

# Enhancing Entrepreneurship for SMEs

Hanoi 17 20 June 2008

APEC SME WG

**An overview of SMEs in the APEC Economy;  
the contribution of the Entrepreneurial Engine**

**Chris Hall**

**Macquarie Graduate School of Management**

**PECC SME Network Leader**

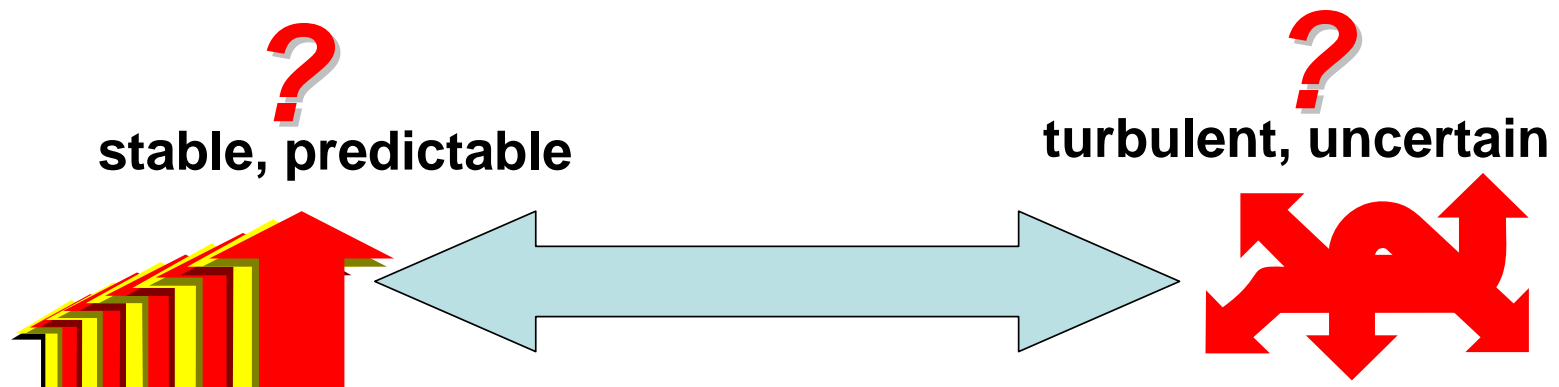
**Chris.Hall@bigpond.com**



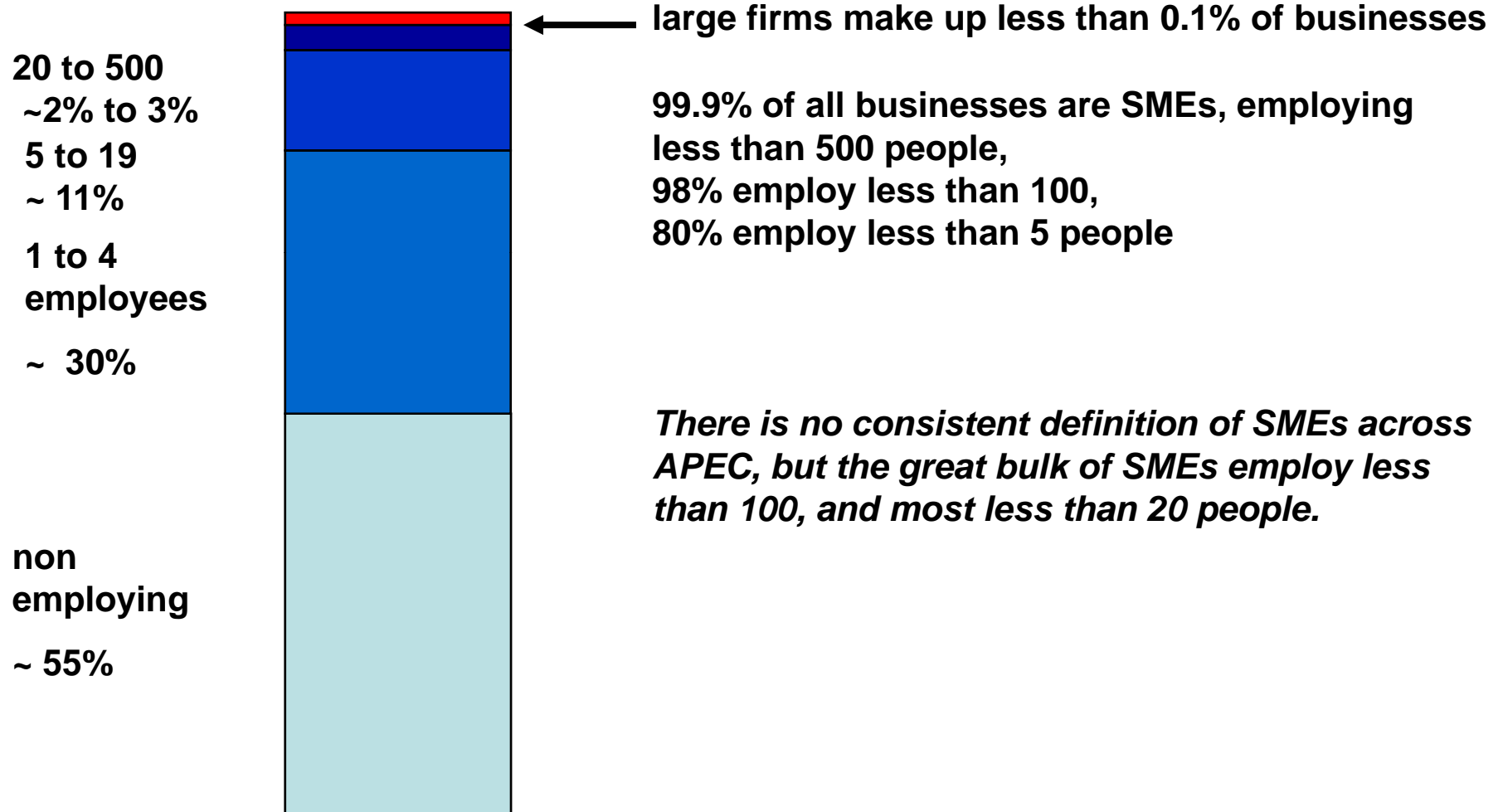
PACIFIC ECONOMIC COOPERATION COUNCIL



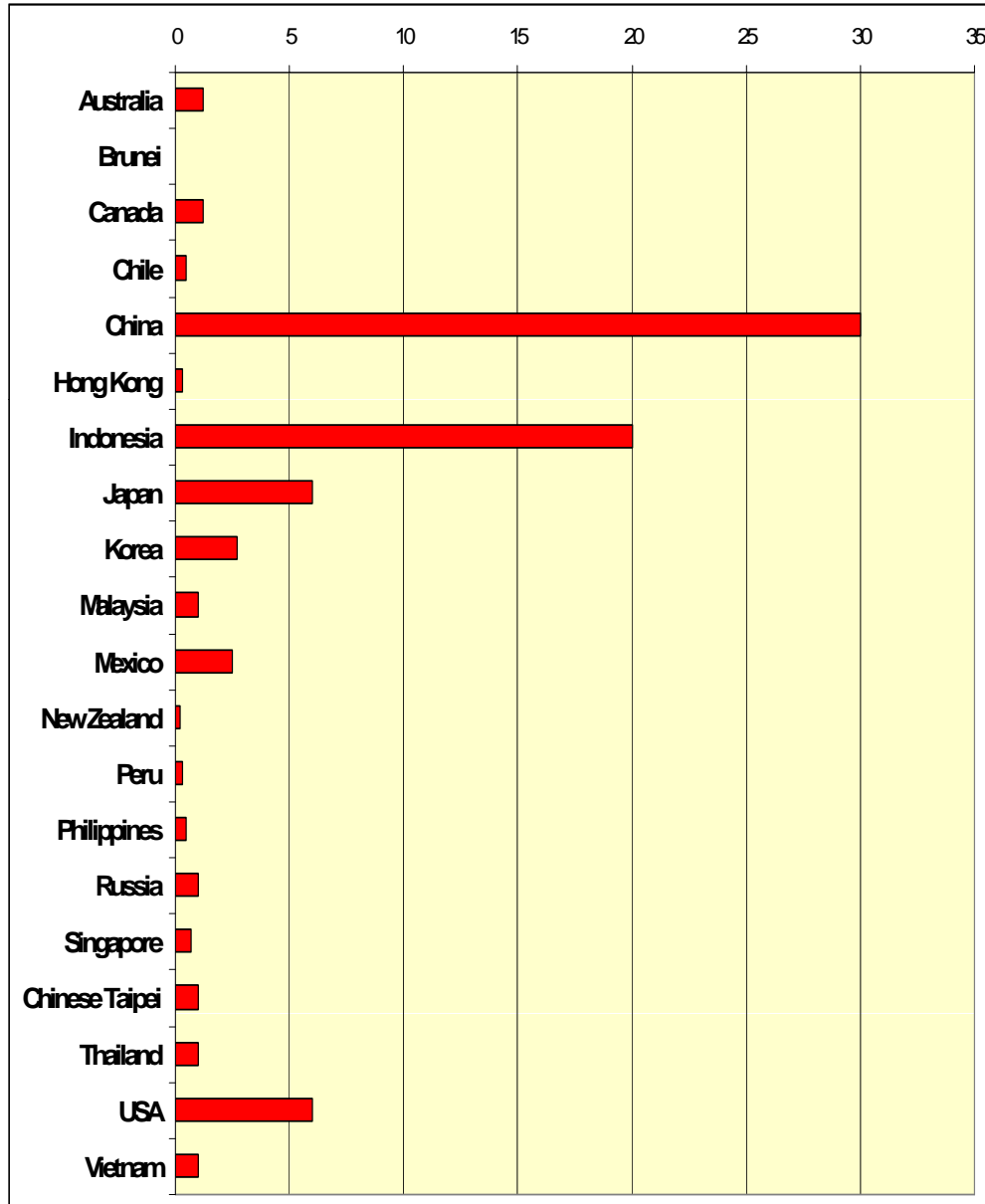
**what sort of business environment is best for  
entrepreneurs and firm creation?**



