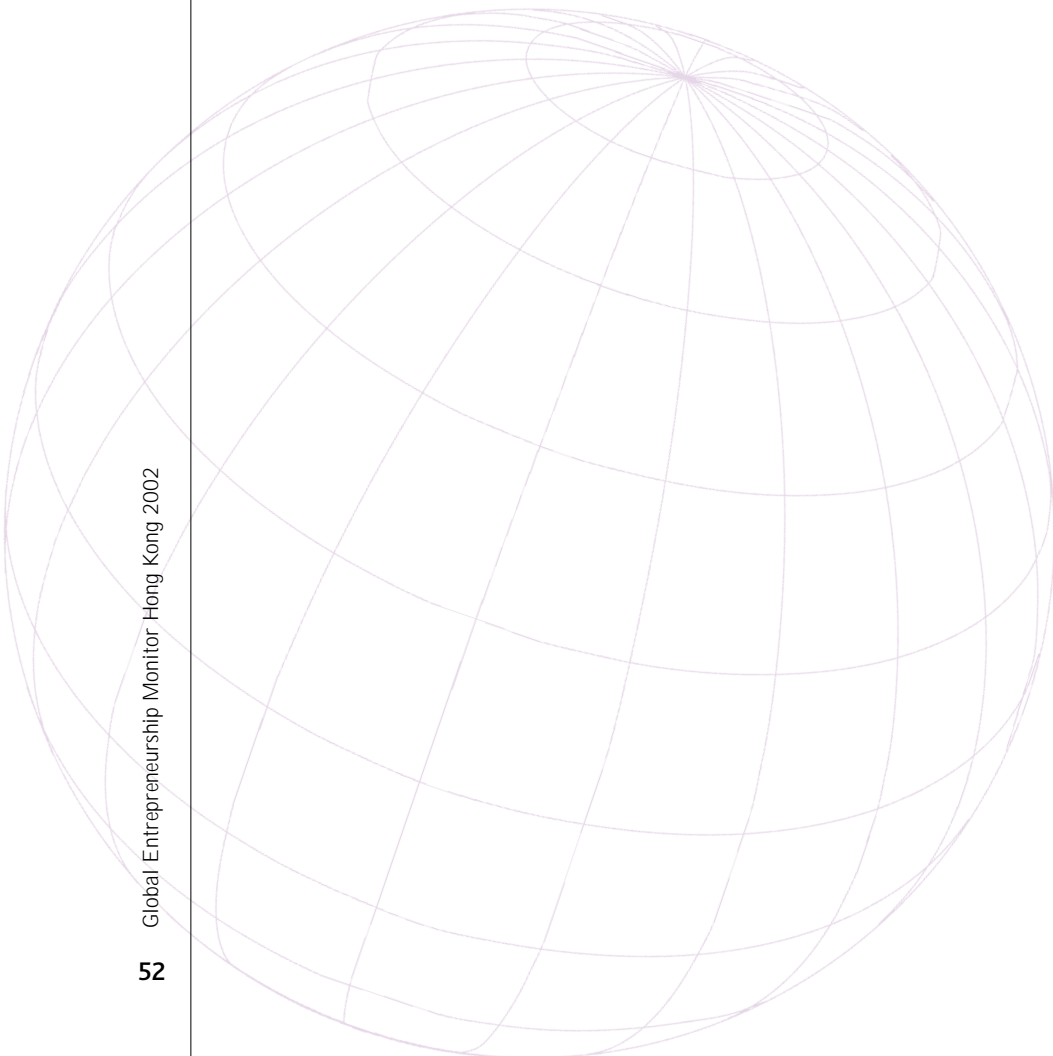
A further impediment to R&D transfer is that Hong Kong firms have little tradition of R&D. Even during the prosperous times in Hong Kong, local firms and entrepreneurs failed to create R&D capabilities and generally speaking, seldom focused on new technology development. Exceptions to this generalization were firms such as VTech and Johnson Electric that did invest in R&D, even when they were small firms. They avoided the temptation to move into the property market and hotel management areas – the hot growth industries of the 1980s and 1990s, choosing instead to focus on their core businesses. One result is that these firms have built well-known brand names and have remained competitive through the financial turmoil at the turn of the century. Other Hong Kong firms need to learn from the positive examples of these firms and their focus on areas close to their core products.

One of the criticisms of the Growth Enterprise Market is that some technology firms have chosen to use their IPO proceeds to acquire property rather than putting the money into R&D. Similarly, others have called the Hong Kong government investment in the Cyberport simply another real-estate play for Hong Kong's property developers. Whether or not property investment is a major distraction or a minor concern, the Experts expressed almost universal disquiet about the lack of R&D among Hong Kong entrepreneurs as well as the propensity toward unrelated diversification.

Access to Commercial and Professional Infrastructure Background Discussion

We concur wholeheartedly that Hong Kong has an excellent commercial and professional infrastructure.

It is noteworthy, however that Hong Kong's first class commercial and professional infrastructure is not an unmixed blessing for entrepreneurship in Hong Kong. Much of the infrastructure that is of such high quality is not immediately available to small Hong Kong entrepreneurs that are trying to develop their new companies. Those managers with multiple professional skills tend to be more interested in working for large corporations, multinational corporations and the government than in the HK enterprises. They prefer to work in more established businesses instead of new ones. Moreover, Hong Kong's position as a service center means that experiences are mainly in sales and marketing rather than the full range of business activities. The very success of Hong Kong as a service center with an excellent professional and commercial infrastructure that can service multinational corporations has also created a situation where these managers prefer to stay in a more secure environment rather than joining new ventures where there is more risk of failure.



Market Openness and Barriers to Entry

Background Discussion

There is a paradox between the Experts' perception that Hong Kong is a very expensive place to start a business and their conclusion that the cost is affordable by entrepreneurs. The paradox can be resolved as follows. Over the last two decades, Hong Kong has always been a high cost center. Entrepreneurs have thrived over this time period by working more efficiently and by transferring labor- and land- intensive activities to lower cost locations in the PRD. Experts consider that the high cost of Hong Kong is the price that has to be paid to be here. Entrepreneurs have paid it. Therefore, by definition, it must be affordable. Declining costs, of course, would make it even more affordable.

Prior to the opening of China in the late 1970s, Hong Kong was a self-contained manufacturing and service-providing city. Now, it is not. Shenzhen is our twin city, and the PRD is our hinterland to which we have shifted our manufacturing base, leaving Hong Kong as a service center. This is not unusual for large cities. Neither Manhattan nor the City of London have substantial manufacturing industries. Both are service centers for large hinterlands. Land and labor costs are high in Manhattan and the City of London compared with their hinterlands, but they are not high when one adjusts for convenience of location and efficiency. What makes Hong Kong different from these service centers' relationships with their hinterlands is our inter-economy border, a border far more difficult to cross than the international borders of North America and the European Union.

Although land costs and labor costs have fallen recently, some of them are still high relative to costs in our hinterland, even adjusting for convenience and efficiency. While wage and price deflation is still occurring, entrepreneurs are less likely to make investments than they are to wait until they believe that land prices and wages have stabilized.

Meanwhile, one barrier to entry - the border with Shenzhen - prevents easy access to our hinterland, retards the degree to which Hong Kong entrepreneurs can take advantage of our excellent location as the gateway to one of the fastest growing regions of the world, the PRD. This barrier also retards the enjoyment of the amenities of South China by the population of Hong Kong, the enjoyment of Hong Kong by the population of South China and the mutual understanding that casual contact engenders.

Asscess to Physical Infrastructure Background Discussion

The Experts' consistently high ratings for Hong Kong's physical infrastructure do not objectively compare the costs of accessing physical infrastructure. They are a subjective judgment that rates the costs as "not too expensive" and "affordable" for the new and growing firm. We discuss the high costs of land and labor in "Market openness and barriers to entry" above. Some aspects of those high costs affect physical infrastructure - i.e. the high costs of running a vehicle, water and sewage rates, electricity, etc.

Hong Kong is a logistics hub of Southeast Asia. Our facilities and speed of access are world class. The high efficiency comes at a cost. But we share the overwhelming opinion of the Experts that the costs are reasonable.

