

“Integrity and Professionalism – Key to Business Success”
Conference for SMEs of Guangdong, Hong Kong and Macao

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“The Road to Sustainable Development of Hong Kong SMEs – The Present and Future”

1. Background

The Hong Kong Chinese Importers' & Exporters' Association and the School of Business of Hong Kong Baptist University have jointly completed a research project on “The Road to Sustainable Development of Hong Kong SMEs – The Present and Future” which provides strategic recommendations on the sustainable development of SMEs. The research project was funded by the SME Development Fund of the Trade and Industry Department, HKSAR.

Under the research project, views were collected from local SMEs from May 2010 onwards on the assistance rendered by the HKSAR and Mainland governments to their operations.



2. Research Objectives

The research project aims at understanding

- the different factors affecting the operation of enterprises and the degree of impact.
- the difficulties faced by enterprises in conducting cross-boundary business and measures adopted by enterprises to tackle the problems.
- the business situation of enterprises in 2008 as compared to 1997, and forecast for the next three years.
- the perception and views of enterprises on HKSAR's SME policy and efforts made by the Mainland and Hong Kong governments in promoting sustainable development of SMEs.

3. Research Methodology

- A total of 7,517 questionnaires were sent to SMEs of different business associations by fax or email between July and August 2010
- 272 usable questionnaires were received in late August which were classified into five sectors

Sector	No. of Enterprises	Percentage
Import & Export Trade	81	29.8%
Import & Export Trade cum Manufacturing	69	25.4%
Manufacturing	64	23.5%
Services	48	17.6%
Others	10	3.7%
Total	272	100.0%

4. Number of Employees

- Among the SMEs surveyed, most of them had less than 50 employees as listed in the following chart :

Number of Employees

No. of Employees	No. of Enterprises	Percentage
<10	130	47.8%
10 – 50	106	39.0%
51 – 100	18	6.6%
>100	18	6.6%
Total	272	100.0%

5. Years of Establishment

- About 85% of the responding SMEs had been established for more than 5 years as listed below:

Years of Establishment

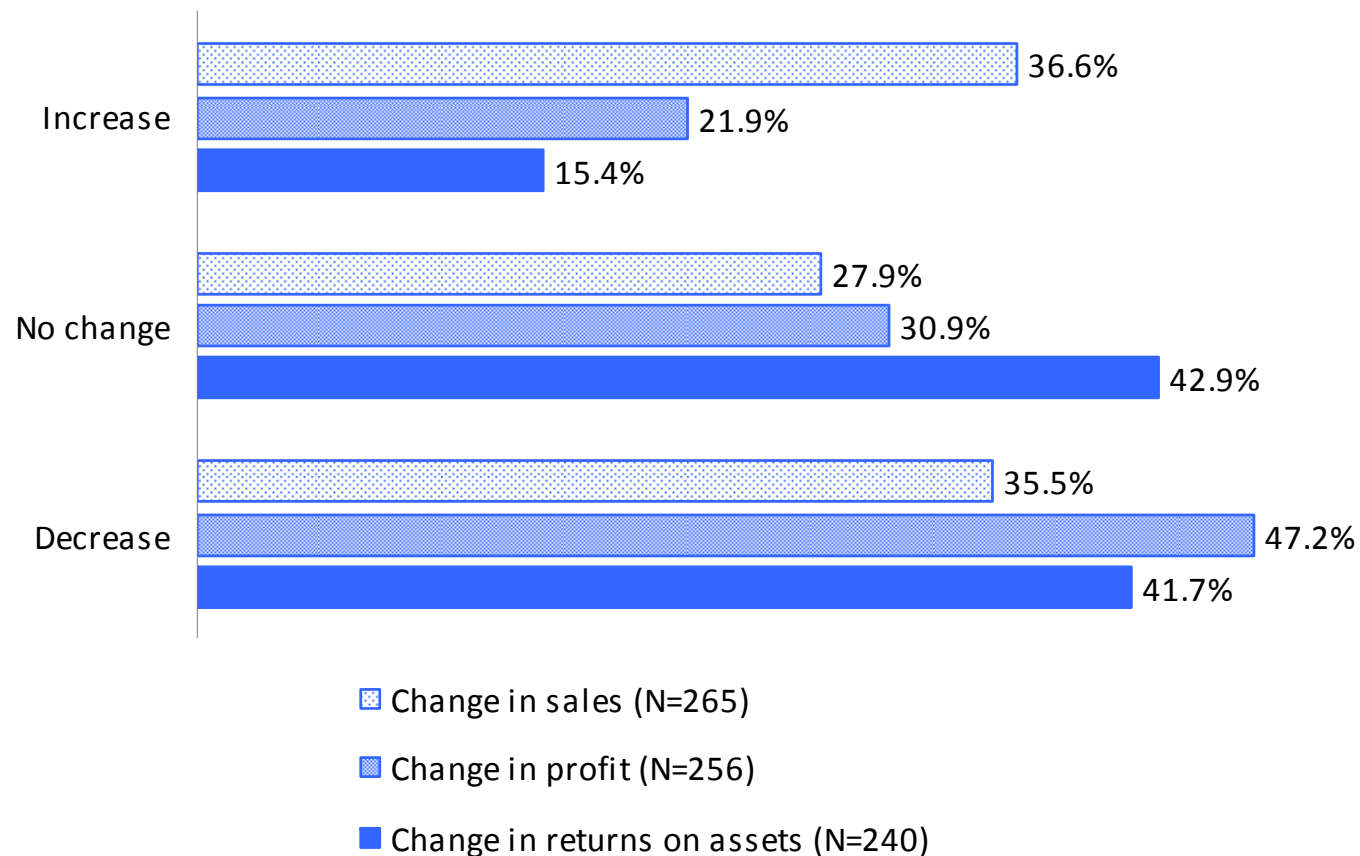
Years of Establishment	No. of Enterprises	Percentage
<3	25	9.2%
3 – 5	13	4.7%
6 – 10	46	16.9%
11 – 15	29	10.7%
>15	158	58.1%
Unknown	1	0.4%
Total	272	100.0%



6. Business Performance

- As the survey was conducted in 2010 which was not long after the financial tsunami in 2008, the SMEs were also asked to compare their current business performance with that before the financial tsunami.

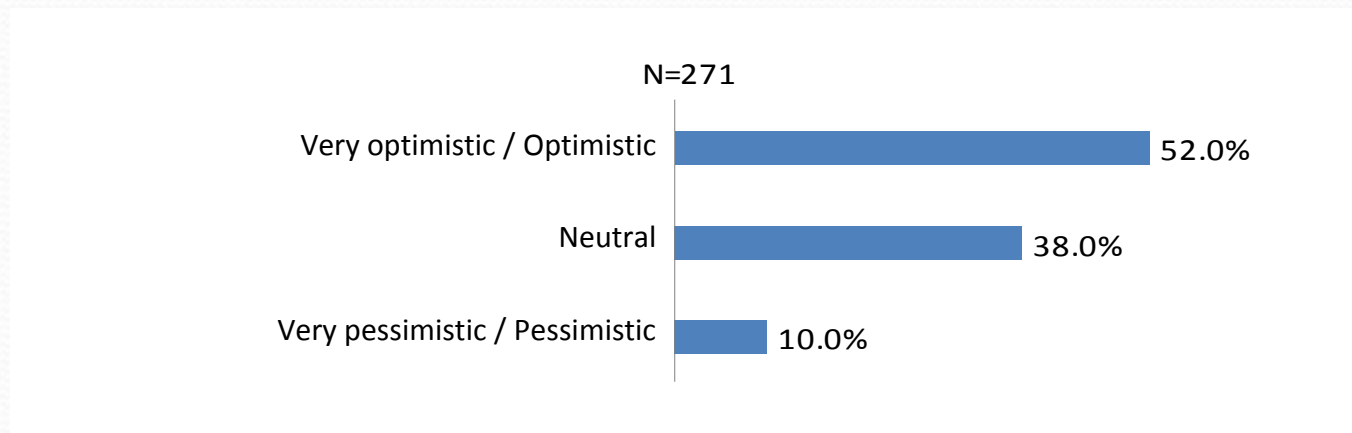
Performance Change Compared to Pre-financial Tsunami Crisis



7. Performance Outlook for the Next Three Years

- SMEs surveyed were asked to forecast the business performance for the next three years. It was revealed that most of the SMEs took an optimistic or very optimistic view on the outlook with only 10.0% of them taking a pessimistic or very pessimistic view.