## What is an SME?

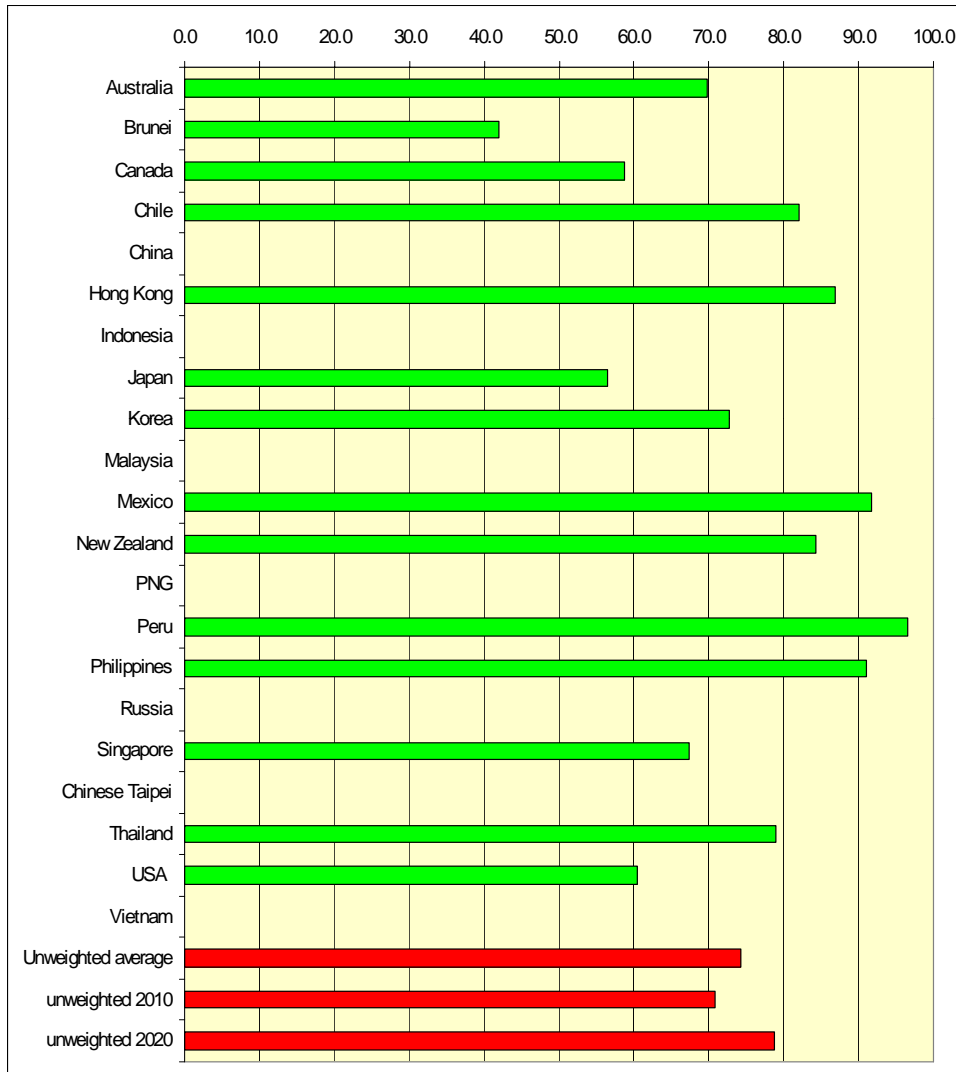


## How many SMEs are there in APEC?



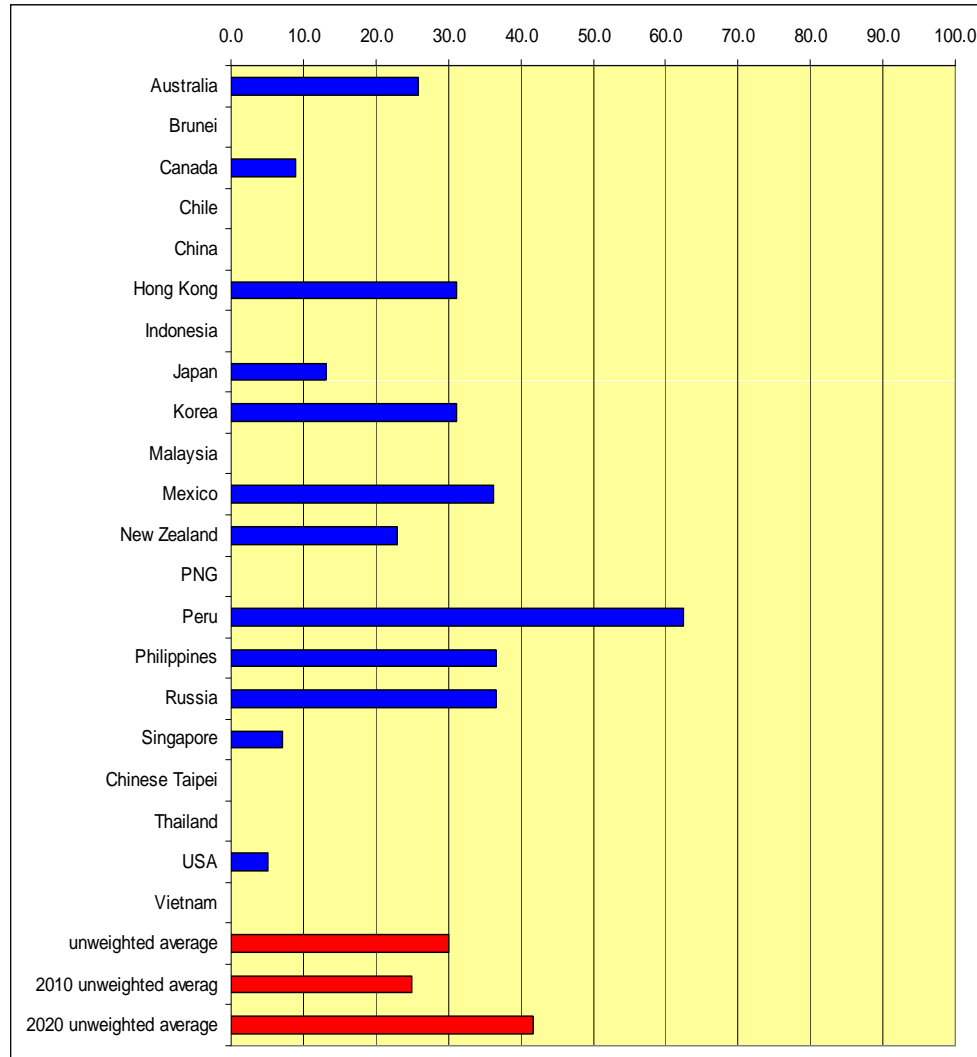
***There are now about 77 million SMEs in APEC, about 30 million of them in China, but there should be about 100 to 120 million***

## Micro SMEs are especially important in developing APEC



**Micro firms  
(defined as < 5  
employees)  
make up around  
70% to 80% of all  
private sector  
enterprises in  
APEC,  
and their role is  
relatively more  
important in 2020  
economies**

## Micro SMEs are especially important in developing APEC



**Micro enterprises contribute about 25% to 40% of all private sector employment in APEC, and their role is more important in 2020 economies**

## What do these SMEs contribute?

Medium 19 to  
500 or so

Small  
5 to 19  
employees

Micro less  
than 5  
employees  
  
about 80%  
of SMEs



large firms make up less than 0.1% of businesses, contribute between 40% and 60% of employment, and about 50% of GDP.