Cultural and Social Norms Background Discussion

Social and cultural norms used to be considered a strength of the Hong Kong entrepreneur, though now as Hong Kong looks to expand its pool of entrepreneurs and move into higher value technopreneurship, these norms are no longer seen as a strength. Entrepreneurs in Hong Kong need to come up with new ideas and unique propositions rather than just copy past ideas. They should build more lasting brands and positions in the market. This ability requires a number of competencies that our Experts argued Hong Kong entrepreneurs have not yet widely demonstrated.

Hong Kong has experienced great prosperity and success in the past 50 years. Ironically, our prosperity has eroded the tenacity that engendered success. Presently, many Hong Kong people are disheartened by the last few years of poor growth and deflation. Many are unable to accept the more difficult conditions. Yet those who complain about Hong Kong's problems fail to see how fortunate Hong Kong actually is. Compared with most Asian economies, Hong Kong is in a good position. Yet our changed circumstances affect people's sense of security, which impacts on the propensity to buy and invest locally.

Social changes in Hong Kong may have lowered the need and urge to start new ventures. The desire for social mobility has declined as people have become more settled and there are now a variety of new opportunities, many of which are in larger firms. Hong Kong is also now wealthier as a society. It has turned into more of a "credential-based" society. The youth are now more interested in getting degrees and professional qualifications to secure employment with large corporations or the government. Being an entrepreneur has become less attractive to young people. To combat this reduced appeal, the Hong Kong education system should create more interest in entrepreneurship. In addition, the media has to not only participate in the discussion but also draw attention to entrepreneurs, counting them among the "heroes of society."

People also need to see things in a broader perspective in the midst of uncertainty as they struggle with the economic downturn. We should learn not only where Hong Kong lags behind other economies but also where Hong Kong leads now and where its comparative advantage lies in the future.



Integration with the PRD is a clear example. The population of the PRD now stands at 40 million with projected growth to 60 million in the next decade. The per capita GDP qualifies this nearby region as an emerging economy in its own right. Not only should Hong Kong continue to take advantage of the land, resources and improving labor market of the PRD, but also start to better serve the sizeable market that is emerging.

Talent and resources should be able to flow in both directions. Historically, Hong Kong benefited from numerous talented immigrants from China. They came from Shanghai, Guangzhou and Fujian province primarily and were experienced in business. Hong Kong can continue to draw on some of the best and brightest in China and among Chinese organizations based on the Mainland. Taken together, Hong Kong needs to integrate more fully with the Mainland, and particularly with the PRD. This region constitutes a major hinterland for production, and increasingly, an important market for goods and especially, services from Hong Kong. With a population of 60 million, the delta alone can potentially become a market the size of France, with enough critical

mass to sustain entrepreneurial efforts in a number of product and service categories. Hong Kong entrepreneurs must position themselves to better understand and capture that market as it emerges.

Developed cities such as Hong Kong are service centers. There is little to be gained from idealizing our manufacturing past. There is a need to rectify norms of society to have a balanced focus on businesses of various kinds - not to be shortsighted in starting new enterprises. As a mature metropolitan city, Hong Kong needs to have a good balance to have all kinds of industries including the arts and media - the so-called knowledge industries that Hong Kong can potentially excel in, much like New York or Los Angeles does in the US. Hong Kong has shifted from manufacturing to more complicated processes and an integrated economy. This requires a cultural change of values, where again the education and media sectors have a role to play to promote these changes.

Recommendations

Recommendations to Government

1. Implement no policy change that will cause substantial increases in government spending, tax system complexity or procedures for starting a business.

Low tax, simple and clear regulations and ease of business registration are crucial to Hong Kong's competitiveness. Financial subsidies tend to attract applicants familiar with the application system. If familiarity is not widespread, cronyism in accessing government subsidies will naturally occur.

2. Reduce barriers to entry that protect or are seen to protect the interests of large companies over the interests of small companies.

Consumers and entrepreneurs benefit from increased competition. The government must be seen not to favor the large business. If barriers to entry or the perception of barriers to entry are reduced, entrepreneurship will increase.

3. Strengthen intellectual property protection and disbursement of information concerning intellectual property protection in Hong Kong.

New products development may be slowed because of the perception that property rights are not respected.

4. Periodically review with the objective of simplification and reduction of process time the application procedures for small businesses especially in the provision of services.

There is a popular perception shared by Experts that red tape in government is growing. The government must eliminate this perception by rooting out its causes. This will increase popular support for government and increase the speed with which new goods and services are brought to market.

5. Review existing programs to ensure that the interests of the entrepreneur rather than the government department are being fulfilled, reducing red tape and coordinating the programs so that entrepreneurs are referred to the correct one.

The utilization rates for and popular understanding of existing government programs to help entrepreneurs appear to be low. Although the programs were set up

to help entrepreneurs, applicants find it difficult to select the right program and obtain financing. Because the money involved is public money, government officers subject applications to great scrutiny with the result that many applicants are rejected. That is not a problem, but delay and opacity is. The perceived difficulty of success coupled with long process times discourages legitimate uses of the programs. Entrepreneurs need to move quickly. Delays in approvals for needed funds are costly. Entrepreneurs seeing these costs and delays may avoid applying for such programs.

6. Do not attempt to prop up property prices.

In the medium to long term, efforts to prop up prices will be unsuccessful because the integration of Hong Kong into the Chinese economy (which itself is being integrated into the global economy) is inevitable. With integration will come factor price equalization. In the short term, success at staving off long-term price alignment can be achieved, but at considerable cost. Entrepreneurs will see the success as temporary, leading them to refrain from investment until factor price alignment occurs. If the government props up prices and conglomerates that have large land banks benefit from the policies, the government risks being perceived as submitting to conglomerate pressure in setting its short-term goals.

7. Increase democracy in Hong Kong.

The citizens of Hong Kong are among the most well-educated and astute in the world. If we believe that our fate is in our own hands, and if we believe that we are being governed in our own interests, we are more likely to have confidence in the future. Confidence is a precondition for entrepreneurship.

8. Focus on entrepreneurship in services.

Hong Kong will not "catch up" in many high technologies such as chip manufacturing because it does not have the large pool of engineers and supporting industries needed for that industry. Hong Kong cannot expect to gain reputation as a broadly-based high-technology city, notwithstanding its potential for information technology research and technological developments and the

establishment of the Science Park. However, Hong Kong can and probably should develop the high technology aspects of such industries as business service technology, communications applications, logistics and commercial processes.

9. Increase the number of border crossing points to China. Open the border 24 hours a day. Work with the Guangdong and Shenzhen governments to reciprocally recognize vehicle licenses allowing cheap, private automobile access to the PRD. Increase links throughout the PRD.

The PRD is Hong Kong's hinterland. If Hong Kong resists opening, it will eventually be bypassed by other rapidly growing centers in the PRD. If it opens more rapidly, price adjustments will occur sooner rather than later, removing the uncertainties of integration. Cheap "garages" in Shenzhen and start-up ventures can be made available to Hong Kong entrepreneurs, increasing the probabilities and lowering the cost threshold of starting a business.

Easier access to mainland labor, expertise and market knowledge will increase the likelihood of new ventures partnering strengths of the PRD with Hong Kong and open up a larger market than Hong Kong can offer.

10. Neither the government nor any regulator of financial institutions should attempt to affect the portfolios of Hong Kong financial institutions (banks, other authorized institutions, insurance companies, pension funds, venture capitalists) concerning financing for start-ups.

Governments in other economies have not proven successful in forcing financial institutions to lend to or invest in specific sectors. While they may successfully channel the funds, the funds' recipients tend to be

unprofitable and the resulting deterioration of portfolio quality can cripple financial institutions. Well-managed financial institutions, left to their own devices, choose their portfolios with great care.

Financial institutions, facing increased regulatory burden, can easily relocate. If Hong Kong becomes less attractive as a financial center because regulators compromise the transparency of regulation and/or force upon financial institutions portfolio constraints for local political reasons, the financial institutions will leave Hong Kong.

11. Hong Kong should examine the roles played by industry organizations and governments in other countries where collaboration between universities, industry and government is successful to find an appropriate cooperation model.

Hong Kong lacks industry-specific organizations to build communities of innovation. Hong Kong can learn from models in other countries including Singapore, the UK and the US. The government applied R&D support and start up funds such as that offered by SERAP are good and are a right but small step.

Given Hong Kong's aim to build a more knowledge-based economy, the Hong Kong Government has a role to play in stimulating R&D in select product and process areas so as to facilitate entrepreneurship. Hong Kong has established a few policies to do this, but some questions remain as to whether money has been well spent. Hong Kong should increase its understanding of what R&D is and how the government can play a role in promoting it. Encouraging more firms to conduct R&D in Hong Kong is one tool that the government may use. Costs of using this tool can be high, however, so society, government and media need more study of this crucial question.