Outlook for next three years' business



8. Extent of influence by external factors on SME operations (overall)

Perceived external factors affecting SME operations	Perceived factors having extremely or relatively large influence on SMEs	
	Number of SMEs	Percentage
Mainland government policy (N=250)	185	74.0%
Exchange market fluctuations (N=250)	139	55.6%
European debt crisis (N=245)	103	42.0%
Renminbi trade settlement (N=241)	100	41.5%
Promotion of domestic sales on the Mainland (N=239)	69	28.9%
Establishment of Free Trade Zone between China and ASEAN (N=204)	28	13.7%
Pan-Pearl River Delta Development (N=196)	18	9.2%
CEPA policy (N=208)	15	7.2%

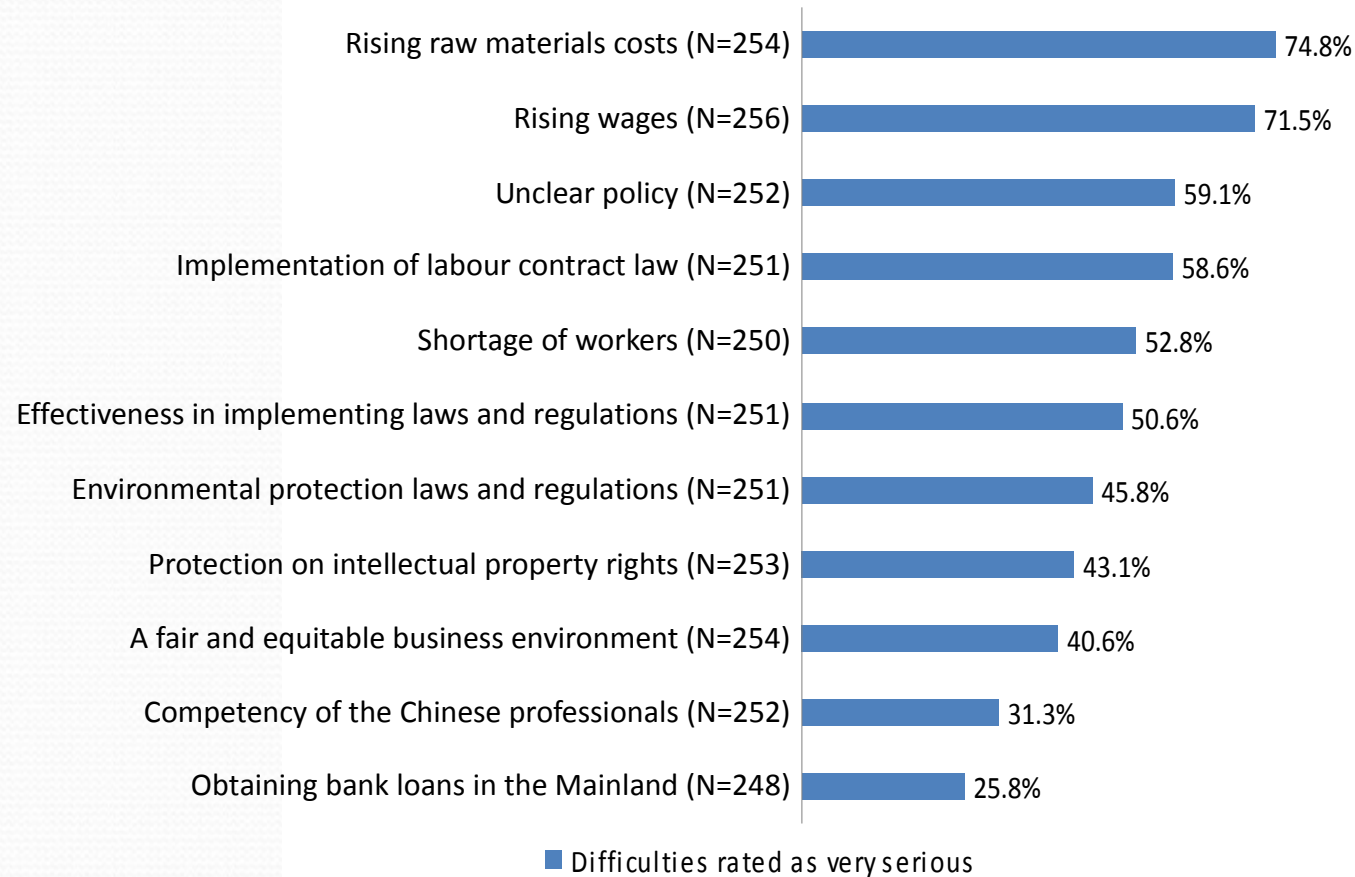
Extent of influence by external factors on SME operations (classified by sector)