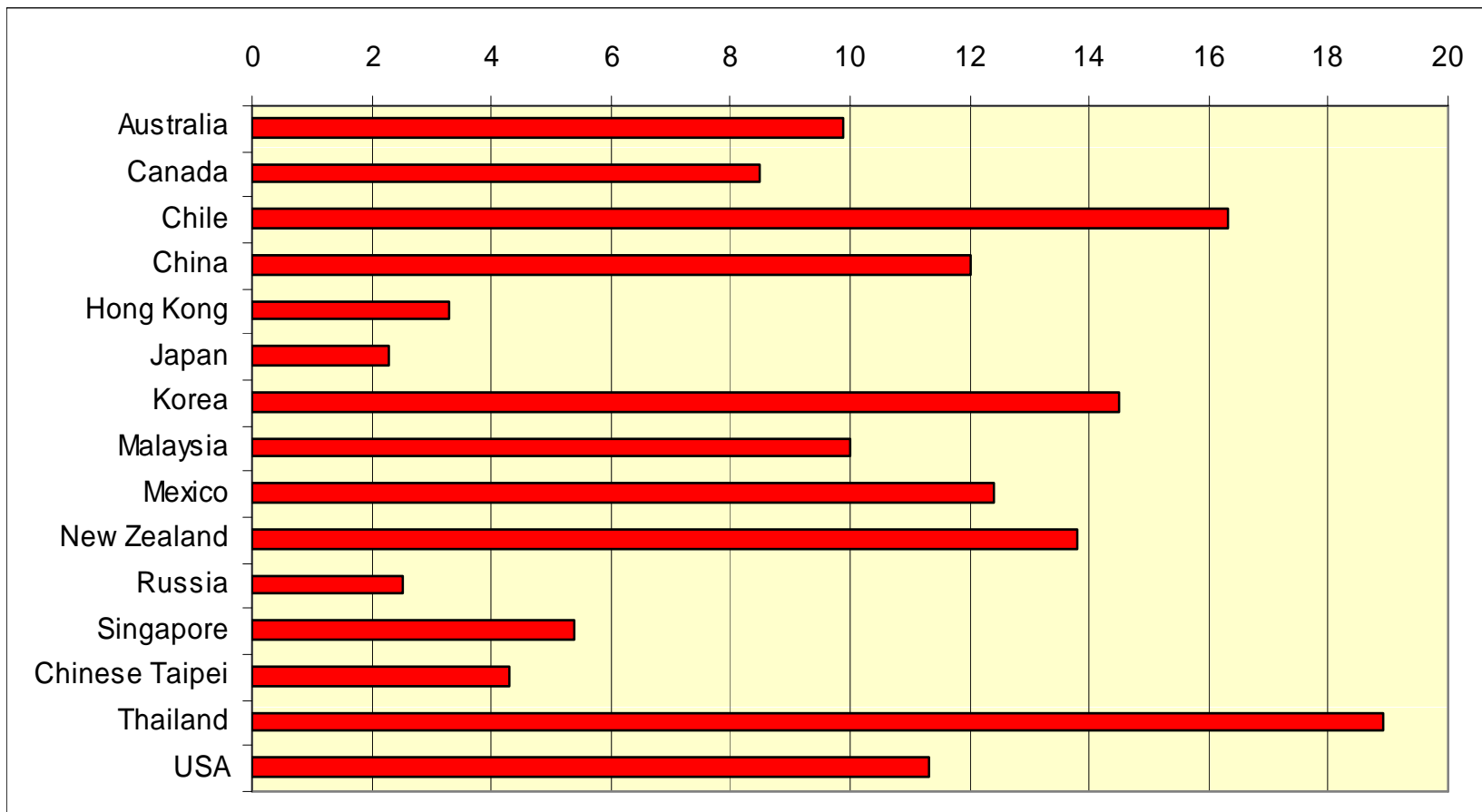
Large firms usually destroy jobs, ie are net job destroyers

SMEs contribute about half of GDP, and about half of all jobs. About 20% of jobs are from medium, 20% from small and 20% from micro

*But SMEs, especially new micro and small enterprises create most of the job growth.*

**Most SMEs start with an entrepreneur, and entrepreneur rates differ**

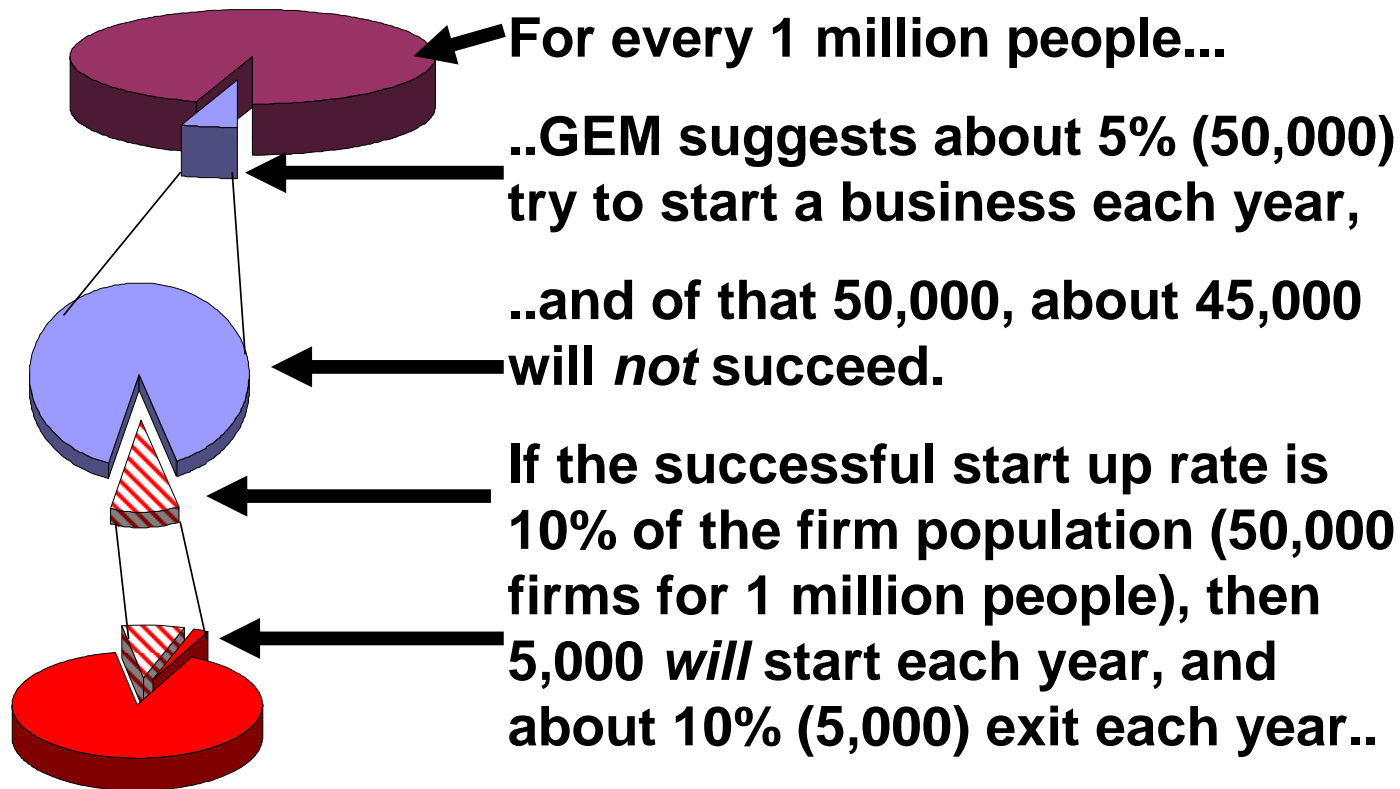
## **GEM TEA (Total Entrepreneur Activity) Rates for APEC Economies 2003 Percent of Adult population starting or running a business less than 42 months old**