12. The immigration policy should be reviewed. In principle, anyone in China who possesses a tertiary education should be permitted to immigrate to Hong Kong, although rights of permanent abode should be based on years of tax-paying residence and rights to social welfare, free schooling etc. should accrue only with rights of permanent abode.

In modern societies, immigrant populations are among the most innovative and entrepreneurial. The same is true with immigrants to Hong Kong in past generations and emigrants from Hong Kong. Hong Kong is an aging society that can benefit from immigration. Educated immigrants from China can provide not only technical skills but also valuable knowledge of and links to our hinterland.

13. The government should design a simple, comprehensive unemployment insurance for Hong Kong permanent residents to be implemented after the fiscal situation improves.

Unintended unemployment caused by a failure of businesses, including start-ups, can lead to an increasingly risk averse behavior both by potential entrepreneurs caused by fear of failure and by employees who prefer larger, safer companies to smaller start-ups. While the Government has made substantial contributions to promoting both opportunity-enhancing and obstacle-removing activities by developing efficient legal, physical, and financial infrastructures, it could take more extensive and visible measures that minimize risks of becoming involved in start-ups.

Now is not the time for the government to implement a potentially expensive broadening of the social safety net, yet now is the time to start planning. Every developed society has the responsibility to take care of those who, through no fault of their own, are temporarily thrown out of work.

Recommendations to Financial Institutions

14. Banks should reform SMEs customer policies to increase the extent to which loan pricing and monitoring of cash-flow based loans and customer counseling on financing for new ventures in Hong Kong and China can offset risks of lending.

Banks are only likely to willingly increase lending to SMEs if the lending will improve customer relationships and increase profitable assets. If successful programs can be introduced, they can offset the tremendous negative publicity banks have received for financing the property bubble and ignoring entrepreneurs' needs.

15. Venture capitalists should be open-minded toward new technologies and ventures from Hong Kong incubators such as the Science Park.

Several commercial, academic and government incubators are currently raising high technology firms in Hong Kong. Venture capitalists should carefully consider investment in them to realize value creation.

Recommendations to Entrepreneurs and SMEs

16. SMEs should increase their exposure to opportunities in the PRD and their understanding of business and government practice there. Programs dispensing such information should be improved. To commercialize technology, local innovators should link innovations with the needs of the large market of the PRD and other parts of China. Universities should increase research links with enterprises in the Pearl River Delta.

The responsibility to learn about and increase links with Hong Kong's hinterland rests with entrepreneurs, established businessmen and businesswomen, researchers, teachers, and government. The Hong Kong Trade Development Council and other government organizations have been active in educating businesses on the opportunities in China and providing them some help in getting started. These programs should be better utilized by SMEs. Only by linking to larger markets can commercialization of many products and services become economical. Research projects should be tailored to and the results transferred to entrepreneurs involved in the hinterland.

Though Hong Kong lacks a significant manufacturing base from which to apply R&D, the PRD's manufacturing base is large and increasingly sophisticated. Currently, there are few factories into which high technology can be transferred from the universities. Shenzhen's strength so far has been OEM manufacturing with little R&D. But it could move up-market quickly, especially with Hong

Kong's participation. The PRD represents a major opportunity for Hong Kong firms, not only for inexpensive land and labor, but to apply new technology and as an initial market for some products. Improving the links between the region should be high on the agenda of Hong Kong policy makers.

17. SMEs and industry associations should take the lead in building strategic alliances among themselves.

Entrepreneurs may feel that their firms are limited in resources and would not be able to develop competitive advantages comparable to resource-rich large enterprises. However, if such small firms can develop specialized areas of strength and form collaborative relationships with other small firms, they might be able to outperform large companies. Managers of existing small firms are encouraged to seek collaborating opportunities more aggressively with start-up ventures and remove the fear of failure that new entrepreneurs tend to have.

There are many SME committees in Hong Kong that can be used to establish networks of entrepreneurs to cooperate and they can be facilitated by agencies such as the Hong Kong Productivity Council. For example several companies can work together to bid for projects that larger firms would bid for. They can team up to offer broader services to larger companies. This is akin to clustering in providing a "one-stop" service to customers.

Recommendations to the Education Sector

18. Universities should create a better atmosphere for communication and sharing of information and research with entrepreneurs. Technologists within firms and the government, professors active in relevant areas, and entrepreneurs should meet to discuss possible innovations and how to work together to bring needed products and processes to market.

The R&D transfer link is extremely weak in Hong Kong. Research ideas are not reaching entrepreneurs that are potentially able to commercialize innovations. All sides must seek others to improve communication to increase work in needed areas where opportunity lies.

19. Tertiary institutions, especially research universities, should make their resources available to businesses (including entrepreneurs and SMEs). This can be done partly through student projects and research projects. Researchers should enhance their knowledge of and support for new companies. Universities may provide their technical assistance to SMEs and open up their libraries and labs. They could work together with governmental bodies to pool together resources and disperse meaningful innovation results. New computer-literate graduates should encourage SMEs to apply and use technology.

Hong Kong has expended tremendous resources over the last two decades to build world-class research institutions. But these institutions are not integrated into the community. The public is, in most cases, barred from university libraries and labs, yet those libraries and labs are operating at a small fraction of full use. Hong Kong is weak in helping new enterprises that cannot afford R&D.

Hong Kong needs to promote an innovative culture. This requires collaboration between the business community and the universities. Trust should be built up between these two. Many SMEs in Hong Kong have low technology. About 40 percent still do not even use email, let alone other potentially helpful computer applications. With technological innovation that drives people out of employment, people can become marginalized and lose confidence. Tackling unemployment, underemployment and a mismatch of skills is a concern for government and increasingly the private sector. Opening tertiary institutions further to the public can reduce this marginalizing.

20. Review the design of school curriculums to promote entrepreneurship. Teach students about investment, how to manage personal finances, attributes of an entrepreneurial spirit, and relationships between risk, success and rewards. Encourage and set priorities for education in the sciences, biotechnology and mathematics to promote the entrepreneurship environment for more technology-related areas. Train students for the knowledge-based and services-related businesses. Provide a balance of liberal arts and technical education - liberal arts in the early part of the education and technical training towards the end of the education program. Teach students that hard work, determination and creativity are keys to success, even in the entertainment industry, from where many of the youth role models are currently drawn.

Hong Kong needs well-rounded graduates who understand that business takes place in the larger society. Recent reports of rising personal bankruptcies among the youth show that this is important. Although a university education does not ensure that one will become an entrepreneur, entrepreneurial skills are also essential in careers at SMEs and large companies.

21. Give students the challenge of starting business and working in businesses as part of the educational process. Increase the participation of business mentors in the secondary schools and tertiary institutions whereby people with much experience and success in running and starting businesses from any sectors become mentors to students and would-be entrepreneurs.

Secondary schools and universities should provide more courses related to new venturing in which students can acquire “hands-on” experience of start-ups and reduce the psychological barriers to starting new businesses. In this regard, teachers and professors themselves should be encouraged to get involved in entrepreneurial activities, and universities should develop the systems that support and reward their entrepreneurial activities. An education should not be about going to school just to pass exams. Education methods should be structured to develop entrepreneurial skills. They should take diverse forms. To be effective, entrepreneurial education should be as experiential and activity-based as possible. New methods can be integrated into the curriculum to encourage the youth at school to be more creative, to reinforce the values of independent and critical thinking.

Most individuals in Hong Kong have limited ‘hands-on’ experience in start-up businesses and tend to see more downsides than upsides of owning and managing their own businesses. Hong Kong opportunity entrepreneurs are more likely to come from the wealthiest third of society. Assuming that many of these individuals come from the family that owns successful business ventures, we could argue that such individuals tend to see more opportunities than threats in new venturing, and are more likely to get involved in start ups than those who do not have successful “hands-on” experience.

Most individuals in Hong Kong tend to share the mentality that values the idea of “doing (being) better” rather than the idea of “doing (being) unique”. As is the case in Japan, Korea, and other Asian countries, most post-secondary students tend to look for a job in a larger, stronger, more reputable, more stable, and more established enterprise. Few students are now interested in starting their own business. Our research has pointed to the limited role of secondary and post-secondary education in developing entrepreneurial spirits among students. We believe that more students would be getting involved in entrepreneurial activity, if they had a chance to recognize that “doing (being) unique” is at least as important as “doing (being) better” in their life.