Perceived external factors affecting SME operations	Import & export trade (N=81)	Import & export trade cum manufacturing (N=69)	Manufacturing (N=64)	Services (N=48)
Mainland government policy	68.1%	80.6%	83.3%	65.9%
Exchange market fluctuations	56.2%	67.2%	56.7%	40.0%
European debt crisis	43.7%	54.5%	29.8%	41.5%
Renminbi trade settlement	37.5%	46.0%	40.4%	41.0%
Promotion of domestic sales on the Mainland	31.0%	25.4%	28.8%	27.0%
Establishment of Free Trade Zone between China and ASEAN	14.5%	9.3%	13.7%	20.6%
Pan-Pearl River Delta Development	10.3%	3.6%	13.6%	6.7%
CEPA policy	8.3%	1.8%	8.2%	11.4%

9. Factors which SMEs do not know about their extent of influence (overall)

Factors which SMEs do not know about their extent of influence	Number of SMEs	Percentage
Pan-Pearl River Delta Development (N=269)	73	27.1%
Establishment of Free Trade Zone between China and ASEAN (N=265)	61	23.0%
CEPA policy (N=269)	61	22.7%
Promotion of domestic sales on the Mainland (N=270)	31	11.5%

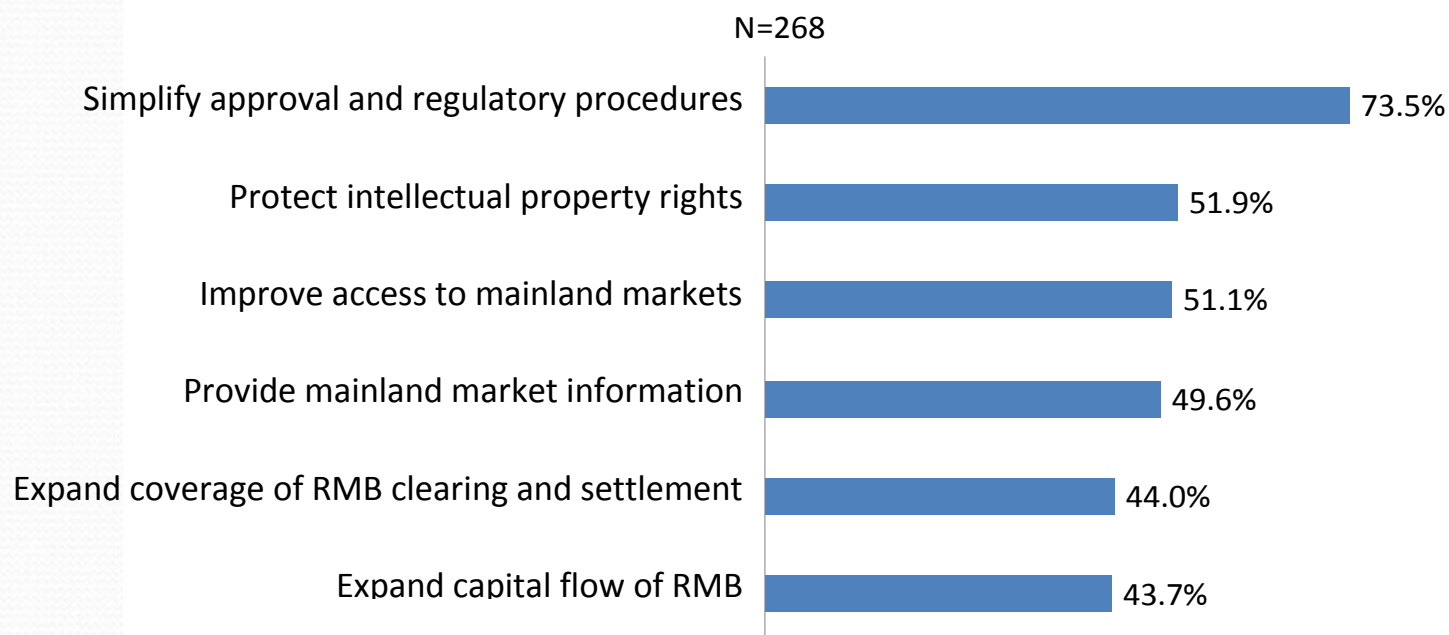
10. Difficulties encountered by SMEs when operating on the Mainland (overall)