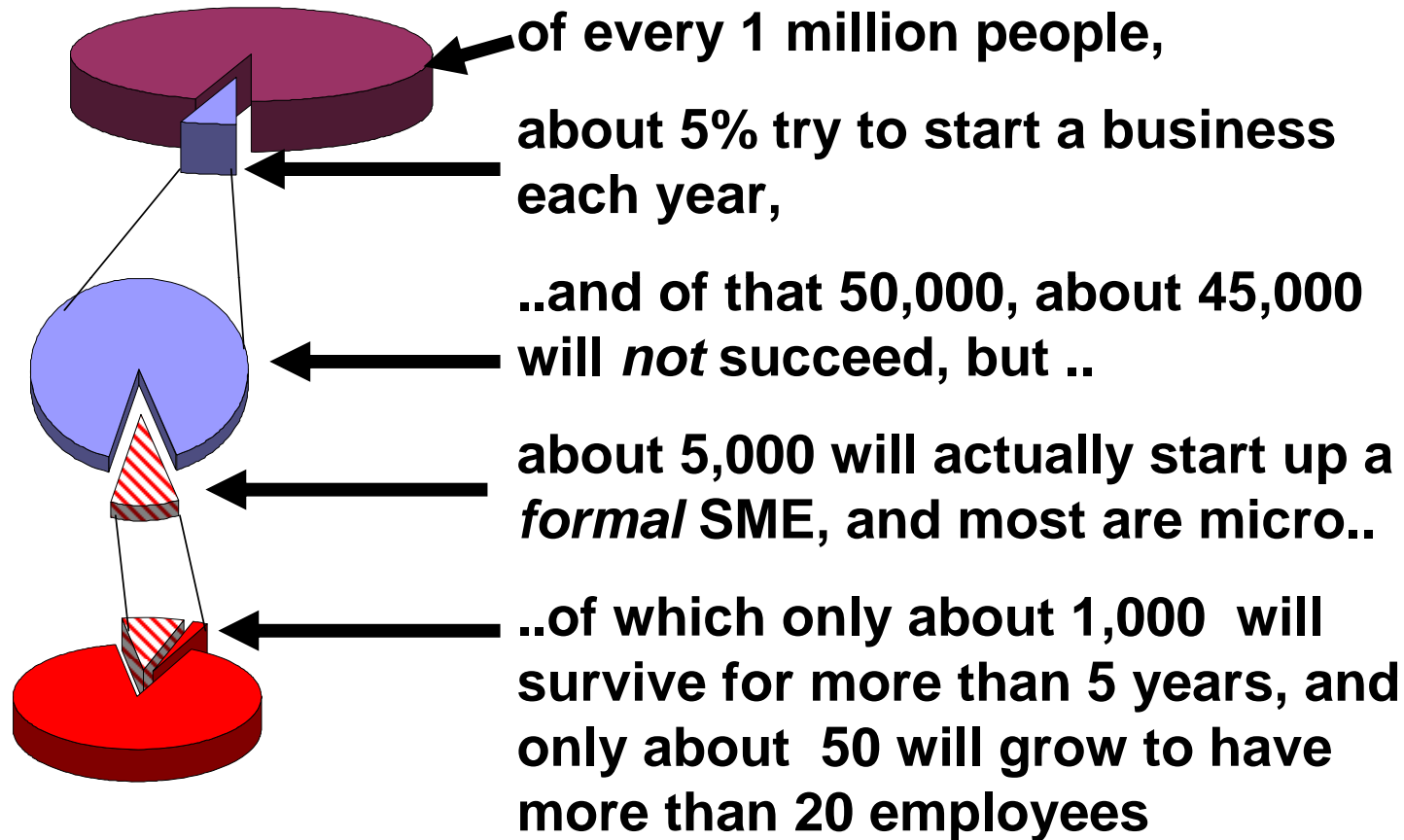


**Not all entrepreneurs who think about it actually start an SME**

**Entrepreneur densities suggest  
5% of the population run an SME**



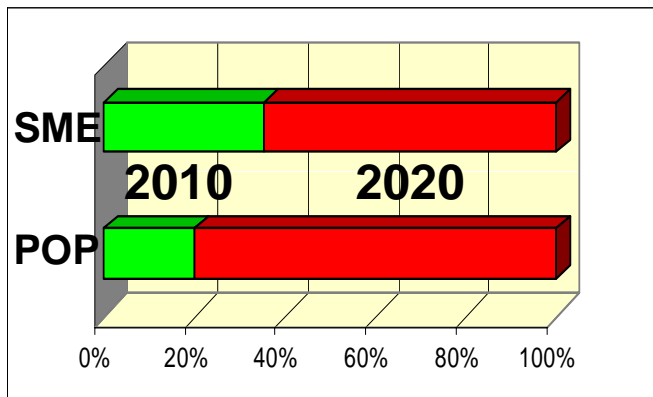
and even less succeed, but an entrepreneur density is about 5%



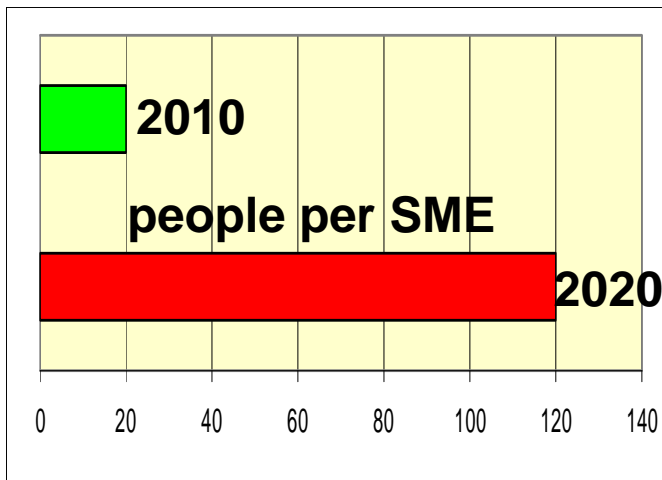
***Benchmark SME density is 5%...***

**Developing APEC usually falls short of formal entrepreneurs**

***a 5% benchmark suggests that 1 in 20 persons should have experience in managing a formal SME, but ...***



**2010 economies have 19% of APEC's human population but have 35% of the SMEs. China has half of APEC's population but only 18% of APEC's SMEs.**



**2010 economies have about 20 people per SME, while 2020 economies have about 120 people per SME - there is a shortage of about 70m entrepreneurs in APEC!**

How does the entrepreneurial Engine work?

about 1%  
of firms

Large firms employ about half the workforce,  
but add relatively few net jobs

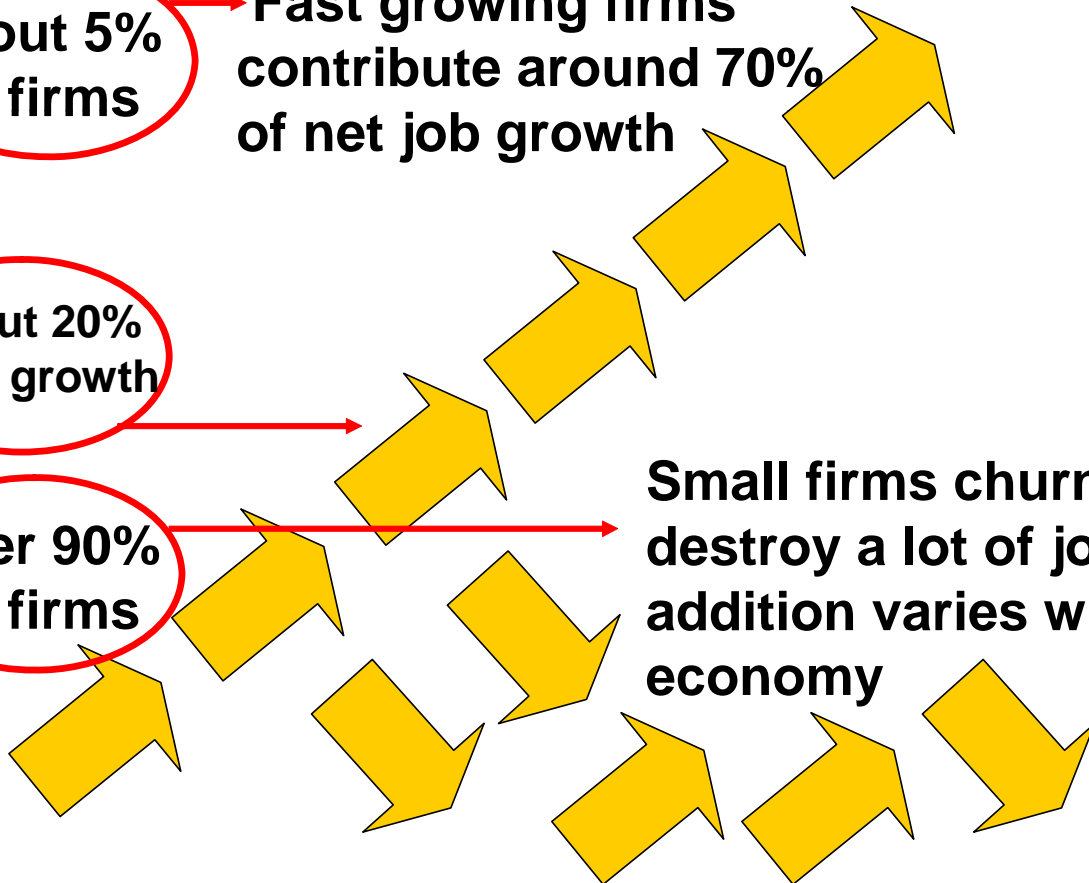
about 5%  
of firms

Fast growing firms  
contribute around 70%  
of net job growth

about 20%  
seek growth

over 90%  
of firms

Small firms churn, add and  
destroy a lot of jobs, - net  
addition varies with cycle and  
economy