Recommendations to the Community at Large

22. Hong Kong citizens should become more active in community building, a facet of which is interaction between entrepreneurs and other members of the community.

Various initiatives in Hong Kong are taking place without community support. Science and industrial parks are built where R&D for new products is carried out. They are likely to be more successful if their activities are understood and used by members of the community beyond their tenants. Society can benefit by entrepreneurs imparting their skills to the community and taking part in local activities. Entrepreneurs can learn from other entrepreneurs, and prospective entrepreneurs in particular have a lot to learn from those who went before them. There is a need for community sharing. A history of insecurity has not developed this. Industry leaders should be mentors.

23. Parents and teachers should teach students that they can change the status quo, add value and improve society through their own efforts and independent thinking. They should encourage self-respect where that respect is won by diligence, purpose and respect for others. The adults of society have the responsibility to teach these cultural values and social norms.

A passive attitude toward the life is the antithesis of entrepreneurship.

Recommendations to Two Influential Sectors of the Community

24. Hong Kong's successful business people should provide others with the knowledge, skills and inspiration to achieve what they have in creating value for society. They must tell their own stories of their steady, focused work that created their wealth. They should improve their honesty in income filing and take pride in paying taxes.

Seldom does one hear anything inspirational from Hong Kong's many successful people, yet that must change if they are to continue to be held in esteem by the community. Increasingly, there is a cynicism in Hong Kong that the society is being run for the benefit of the conglomerates. While this belief is not an accurate reflection of reality, it poisons enthusiasm. Only with enthusiasm is entrepreneurship an attractive career for the young and talented.

While Hong Kong people have a flair for doing business (creative, responsive to fads and changes) we are generally not good at corporate governance nor do we appreciate its importance. Businesses tend to have low transparency in operations and are a bit messy in money

matters. We are long used to preparing financial figures for reporting only to the Inland Revenue Department. We typically like to report business losses to avoid paying taxes. We attempt as much as possible to pay no tax in Hong Kong, notwithstanding its low tax rates. This practice is not good when approaching banks for loans, nor does it help in community building where taxes are the vehicle by which a profitable entrepreneur returns to the community the opportunity that the community has given him or her.

25. The media has a responsibility to educate the population by featuring stories of the everyday SME entrepreneur, working toward a goal of building a firm that creates value and has a good position in the market place. In this, the media can seek cooperation of business people and government.

Media sensationalism tends to undermine values of hard work by featuring stories of people amassing fortunes quickly, immorally or through sheer chance. But most value comes through the efforts and creativity of people who are not short-term in their focus. As one Expert put it, such stories would provide "... an alternative role model to flipping assets into the market for quick profits".

Appendix

Appendix I

Forum of December 4, 2002 on Revitalizing Entrepreneurship in Hong Kong

The Forum was held at Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong to bring together government officers, industry leaders and academic researchers to discuss the findings of GEM Hong Kong 2002 and issues related to entrepreneurship in Hong Kong.

The program was as follows

1:30-2:00	Registration
2:00-2:10	Introductory Remarks by Professor Kenneth Young, Pro-Vice Chancellor of The Chinese University of Hong Kong
2:10-2:30	Keynote Speaker: Mr. Kevin C.M. Ho, Director-General of Trade and Industry
2:30-2:50	GEM 2002 Global Findings by Paul Reynolds, Professor of Entrepreneurship, London Business School and Babson College
2:50-3:10	GEM 2002 Hong Kong Findings by Professor Bee Leng Chua, Professor of Management, The Chinese University of Hong Kong and Leader of the Team on the Hong Kong Study
3:10-3:40	Q & A
3:40-4:00	Coffee Break
4:00-5:30	Panel Discussion on Revitalizing Entrepreneurship: Moderator: Professor Hugh Thomas Department of Finance, The Chinese University of Hong Kong
Panelists	<ul style="list-style-type: none">• Mr. Chang Sun, Managing Director, Warburg Pincus Asia• Mr. Roy Chung Chi Ping, Managing Director, Techtronics• Mr. Adrian M.K. Li, General Manager and Head of Corporate Banking, Bank of East Asia• Ms. Christine Loh, CEO, Civic Exchange
6:00	Reception

Revitalizing Entrepreneurship in Hong Kong

Keynote speech by Mr. Kevin C.M. Ho, Director-General
Trade and Industry Department, Government of the Hong Kong SAR

Professor Young, Professor Reynolds, distinguished guests, ladies and gentlemen, it is my honour to be invited to speak at today's forum.

First of all, I would like to congratulate Professor Chua and her colleagues for having accomplished the challenging task of conducting the survey on Hong Kong's level of entrepreneurial activities under the Global Entrepreneurship Monitor. This is the first time Hong Kong participates in the Global Entrepreneurship Monitor. The results of the study will provide a useful source of reference to all of us.

Hong Kong people are renowned for their entrepreneurial spirit and perseverance. However, the economic downturn and the economic restructuring process which Hong Kong has been facing and undergoing in the past few years have seemingly made Hong Kong people more prudent in starting businesses during this difficult period of time. This may explain why Hong Kong does not perform as good as we would have wished in terms of entrepreneurial activities vis-à-vis other economies under the Global Entrepreneurship Monitor.

Hong Kong has a long history and a strong tradition of entrepreneurship. Hong Kong's success is attributed largely to the entrepreneurial businessmen who have helped built Hong Kong from a small fishing village into a world-class metropolitan city. Like many other Chinese communities, the local community sees doing businesses as a promising career. In fact, the concept of entrepreneurship has been well ingrained in the mindset of individual Hong Kong people, regardless of their family background and education achievements. Unlike some other places where almost all the brightest and most talented people have joined the bureaucracy, private sector in Hong Kong has always enjoyed a good, if not an unequal, share of talents vis-à-vis the public sector. While not all of those in the private sector are entrepreneurs, I bet many of them would perceive starting their own businesses, however small they are, as their destiny of achievements.

Notwithstanding that Hong Kong people are becoming more cautious in starting businesses in the past few years due to the unsatisfactory economic performance, we still see a large number of new companies being set up in recent years. In 2001/02, the Inland Revenue Department registered 90,000 new companies in Hong Kong. While existing businesses may have closed now and then, many new ones have come into existence at the same time. Hong Kong is an ideal place for entrepreneurs. We have a favourable business environment, a level playing field, a stable macro economy, a simple and clear tax regime, an excellent and world-class infrastructure, a culture which encourages innovation and technology, a sound legal system, and an ample supply of human resources. All these are conducive to facilitating entrepreneurs to unleash creativity and do businesses in their unique ways. In fact, entrepreneurial spirit, together with innovations and technology, have been the prime driving forces of economic development in Hong Kong, bringing new vigor to the community.

To promote and encourage entrepreneurship, the Government has been helping entrepreneurs start businesses, and seedling enterprises develop and grow. A lot of efforts have been made in cutting red tape, streamlining licensing procedures, and deregulation. For example, an individual can obtain an annual business registration certificate in less than 30 minutes. Also, while all limited companies are required to prepare audited accounts, private companies, sole proprietorships and partnerships are exempted from these requirements. Moreover, it is equally easy for individuals to change and cease businesses.

Through the Trade and Industry Department (TID), the Government is providing business starters and entrepreneurs with a whole range of support services, including information, advice, and infrastructural facilities. In collaboration with 80 trade and industry associations,

industry support organisations, professional bodies, and private enterprises, TID runs the Support and Consultation Centre for SMEs (SUCCESS) which, among other things, provides expert advice on a whole range of issues relating to doing businesses. Over 800 SME entrepreneurs have so far made use of the advisory service. It is also running a mentorship program for SME entrepreneurs, providing them with one-on-one free counseling from accomplished businessmen over a period of 9 months. This year, over 200 SME entrepreneurs have participated in the Program.

The Vocational Training Council's Business Start-up Centre provides office accommodation at a preferential rate to business starters, as well as secretariat and other support services to them. It also runs training programs for business starters.

There are also specific support programs for technology start-ups and technopreneurs. The Hong Kong Science and Technology Parks Corporation provides incubation services to technology start-ups to conduct R&D. Under the Innovation and Technology Fund, technology-driven companies may receive funding support up to \$2 million from the Government to conduct R&D projects which have commercialisation prospect.