11. Business strategy adopted by SMEs when facing difficulties

Business strategy adopted (N = 270)	Number of SMEs adopting this strategy	Percentage
Explore markets	245	90.7%
Enhance staff training and benefits	220	81.5%
Brand building	212	78.5%
R & D — product or service development	200	74.1%
R & D — improve production process	183	67.8%
Internal restructuring	166	61.5%
Cost reduction — partial outsourcing of production process improvement	152	56.3%
Cost reduction — localisation	149	55.2%
Cost reduction — layoff	127	47.0%
Horizontal integration	118	43.7%
Vertical integration	117	43.3%
Base transfer	75	27.8%

12. Areas of Concern to be Addressed by Mainland Government (overall)





Corporate Case (1)

Main business: Production and sale of health care products

Established in 1998, listed on the Main Board of the Stock Exchange of Hong Kong in 2002. Won many awards and top sales prizes in the 2000s.




Success factors

Produce and trade high-quality products, strong emphasis on product safety and focus on product effects on consumer health.

Devote effort and resources on R & D

Work with medicine research institutes in Mainland China

Work with universities in Hong Kong on various R & D projects.



Founder of the International Health Association. Provide excellent after-sale services such as organizing talks and gatherings, enhancing communications and education, collecting views and releasing the latest market information for customers.

Adopt effective marketing strategy, enhance public confidence in their products and successfully build their brand.

Operate with conscience and integrity, assure product safety and quality. Honour integrity for customers and corporate social responsibility (CSR) for customers.



Corporate Case (2)

Main business: One-stop integrated manufacturing services of toys and other products such as educational equipment, bluetooth products, digital cameras, etc (including design, development and production)

Established for more than 40 years, embarked on a joint venture in Dongguan in the late 1980s. Expanded business to Indonesia in 1993 and listed on the Main Board of the Stock Exchange of Hong Kong in 1997.



Strategy to overcome challenges

Adopt a strategy of **operating within its capacity and capability**, streamlining production scale and manpower in accordance with needs.

Customer-oriented and value product quality. Cater for the needs of customers in main business markets in Europe and US.



Committed to expanding domestic markets in the PRC;

Set up new and large factories in Changping recently;

Maintain communications with Chinese officials;

Understand and **comply with legal and regulatory requirements** when conducting business on the Mainland.



For sustainable development, enterprises **should avoid:**

- (1) radical development and **aggressive expansion;**
- (2) **over-borrowing;**
- (3) over-emphasis on sales volume but **neglecting the profit margin;**
- (4) over-concentration **on a few products; and**
- (5) Enterprises should remain flexible, always be alert of market changes and stay calm in times of difficulties.



Thank you!