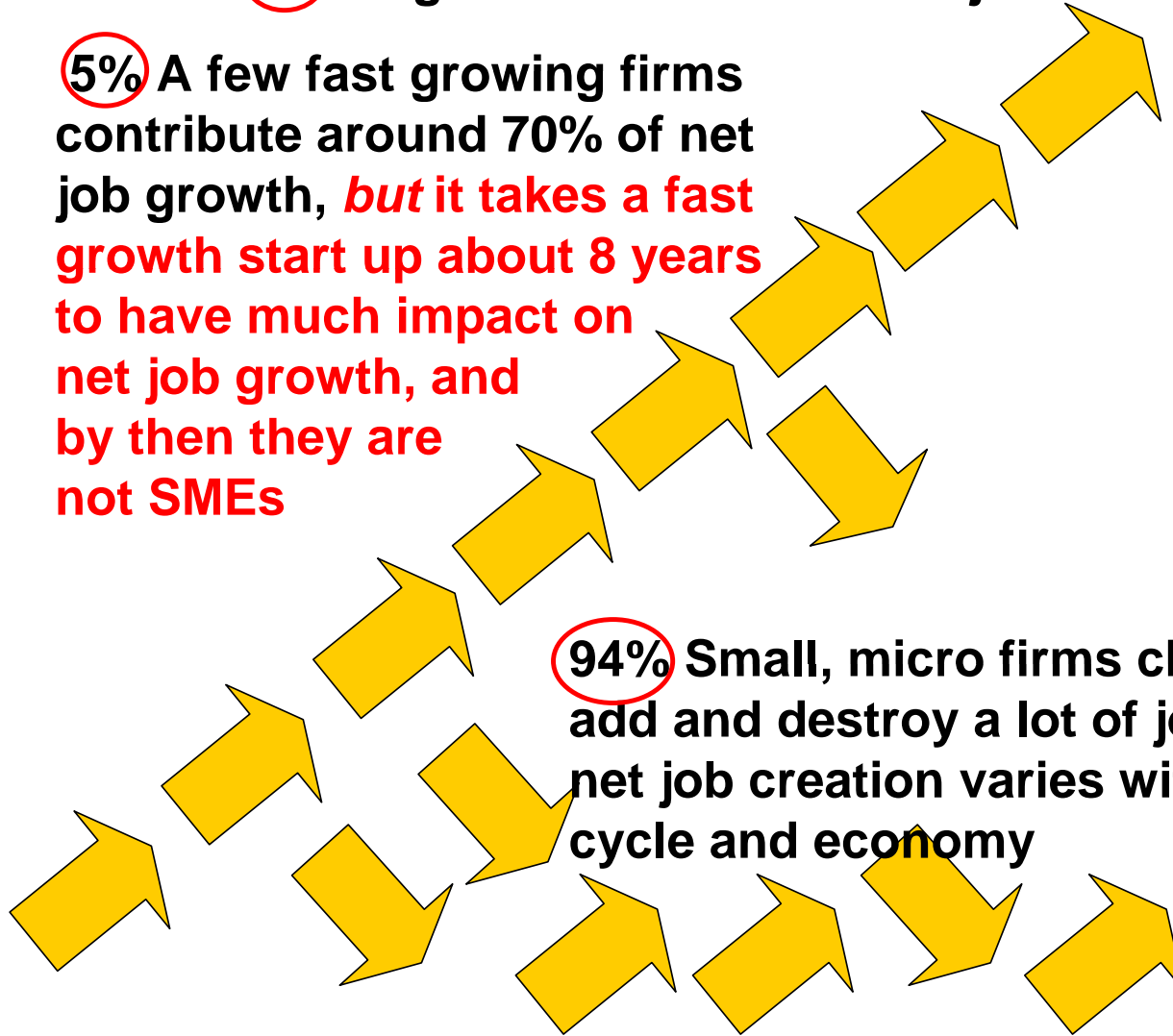


so the engine has a fairly long cycle of 8 years or more

**1%** Large firms tend to be net job destroyers

**5%** A few fast growing firms contribute around 70% of net job growth, *but it takes a fast growth start up about 8 years to have much impact on net job growth, and by then they are not SMEs*

**94%** Small, micro firms churn, add and destroy a lot of jobs, - net job creation varies with cycle and economy



and is underpowered in APEC

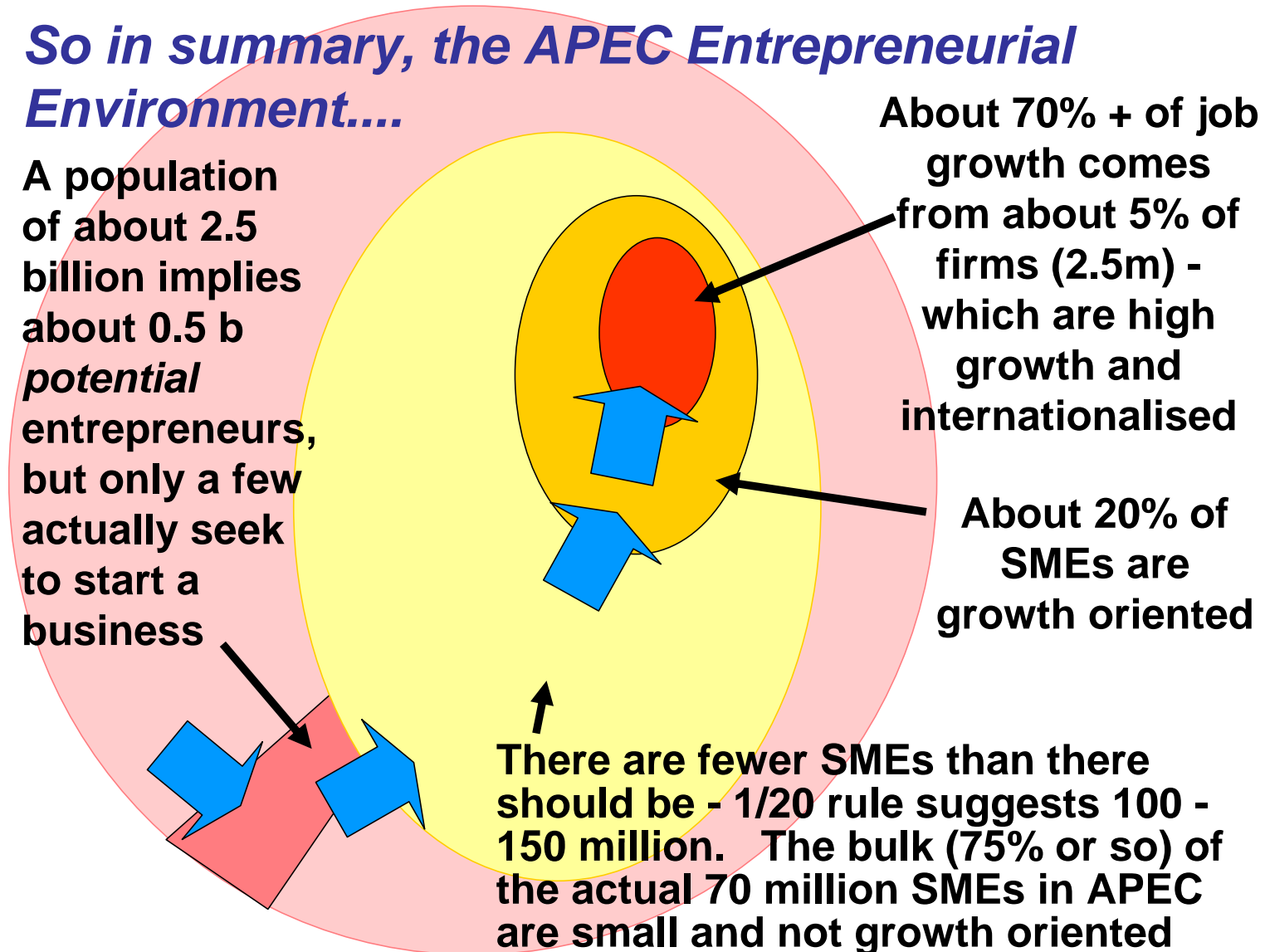
## ***So in summary, the APEC Entrepreneurial Environment....***

**A population of about 2.5 billion implies about 0.5 b *potential* entrepreneurs, but only a few actually seek to start a business**

**About 70% + of job growth comes from about 5% of firms (2.5m) - which are high growth and internationalised**

**About 20% of SMEs are growth oriented**

**There are fewer SMEs than there should be - 1/20 rule suggests 100 - 150 million. The bulk (75% or so) of the actual 70 million SMEs in APEC are small and not growth oriented**



The Entrepreneurial Engine is what drives economies...