Late last year and early this year, TID set up four SME funding schemes at a total commitment of \$7.5 billion to help SMEs, including seedling enterprises, secure loans from lending institutions to procure business installations and equipment, providing training to employers/employees, participate in export promotion activities, and enhance overall competitiveness. The four funding schemes are the SME Business Installations and Equipment Loan Guarantee Scheme, SME Training Fund, SME Export Marketing Fund, and SME Development Fund. Nearly 10,000 SMEs have benefited from these schemes, involving a total amount of government guarantee/grant of about \$1.1 billion.]

Recognising that the younger generation is the powerhouse of future entrepreneurs, TID supported the initiative of the Shell Hong Kong Limited and the Hong Kong Federation of Youth Groups in launching the LiveWIRE Program earlier this year. The Program aims to promote entrepreneurship among young people, and provide mentoring to those who wish to start their businesses.

We have looked beyond Hong Kong in nurturing the entrepreneurial talents of our younger generation. Experience sharing with their counterparts from other parts of this globalised world will give much insight to our young and upcoming businessmen in charting their course ahead. Earlier this year, Professor Chua led a delegation from Hong Kong to the APEC Young Leaders and Entrepreneurs Forum in Mexico. While the trans-Pacific journey must be very tiring, I am sure the discussions in the Forum provided a lot of useful input to the Global Entrepreneurship Monitor.

The past few years have been a difficult period for Hong Kong. We see businesses shrinking and profit-margin narrowing in many business sectors. We see unemployment rate growing to an unprecedented level before it gets improving again recently. There is an apparent lack of confidence among Hong Kong people about Hong Kong's competitiveness vis-à-vis the Mainland and other economies. However, there are also a lot of successful stories of individuals whose entrepreneurial boldness and perseverance have helped them navigate the storm and scale new heights in the midst of the economic downturn. They are typical examples of Hong Kong people, and the typical examples of Hong Kong's "Can-do" spirit, which is another way of saying "entrepreneurship". I urge all of our enterprising Hong Kong people to continue to unleash their entrepreneurial spirit to rise to new challenges.

Thank you.

Experience Sharing in Entrepreneurship

Mr. Roy C.P. Chung, Managing Director
Techtronic Industries

It is my great honor to be one of the speakers in this forum. Moreover, I would like to take this opportunity to thank the organizer, the Faculty of Business Administration of the Chinese University of Hong Kong to offer me a chance to share my personal experience and thoughts with you all.

Entrepreneurship is also a topic close to my heart. After all, I have made a career out of taking huge risks and making right choices. Thirty-four years ago, armed with only an incomplete secondary education, I was a storekeeper working for an electronics company. Today, I am the Managing Director of a company listed on the Hong Kong Stock Exchange, with manufacturing facilities in China, Mexico and the United States covering more than one million square feet, and a staff of 15 thousand. With an annual business turnover of 1.2 billion US dollars, our power tools and floor care products are sold to North America, Europe, Japan, South America and Australia.

It all began in 1985 when my partner and I founded TechTronic Industries Co., Ltd. as a maker of rechargeable power tools and floor care products, such as vacuum cleaners. That was a time when striking out and setting up one's own business seemed like the sensible, logical thing to do, especially for someone like me who was less than well-educated. I mean there was only so far up the corporate ladder you could go with my education background. Given the cheap labor cost and abundant labor supply, one only had to secure the support of a major client and work extremely hard to stand a reasonable chance of success. Indeed, a lot of small and medium-sized enterprises owe their success to this combination of factors.

In my case, with my solid, extensive experience in manufacturing, I was lucky to choose the right products which had a great demand in overseas markets, and the right partner who is an expert in sales and marketing.

This contrasts sharply with today's business environment in which the labor cost in Hong Kong has risen dramatically, resulting in the fact that China has become the chosen manufacturing center for local manufacturers. Moreover, as people in general have become better educated and are taken better care of by a society with a more developed social welfare and security system, the opportunity cost for starting one's own business has also increased. It's simple mathematics. The more you're paid as a salaried employee, or even as an unemployed, the more you may lose if you fail in your own business.

Nowadays, while hard work, dedication and a determination to succeed are still the essential qualities of an entrepreneur, he or she also has to be creative and innovative, ready to spot and exploit opportunities in a knowledge-based society increasingly dictated by technological advances.

If recent studies have found that the Hong Kong people have become less entrepreneurial than before, it may be explained not only by the simple fact that it has become much more difficult to be an entrepreneur these days, but also that today's entrepreneurs may appear in different forms and therefore become less recognizable.

From my personal observation, the entrepreneurial spirit of the Hong Kong people is still very much alive.

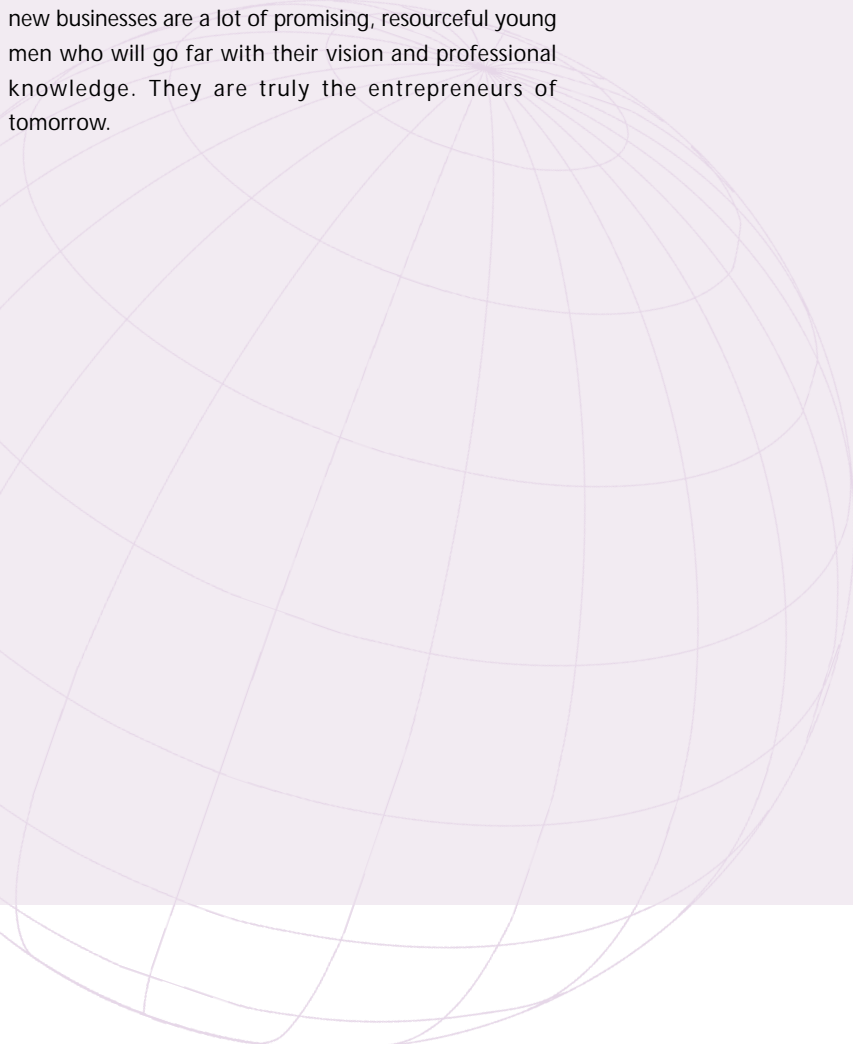
Everywhere we can see taxis lining up for passengers, and truck drivers receiving goods or making delivery across the border. They are among the most enterprising people in Hong Kong. Indeed, the downturn of the economy has forced many people into involuntary entrepreneurs who, deprived of the security of a monthly salary, become self-employed to make a living.

We have heard so much about the moving out of business of restaurants. But the fact is the total number of restaurants has actually increased from last year's 8,500 to this year's 10,500, despite the drastic and continuous decline in sales revenue. And importantly, the many universities in Hong Kong have become incubation centers for innovative, start-up businesses. Behind these new businesses are a lot of promising, resourceful young men who will go far with their vision and professional knowledge. They are truly the entrepreneurs of tomorrow.

Despite the finding of the GEM Study that Hong Kong is amongst the least entrepreneurial area in the world, I haven't lost faith in the entrepreneurial spirit of the Hong Kong people. Never a pessimist, I in fact expect to see a surge of entrepreneurship in Hong Kong, if only because of the fact that the less you have to lose, the more willing you will be to take risk, and risk-taking has always been one of the defining qualities of an entrepreneur.

Hong Kong has a long history of proving its doomsayers wrong, and I believe that entrepreneurship in Hong Kong is alive and kicking, and will be even more so in the future.

Thank you.



Entrepreneurship in Hong Kong from the Perspective of the Banking Industry

Mr. Adrian M.K. Li, General Manager and Head of Corporate Banking Division, The Bank of East Asia

It is often said that the story of Hong Kong's post-war economic success was founded on the rule of law and the hard work of the local people. But there was one more element that was just as important: property. Steadily rising asset prices funded much of Hong Kong's post-war economic success. Whether starting up a new business, or expanding an existing one, property could always be turned into cash at the bank. With property as collateral, banks did not need to know very much about a business. They didn't even much care whether it was a start-up or a going concern. All they needed was a title deed. As long as prices kept rising, there was no incentive to take any other approach to lending. As asset prices rose, the borrowing capacity of Hong Kong companies rose in tandem. This system suited the companies perfectly well. They didn't have to open up their books to their bankers. They didn't have to divulge their total debt. From the banks' point of view, they were not lending to a business, they were providing a loan against property.

As a result, Hong Kong never created the institutional framework necessary to support more sophisticated forms of lending to small business.

The Asian Financial Crisis shattered the old system. And, five years on, we still haven't made the institutional changes necessary to wean ourselves from asset-based lending. Small business, in particular, has been hard hit. And small business leaders have been calling for change. As banks tightened credit in response to falling property values, banks became the villains. "Banks should evaluate a business as a going concern," small business owners said. "Banks have so much cash on hand. Surely, they can be more supportive." But as much as banks would have liked to be supportive and put their cash to work, they had no way of evaluating the risk of lending to all the companies that came knocking at the door. Even worse, as property prices continued to fall, banks further tightened credit, creating a liquidity crisis for many small businesses.

In response to the deteriorating situation, in 1998 Government announced the Special Finance Scheme for Small and Medium Enterprises. Under this scheme, Government acted as guarantor for small business loans extended by banks. A total of 11,968 loans were granted under the scheme between August 1998 and March 2000. As of 29th August this year, at a point when 99.2% of all guarantees had either been released or had expired, defaults had cost the government about \$440 million.

This sounds like a lot of money. But in fact, it amounts to only 7.6% of the \$5.8 billion in guarantees extended under the scheme. And, for the good done, it was a very small price to pay. It is important to recognise that this scheme was an emergency measure, aimed to support small business without putting strain on the banking sector. This was not a scheme to nurture new firms, nor help existing firms expand their business. The scheme was an emergency measure, brought in because the value of assets had declined so dramatically.

Let me underline that there was no liquidity crunch in the banking sector. Banks had the funds to lend. And they most certainly wanted to lend out their funds. But banks had no means to assess the creditworthiness of a company, and the risk of supporting that company once the collateral no longer covered the loan.

With the introduction of a second loan guarantee scheme last year, the Government adopted a more comprehensive approach. The new loan scheme is better focused, aimed at supporting investment in new equipment and in training. Furthermore, the new scheme is backed up by numerous programs to assist small business owners to improve their eligibility for future loans on strictly commercial terms. In other words, a great deal of effort is being expended to create the infrastructure that will allow us to escape the trap of asset-based lending.

Our own bank is working closely with the Trade and Industry Department, the Trade Development Council, the Hong Kong Productivity Council and other Government entities to assist Small and Medium Enterprises (SMEs).

Our staff members teach special seminars arranged by these organizations on a broad range of issues related to financial record-keeping and financial management. BEA staff members serve as advisors at the Support and Consultation Centre for SMEs, answering questions from small business owners.

Good progress is being made in assisting these owners to raise the standard of their record-keeping and their reporting. We should be well on the way to creating an infrastructure in support of increased lending by banks to SMEs on purely commercial terms. Unfortunately, progress has stalled on one key support - a Commercial Credit Reference Agency.

Only with a Commercial Credit Reference Agency will banks be in a position to determine the total indebtedness of a company, and hence the risk of lending to that company. Without such support, all the good work that is being done will have only limited impact. The Agency would allow banks to conduct due diligence on private firms, assessing how much debt a company is carrying and whether or not the business cash flow is strong enough to support that debt. At present, a banker has no independent means to verify the amount a business has borrowed. You could be the first bank the owner has visited; you could be the tenth. Is it any wonder that banks are reluctant to lend their depositors' money without a Government guarantee?

A Commercial Credit Reference Agency would also allow the generation of better statistical data on Hong Kong business. These statistics could be used to create models that would be used in credit scoring, again allowing banks to better assess risk. At present, some in the industry

talk about credit scoring. But, in reality, we simply do not have the depth of statistical data on Hong Kong companies to make credit scoring anything but a very crude and imprecise tool.

The proposal to establish a Commercial Credit Reference Agency was first aired almost five years ago. We have had a consultation document, and several rounds of discussion among Government and the industry. But we still do not have any firm proposals in the pipeline. So, to all the small business owners, I urge you - if you want banks to lend more to small business, please voice your support for a Commercial Credit Reference Agency.

Let me now turn to the issue of entrepreneurship.

One thing for sure - Hong Kong people like to make money. I suspect that while we are wringing our hands, wondering how to promote the entrepreneurial spirit in Hong Kong, countless Hong Kong people are looking at opportunities, talking among friends, weighing the risks - and taking action.

Our spirit is probably just as strong as ever. But the nature of the opportunities is different. We now compete in a global economy. Major retailers like Wal-Mart, who used to rely heavily on Hong Kong companies, now have their own operations in China. There is less room for third-party middlemen who merely mediate between two parties. The name of the game now is to add value. A higher skill set is required.

Over the past two decades, Hong Kong has very successfully exploited its role as the intermediary between China and world markets. We had everything going for us. Hong Kong people have family ties throughout the Pearl River Delta area. At a time of rapid development and weak institutional controls, we had the personal connections necessary to understand the lay of the land and get things done. For those two decades, Hong Kong was the single largest foreign investor in China.

On the other side of the equation, many of the generation of Hong Kong people now in their 40s and 50s attended schools and universities in the US, Canada, Europe and Australia. We spoke the language. We understood those markets; we understood their business needs. Everything came together at just the right time and we seized the opportunities with gusto.

Incidentally, how many Hong Kong students choose to study at mainland universities? It only underlines how we have lost our special advantage.

So, where are the future opportunities? Well, companies like Techtronics and Esprit are showing how Hong Kong companies can add value, by investing in global brands and selling products under names that they own. Still more opportunities could come from turning our attention to the China market.

How well are we placed to exploit that opportunity? Unfortunately, here we have a much weaker hand.

In many ways, Hong Kong companies are in a similar position to every other foreign company trying to make money in China. The WTO doesn't offer us any special breaks; we don't have special knowledge of how to sell on the mainland. Most importantly, unlike the previous two decades, we don't have a monopoly on talent.

Our immigration policy restricts the flow of talent from China to Hong Kong. It is much more difficult for a Hong Kong company to hire someone from China, than from almost anywhere else in the world. In fact, it's far easier for well-trained and talented individuals from China to emigrate to the US or Canada, than it is for them to come to Hong Kong to work. Furthermore, Chinese students are opting for universities in the U.S. as their first choice. These students are the leaders of tomorrow, and they are forging strong direct links between China and the U.S.

Here in Hong Kong, our natural future market is China. Yet we place many restrictions on the flow of talent that could strengthen our hand in China.

If our policy was more open, after five or six years working in Hong Kong, who knows: skilled mainland immigrants could be striking off on their own, founding the companies that will propel Hong Kong's next growth wave.

Of course, Government did open the door a little for Ph.D's a few years ago. But there's no Ph.D in being an entrepreneur.

We shouldn't focus narrowly on business skills either. We must welcome creative talent; we must welcome excellence and the pursuit of excellence in all its forms, in the arts, in sport, in academia. We have a vision to build a cultural oasis on the Kowloon waterfront. But we risk creating only a sterile shell if we do not allow both raw and proven talent to come together to form a critical mass.