***Not all Entrepreneurs are the same!***

percent of adult population

**actual entrepreneurs ~5%**

willing to bear some  
uncertainty

**aspiring entrepreneurs ~ 20%**

**non entrepreneurs 75%**

wage earners,  
professionals etc

less willing to bear  
uncertainty and risk



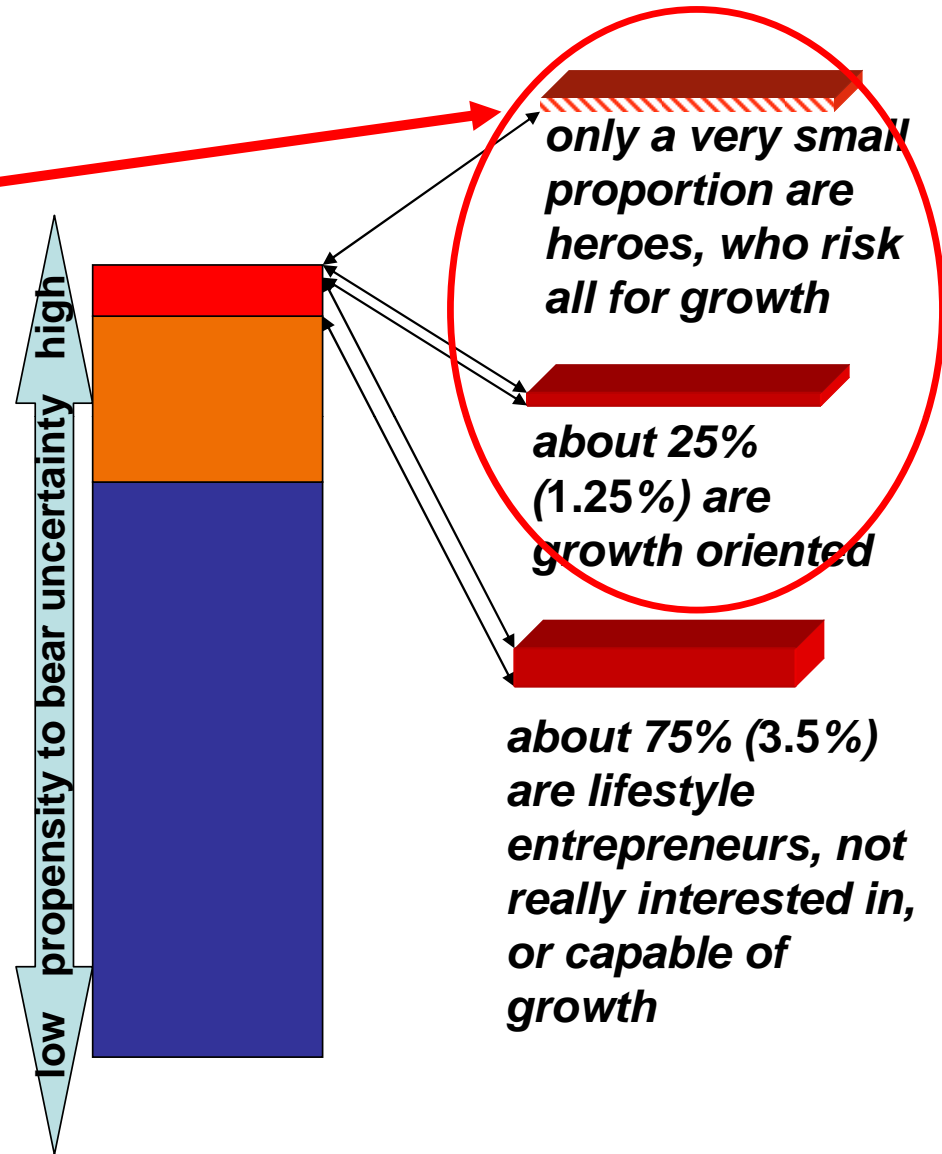
***only a very small  
proportion are  
heroes, who risk  
all for growth***

***about 25%  
(1.25%) are  
growth oriented***

***about 75% (3.5%)  
are lifestyle  
entrepreneurs, not  
really interested in,  
or capable of  
growth***

...and depends on less than 5% of the population...

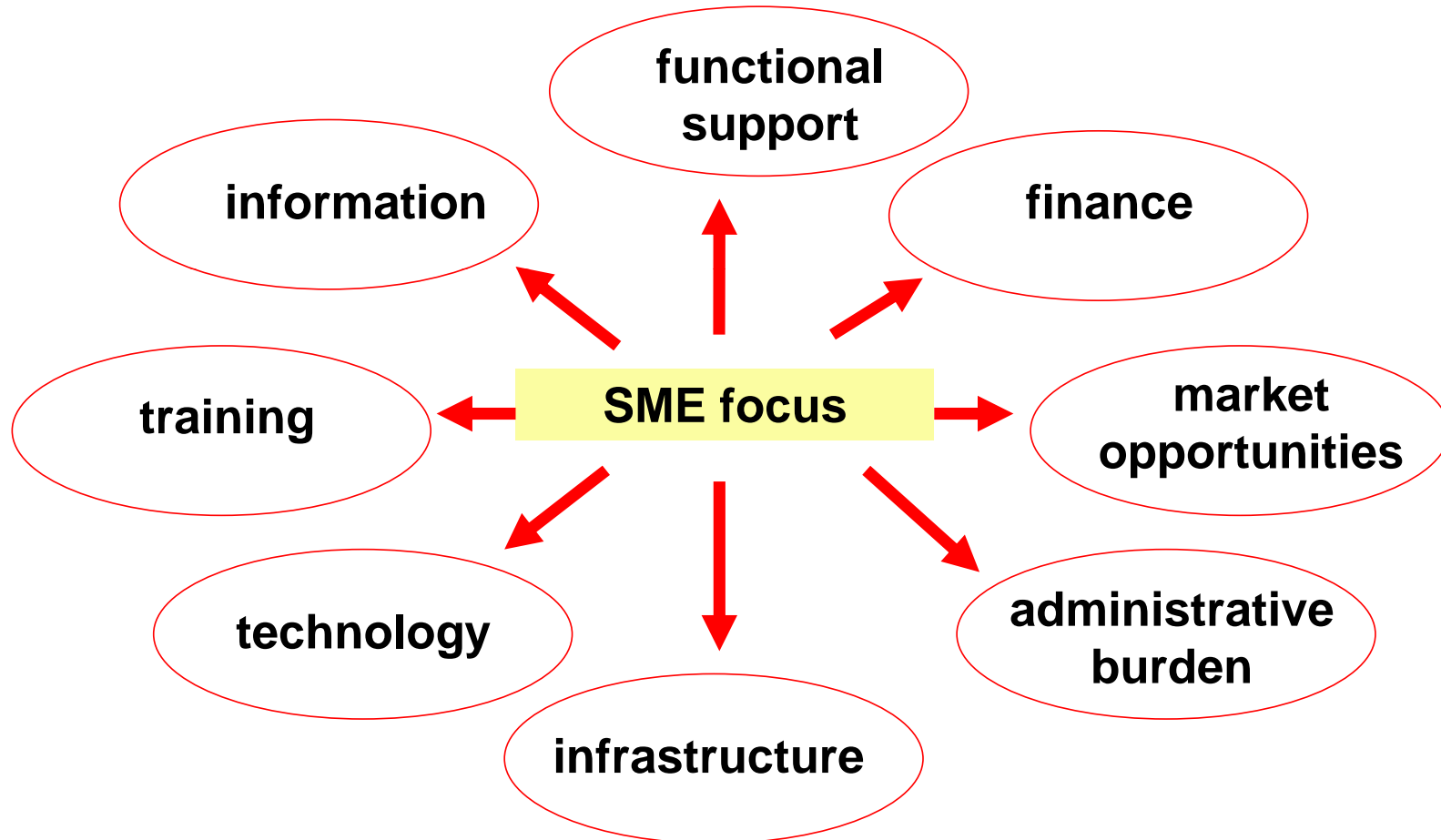
But it is this small proportion of the adult population (about 1% or less) and less than about 5% of SME population that drive international success, provide much of the resilience, and create around 70% of net jobs!!





**..who need appropriate government and private sector support**

**SMEs can benefit from government support in...**



**..but needs differ by enterprise, and a chain is as strong as its weakest link.**

and this requires a careful balance of policy and programs

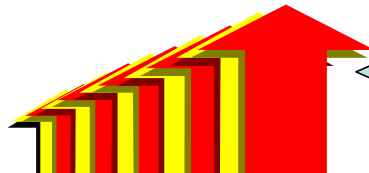
The political challenge facing APEC in designing the business environment best for entrepreneurs and firm creation

suited to lifestyle,  
large businesses,  
wage earners

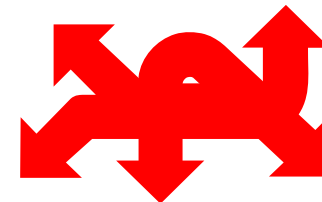
stable, predictable

suited to fast  
growing international  
opportunists

turbulent, uncertain



environment suited  
to electoral  
popularity and most  
micro enterprises  
and start ups



environment suited  
to creating new  
jobs, innovation  
and international  
competitive  
advantage