We have many advantages. But we have to remove the barriers to the natural flows that will allow Hong Kong to exploit those advantages to the fullest. In fact, we need to do more than just remove the barriers - we need to promote Hong Kong as a desirable place for the very best students, the very best talent to chose to live and work.

The message is clear - a Commercial Credit Reference Agency; the flow of talent - these are policy issues that require urgent Government attention.

Thank you.

Appendix II

GEM Hong Kong 2002 Experts

The following are 40 leaders of Hong Kong's business, financial, research and government communities whose work concerns entrepreneurship and whom we refer to in this study as the Experts. We group them below in order of the Entrepreneurial Framework Conditions we selected them to represent.

Financial support

Mr. Vincent Cheng, Vice-Chairman and Chief Executive Hang Seng Bank Ltd.

Mr. K. O. Chia, Executive Vice-President (HK) Walden International

Mr. Lawrence Fok, Deputy Chief Operating Officer Hong Kong Exchanges and Clearing Limited

Mr. Roger Marshall, Chairman Hong Kong Venture Capital Association and Managing Director ABN AMRO Asia Capital Investment Limited

Government policies

Mr. Sterry Chong, Chairman Chinese Executives Club, Hong Kong Management Association

Dr. Allen Lee Peng Fei, Chairman Pacific Dimensions Consultants Ltd.

Mr. George Leung, Chairman Economic Policy Committee, Hong Kong General Chamber of Commerce

Dr. Andy Xie, Managing Director, Research, Morgan Stanley Dean Witter

Government programs

Ms. Peggy Chan, Chairman & CEO Excel Technology International Holdings Ltd.

Dr. Sunny Cheng, Project Director Small Enterprises Research Assistance Program (SERAP) Innovation and Technology Commission.

Mr. Joseph Lai, Deputy Director-General Trade and Industry Department

Ms. Christine Loh, CEO Civic Exchange

Education and training

Mr. Moses Cheng Mo-Chi, Chairman Board of Education, Hong Kong Senior Partner, P.C. Woo & Co.

Mr. S. S. Kwong, Executive Director Employee Retraining Board

Mr. Vincent Li, General Manager, Enterprise Enhancement Services HK Productivity Council

Mr. Robin Wong, Centre Director Management Development Centre of Hong Kong

An anonymous entrepreneur

Research and development transfer

Dr. Saimond Ip Chinese United Press

Mr. Paul Kan, Chairman Champion Technology Holdings Ltd.

Mr. Kim Ko, Founder Infolislive

Ms. Grace Lo, Senior Manager, Business Development Gold Peak Industries (Holdings) Limited

Prof. Kenneth Young, Pro-Vice Chancellor The Chinese University of Hong Kong

Commercial and professional infrastructure

Mr. Chan Siu Kam, Director, Business Support and Development

Hong Kong Science & Technology Parks

Ms. Julie Cheng, CEO

Infoislive

Mr. Chin Man, CEO

Quomnet

Mr. Ip Shing-hing, President,

Hong Kong Law Society

Mr. Patrick Yeung

Asian Capital (Corporate Finance) Ltd

Barriers to entry / market openness

Mr. William Benter,

Managing Director Quantrix Ltd.

Mr. Felix Chan, President, (2001-2002)

The Hong Kong Chamber of Small and

Medium Business Ltd.

Mrs. Anna Lai, Deputy Executive Director

Hong Kong Trade Development Council

Mr. Kai-ming Li, Deputy Chief Executive

Consumer Council

Mr. James Thompson, Chairman

American Chamber of Commerce in Hong Kong

Chairman, Crown Worldwide Holdings Ltd.

Access to physical infrastructure

Mr. Eddy Chan, Regional Vice-President,
China & Mid Pacific Region

Federal Express China and Mid Pacific Region

Mr. Irving K. K. Koo,

Group Marketing and Corporate Relations Director

China Light and Power

Mr. Ho Shut Kan, Executive Director

Kerry Properties Ltd

Mr. Sunny Ho, Executive Director

Hong Kong Shippers Council

Cultural and social norms

Prof. Lau Siu Kai, Associate Director

Hong Kong Institute of Asia-Pacific Studies,

The Chinese University of Hong Kong

(currently head of Central Policy Unit,

Government of Hong Kong SAR)

Hon. Ms. Sophie Leung

Chairperson, HK Women's Commission

Chairwoman, Young Entrepreneurs Development Council

Mr. Hon Ma Fung-kwok, Member

Culture and Heritage Commission

Mr. Allan Zeman, Chairman

Lan Kwai Fong Holdings

Appendix III

Global GEM Teams and Sponsors

Unit	Location	Members	Financial Sponsor
GEM Project Directors	Babson College London Business School	William D. Bygrave Michael Hay	Kauffman Center for Entrepreneurial Leadership
GEM Project Coordinator	Babson College London Business School	Paul D. Reynolds	The Laing Family Charitable Settlement
GEM Coordination Team	Babson College London Business School	Paul D. Reynolds William D. Bygrave Marcia Cole Paul D. Reynolds Erkko Autio Marc Cowling Michael Hay Steven Hunt Isabelle Servais Natalie De Bono Michelle Hale Kola Azeez Veronica Ayi-Bonte Thomas Bailey Matthew Freegard Anwen Garston Ruth Lane Shu Lyn Emily Ng	David Potter Foundation Fellow Anonymous Foundation Fellow
Family Business Special Topic	Alfred University Oregon State University	Carol Wittmeyer Mark Green	Raymond Family Business Institute
Team	Institution	Members	Financial Sponsor
Argentina	Center for Entrepreneurship IAE Management and Business School Universidad Austral	Silvia Torres Carbonell Hector Rocha Florenca Paolini	IAE Management and Business School HSBC Private Equity Latin America
Australia	Australian Graduate School of Entrepreneurship Swinburne University of Technology	Kevin Hindle Susan Rshworth Deborah Jones	Sensis Pty Ltd
Belgium	Vlerick Leuven Gent Management School Universiteit Gent	Sophie Manigart Bart Clarysse Hans Crijns Dirk De Clercq Nico Vermeiren Frank Verzele	Vlerick Leuven Gent Management School Steunpunt Ondernemerschap, Ondernemingen en Innovatie (Vlaamse Gemeenschap)
Brazil	IBQP - Instituto Brasileiro da Qualidade e Produtividade do Paraná	Fulgêncio Torres Viruel Marcos Mueller Schlemm Simara Maria S. S. Greco Joana Paula Machado Nerio Aparecido Cardoso Daniele de Lara Maria José R. Pontoni	IBQP - Instituto Brasileiro da Qualidade e Produtividade do Paraná SEBRAE- Serviço Brasileiro de Apoio às Micro e Pequenas Empresas
Canada	York University École des Hautes Études Commerciales de Montréal (HEC-Montréal)	Rein Peterson Nathaly Riverin Robert Kleiman	Développement Économique Canada, Québec Industry Canada, Small Business Policy Branch Anne & Max Tanenbaum Chair, Schulich School of Business, York University Chaire d'entrepreneurship Maclean Hunters, HEC Montréal

Unit	Location	Members	Financial Sponsor
Chile	ESE - Universidad de Los Andes	Alfredo Enrione Jon Martinez Alvaro Pezoa Gerardo Marti Nicolas Besa Fernando Suarez	ESE Business School – Universidad de los Andes ADIMARK ING Group Price Waterhouse Coopers Banco de Crédito e Inversiones
China	Tsinghua University	Yanfu Jiang Jian Gao Yuan Cheng Biao Jia Fang Liu Qung Qiu Zhiqiang Chen Zhenglei Tang Hejun Xu Jun Yang Jianfei Wang Tan Li Robert Ng (Babson)	National Entrepreneurship Research Center of Tsinghua University Asian Institute of Babson College
Croatia	SME's Policy Centre - CEPOR Zagreb and Faculty of Economics; University of J. J. Strossmayer, Osijek	Slavica Singer Sanja Pfeifer Natasia Sarlija Suncica Oberman	Ministry of Crafts, Small and Medium Enterprises, Zagreb, SME's Policy Centre - CEPOR, Zagreb, Faculty of Economics, University of J.J. Strossmayer, Osijek Open Society Institute, Croatia
Denmark	University of Southern Denmark Centre for Small Business Studies	Mick Hancock Torben Bager Lone Toftild	Erhvervs-og Boligstyrelsen Ernst & Young (Denmark) Karl Petersen og Hustrus Industrifond Danfoss Vækstfonden
Finland	Helsinki University of Technology, Turku School of Economics and Business Administration	Erkko Autio Pia Arenius Anne Kovalainen	Ministry of Trade and Industry
France	EM Lyon	Daniel Evans Isabele Servais Aurélien Eminent Loic Maherault	Chaire Rodolphe Mérieux Entreprendre
Germany	University of Cologne	Rolf Sternberg Heiko Bergmann	Deutsche Ausgleichsbank (DtA) Ernst & Young
Hong Kong	The Chinese University of Hong Kong	Bee-Leng Chua David Ahlstrom Kevin Au Cheung-Kwok Law Chee-Keong Low Shigefumi Makino Hugh Thomas	Asia Pacific Institute of Business, The Chinese University of Hong Kong; Chinese Executives Club, Hong Kong Management Association Bank of East Asia
Hungary	University of Pécs University of Baltimore (USA)	László Szerb Zoltán Acs Attila Varga József Ulbert Éva Bodor	University of Pécs Ministry of Economic Affairs University of Baltimore (USA) REORG Gazdasagi es Penzugyi Rt
Iceland	Reykjavik University	Agnar Hansson Ludvik Eliasson Guðrún Mjöll Sigurðardóttir Halla Tomasdóttir Gylfi Zoega Rognvaldur Saemundsson	Reykjavik University Central Bank of Iceland The Confederation of Icelandic Employers New Business Venture Fund Prime Minister's Office

Unit	Location	Members	Financial Sponsor
India	Indian Institute of Management, Bangalore	Mathew J. Manimala Malathi V. Gopal Mukesh Sud Ritesh Dhar	N.S Raghavan Centre for Entrepreneurial Learning, IIM Bangalore
Ireland	University College, Dublin	Paula Fitzsimons Colm O'Gorman Frank Roche	Enterprise Ireland
Israel	Tel Aviv University	Miri Lerner Yehushua Hendeles	HTMS - The High-Tech School at the Faculty of Management, Tel-Aviv University Robert Faktor The Evens Foundation
Italy	Babson College (USA)	Maria Minniti	W. Glavin Center for Entrepreneurial Leadership at Babson College
Japan	Keio University University of Marketing & Distribution Sciences	Tsuneo Yahagi Takehiko Isobe	Monitor Company
Korea	Soongsil University	Yun Jae Park Hyun Duck Yoon Young Soo Kim	BK21 Ensb Program
Mexico	ITESM-EGADE	Marcia Campos Elvira E. Naranjo Priego	EGADE ITESM Graduate School of Business Administration and Leadership
New Zealand	New Zealand Centre for Innovation & Entrepreneurship UNITEC Institute of Technology	Howard Frederick Peter Carswell Helen Mitchell Ella Henry Andy Pivac Paul Woodfield Judy Campbell Vance Walker	Ministry of Economic Development Venture Taranaki Enterprise Waitakere Manukau City Council Te Puni Kokiri / Ministry of Maori Development North Shore City Enterprise North Shore Espy Magazine-The Entrepreneur's Bible UNITEC School of Management & Entrepreneurship Bartercard New Zealand Ltd
Norway	Bodø Graduate School of Business	Lars Kolvereid Erland Bullvåg Svenn Are Jenssen Eirik Pedersen Elin Oftedal	Ministry of Trade and Industry Bodø Graduate School of Business Kunnskapsparcken AS Bodø, Center for Innovation and Entrepreneurship
Singapore	National University of Singapore	Poh Kam Wong Finna Wong Lena Lee	Economic Development Board of Singapore
Slovenia	Institute for Entrepreneurship and Small Business Management, Faculty of Economics & Business, University of Maribor	Miroslav Rebernik Matej Rus Dijana Močnik Karin Širec - Rantaša Polona Tominc Miroslav Glas Viljem Pšeničny	Ministry of Education, Science and Sports Ministry of the Economy Small Business Development Center Finance - Slovenian Business Daily
South Africa	Graduate School of Business, University of Cape Town	Mike Herrington Mary-Lyn Foxcroft Jacqui Kew Nick Segal Eric Wood	Liberty Group Standard Bank South African Breweries Khula Enterprise Finance Ntsika Enterprise Promotion Agency
Spain	Instituto de Empresa	Alicia Coduras Martinez Rachida Justo Julio DeCastro Joseph Pistrui	NAJETI Chair of Entrepreneurship and Family Business

Unit	Location	Members	Financial Sponsor
Sweden	ESBRI Entrepreneurship and Small Business Research Institute	Magnus Aronsson Helene Thorgrimsson	Confederation of Swedish Enterprise Ministry of Industry, Employment and Communications Swedish Business Development Agency (NUTEK) Swedish Institute for Growth Policy Studies, (ITPS)
Switzerland	HEC-Lausanne Switzerland IMD CERN-Geneva St Gallen University	Bernard Surlemont Benoit Leleux Georges Haour Erkko Autio Thierry Volery	Chambre Vaudoise de Commerce et d'Industrie (CVCI) Renaissance PME Réseau Suisse d'Innovation (RSI-SNI)
Taiwan (Chinese Taipei)	National Taiwan University	Chen-en Ko Jennifer Hui-ju Chen Hsiu-te Sung Chien-chi Tseng	Small and Medium Enterprise Administration, Ministry of Economic Affairs
Thailand	College of Management Mahidol University (CMMU)	Brian Hunt Suphanee Leardviriyasak Thanaphol Virasa Sirin Chachitsophon Rossukhon Numdeng	College of Management Mahidol University
The Netherlands	EIM Business & Policy Research	Sander Wennekers Niels Bosma Arnoud Muizer Ro Braaksma Heleen Stigter Roy Thurik	Dutch Ministry of Economic Affairs
United Kingdom	London Business School	Rebecca Harding Niels Billou Michael Hay	Small Business Service Barclays Bank The Work Foundation South East of England Development Agency One North East InvestNI Entrepreneurial Working Party Ernst & Young
United Kingdom, Scotland Unit	University of Strathclyde Heriot Watt University	Jonathan Levie Colin Mason Wendy Brown Laura Galloway	Hunter Centre for Entrepreneurship
United Kingdom, Wales Unit	University of Glamorgan University of Wales, Bangor	David Brooksbank Dylan Jones-Evans	Welsh Development Agency
United States	Babson College	Heidi Neck Andrew Zacharakis William D. Bygrave Paul D. Reynolds	Kauffman Center for Entrepreneurial Leadership

Appendix IV

GEM Hong Kong 2002 Research Team



David AHLSTROM is Associate Professor in the Department of Management of The Chinese University of Hong Kong. He worked in the computer field for seven years before getting a PhD from New York University. He teaches primarily in the area of strategic management and management of technology. His research interests include how technologies emerge and are assessed, venture capital and entrepreneurship, and management in the Greater China.



Kevin AU is Associate Professor in the Department of Management. He was trained in both social psychology and business, and specializes in human resources management and research methodology. He is active in academic research and business consulting. His consulting experience includes projects with the Hong Kong government and business corporations such as MTR, AIA, and Oracle.



Bee-Leng CHUA is Associate Professor in the Department of Management teaching in the MBA and undergraduate programs on management principles, human resources management, entrepreneurship, and organizational behavior. Current research interests are in the areas of career decisions, entrepreneurship, micro-credit enterprises, and pro-social behaviors in the community and workplace.



Cheung-kwok LAW is Administrative Director, Graduate Programs in the Faculty of Business Administration. He has been involved in high-level research work with the government and international financial institutions. He is very familiar with the regulatory changes and institutional development of the Hong Kong financial sector, and policies relating to Hong Kong's economic development. His policy related studies included the textile industry and aviation industry.



Chee-keong LOW is Associate Professor of Corporate Law and Director of the Centre for Accounting Disclosure and Corporate Governance. His research interests are company and securities law with a recent focus on the issues pertaining to corporate governance and regulatory framework on which he has published in numerous international academic journals.



Shigefumi MAKINO is Professor in the Department of Management. His current research interests include strategies for international expansion of Asian enterprises, inter-organizational imitation, and management of international strategic alliances.



Hugh THOMAS is Associate Professor of Finance. He is an active academic researcher and pedagogical case writer in banking and financial institutions management, international finance and securitization. Prior to obtaining his PhD in international business and finance from New York University, he had six years of banking and consulting experience.

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