**Overview of the role of SMEs in the economy and contribution of entrepreneurs to the entrepreneurial engine**

**FDI by and in SMEs in Global  
Context: Implications for  
developing countries in APEC**

**APEC Training course on Enhancing  
Entrepreneurship for SMEs**

**17-19 June 2008**

**Ha Noi, Viet Nam**

**Masataka Fujita**

**Chief, Investment Trends Section**

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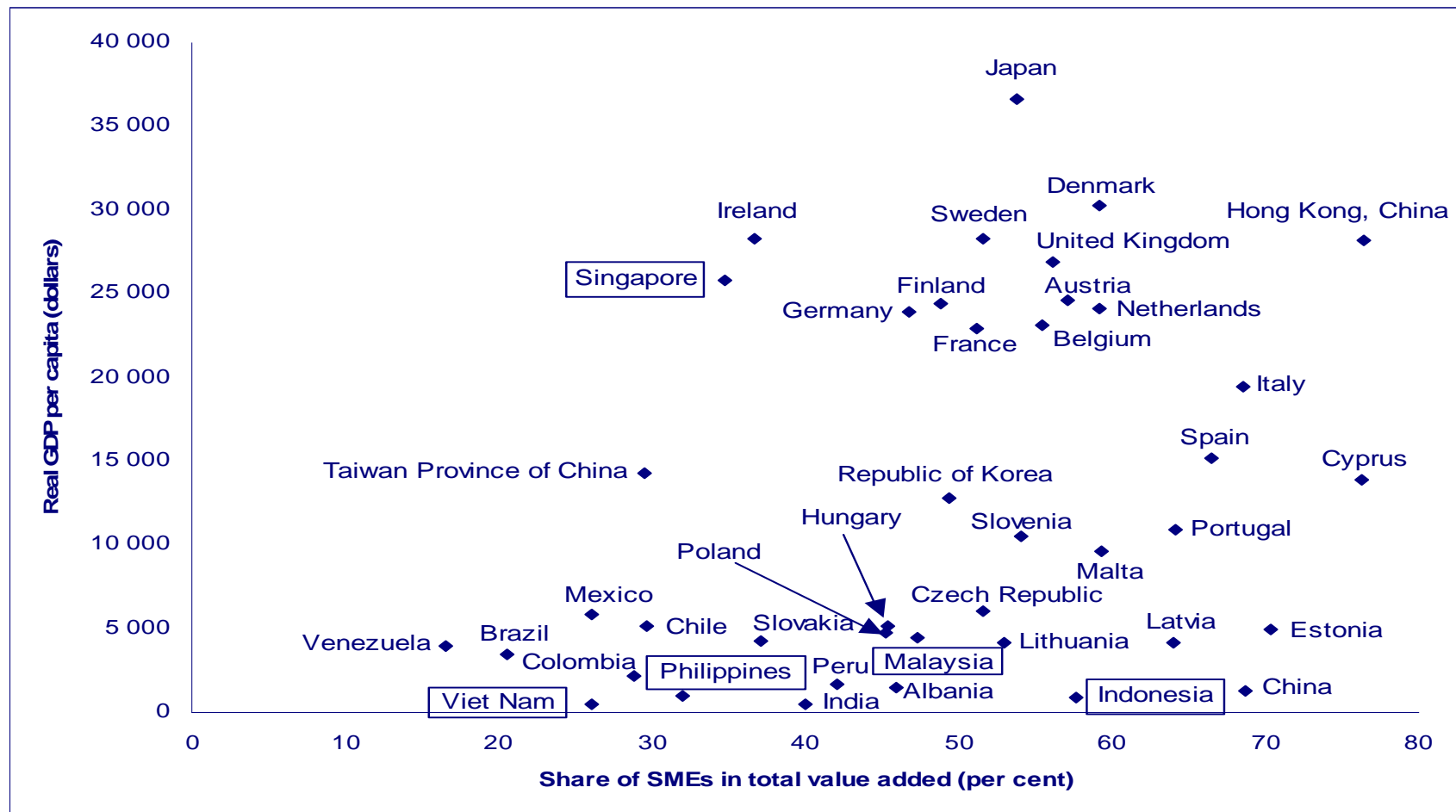


# Contents

- I. SMEs in global context**
- II. FDI by SMEs**
- III. Small and medium-sized TNCs:  
characteristics and impacts**
- IV. Problems faced by small and medium-sized  
TNCs**
- V. Policy options for developing member  
states of APEC**

# Importance of SMEs varies even at the same level of economic development

The relationship between the importance of SMEs and the level of development



**SMEs are generally important in all economies (judging by the number of employees), but the importance differs.**

**SMEs as percentages of total value added and employment in selected countries, most recent available years**

<b>Economy</b>	<b>Year</b>	<b>Value added</b>	<b>Employment</b>
<b><i>Developed countries</i></b>			
France	2003	51.1	60.3
Germany	2005	46.7	70.8
Italy	2003	68.6	81.0
Japan	2004	53.8	71.0
Portugal	2003	64.2	80.6
Spain	2003	66.5	79.2
United Kingdom	2005	56.1	52.0
United States	2004	..	50.9
<b><i>Developing economies</i></b>			
China	2004	68.7	85.2
Hong Kong, China	2004	76.4	76.9
Indonesia	2003	57.6	99.4
Malaysia	2005	47.3	65.1
Philippines	2001	32.0	70.0
Singapore	2005	34.7	51.8
Thailand	2006	..	68.1
Viet Nam	2004	26.0	77.5

When attempting at SMEs policy formulation and policy coordination among APEC members, it is important to remember that FDI by SMEs in particular can play a determinant role.

**In terms of number, there are many  
small TNCs**

**All TNCs**

**Small and medium-  
sized TNCs**

77,000 TNCs



40,000 TNCs

770,000 affiliates abroad



120,000 affiliates abroad



Small and medium-sized TNCs are more export-oriented and more transnationalized than large TNCs. In delivering goods and services to foreign markets, they use both exports and FDI.

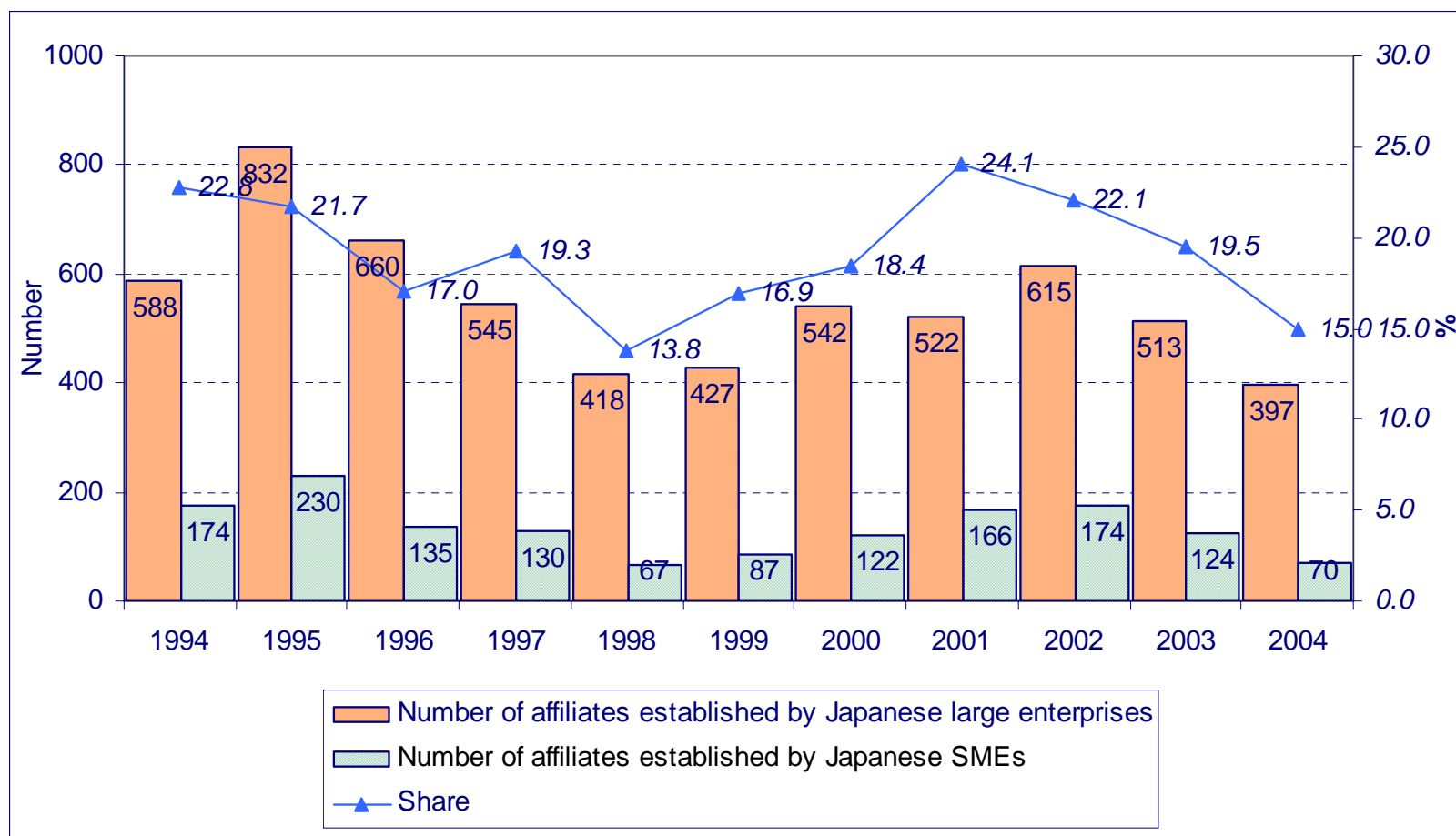
**How different between small investors (small and medium-sized TNCs) and large investors (large TNCs)?**

By size	Transnationality		Profitability: Ratio of net income to sales	Mode of delivery: exports or int'l production	
	Ratio of foreign sales to total sales	Ratio of foreign assets to total assets		Export propensity (exports/sales)	international production to sales
Small and medium- sized TNCs	55%	40%	6%	0.26	1.6
Large TNCs	29%	7%	5%	0.16	2.6

## II. FDI by SMEs

Involvement in FDI by SMEs varies: Japan 1/5,  
United States and Europe less than 5% of total FDI.

Number of foreign affiliates established by Japanese SMEs and its share in all affiliates, 1994-2004

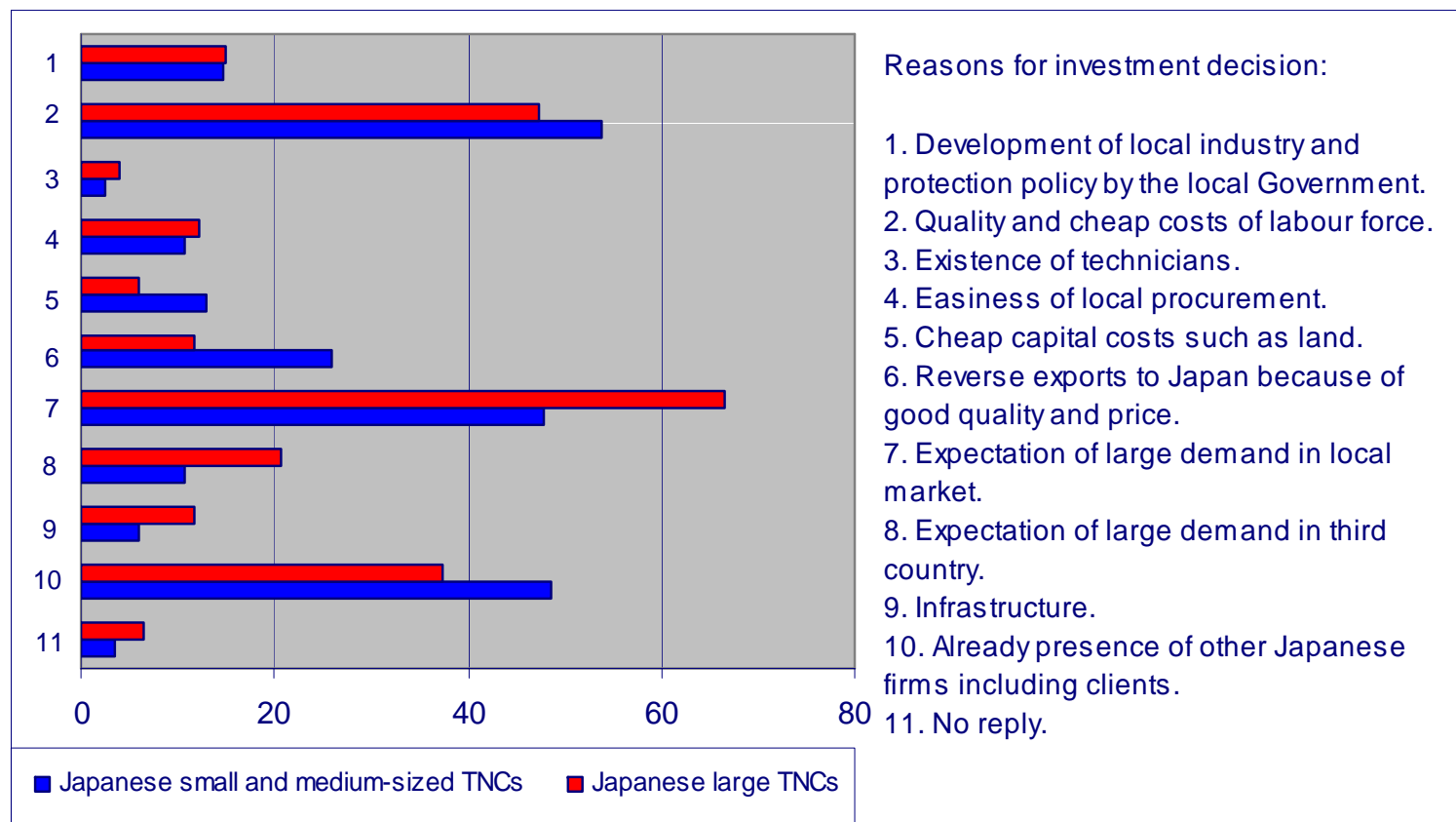


- Location of FDI by SMEs: mainly Asia for Japanese SME, mainly Europe for European SMEs, increasingly Asia for US SMEs.
- Industry breakdown. Small TNCs are more in textiles, capital-goods production (machinery and equipment) and trade (wholesale and retail trade).

## II. FDI by SMEs

Reasons for FDI are various: the expectations of growth in local markets, low-cost labour, the presence of their clients in host economies are particularly important.

Reasons for FDI by Japanese SMEs, 2004



## 1. Characteristics

- High export propensity: 26% for small TNCs, 16% for large TNCs
- SMEs in medium-technology industries are most actively involved in FDI

### *Reasons:*

- fewer cost advantages in home economies; thus internationalized.
- Little direct competition (rubber, furniture, niche products).

## **1. Characteristics (Cont'd)**

- Subcontractor relationship with large firms and suppliers to other firms.
  - ➔ Bridge the technology gap between developed countries and ASEAN.
- Increasingly high-technology SMEs go to invest.
  - ➔ Greater relationship with large firms.

## **2. Contribution to development**

- SMEs in developed countries as an important reservoir of productive resources for developing countries
- Small TNCs can bring in technologies that may suit better the host country characteristics
- Competitive edge of small TNCs: 4 areas
  - Fill in the areas left open by large firms (diseconomies of scale or niche production)
  - Possess technologies phased out by large firms (mature technologies)
  - Downscale technologies to smaller markets (more labour-intensive, adapting to local factor proportions)
  - Cost advantages in simple and flexible organizational structure

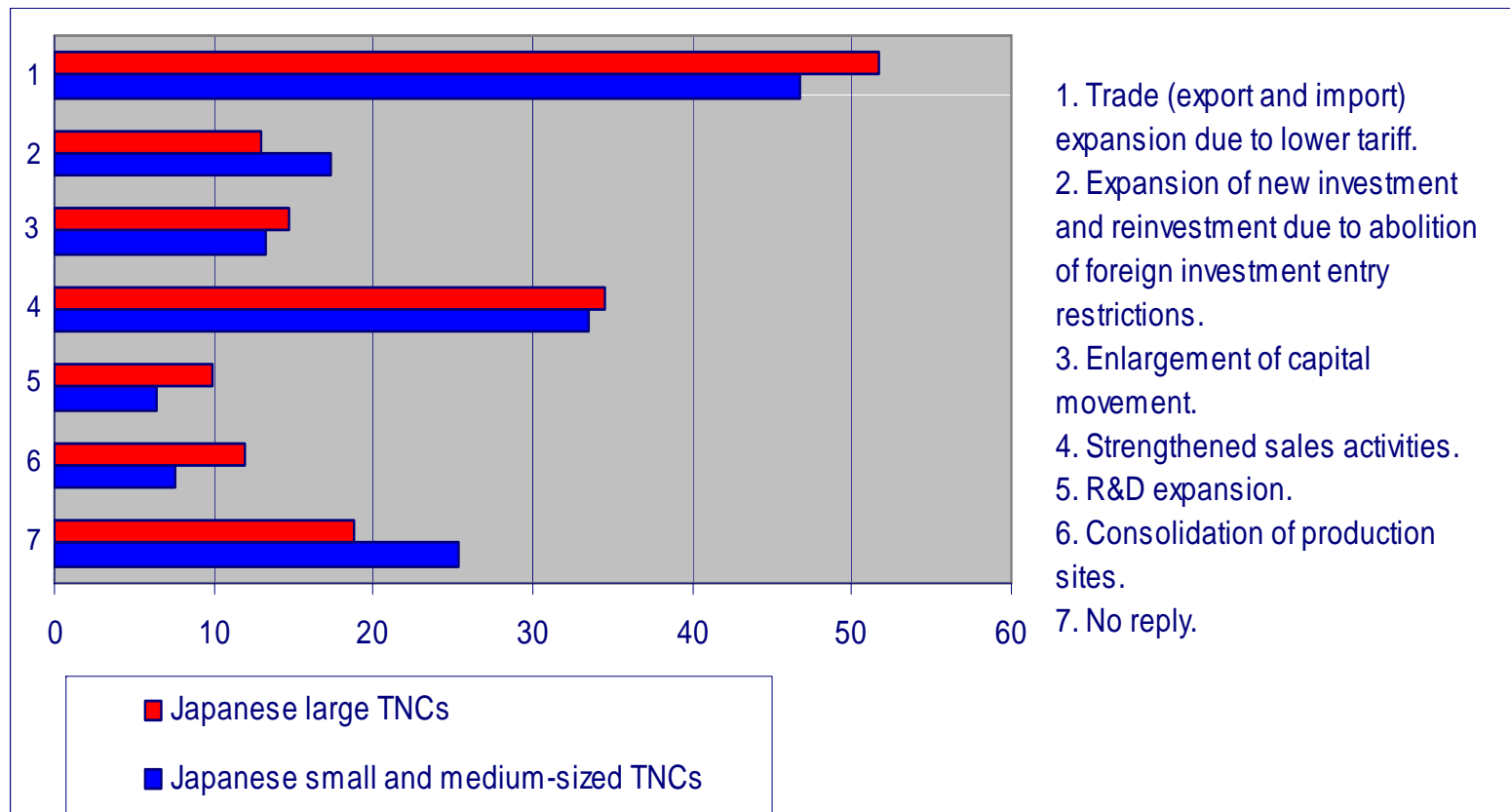
## **2. Contribution to development (Cont'd)**

- Higher export prosperity
  - Can advance regional integration process through intra-regional trade by SME affiliates
- FTA promotes more trade and strengthens sales activities of TNCs



## 2. Contribution to development (Cont'd)

Effects of FTAs on operations of Japanese large and small and medium-sized TNCs, 2004

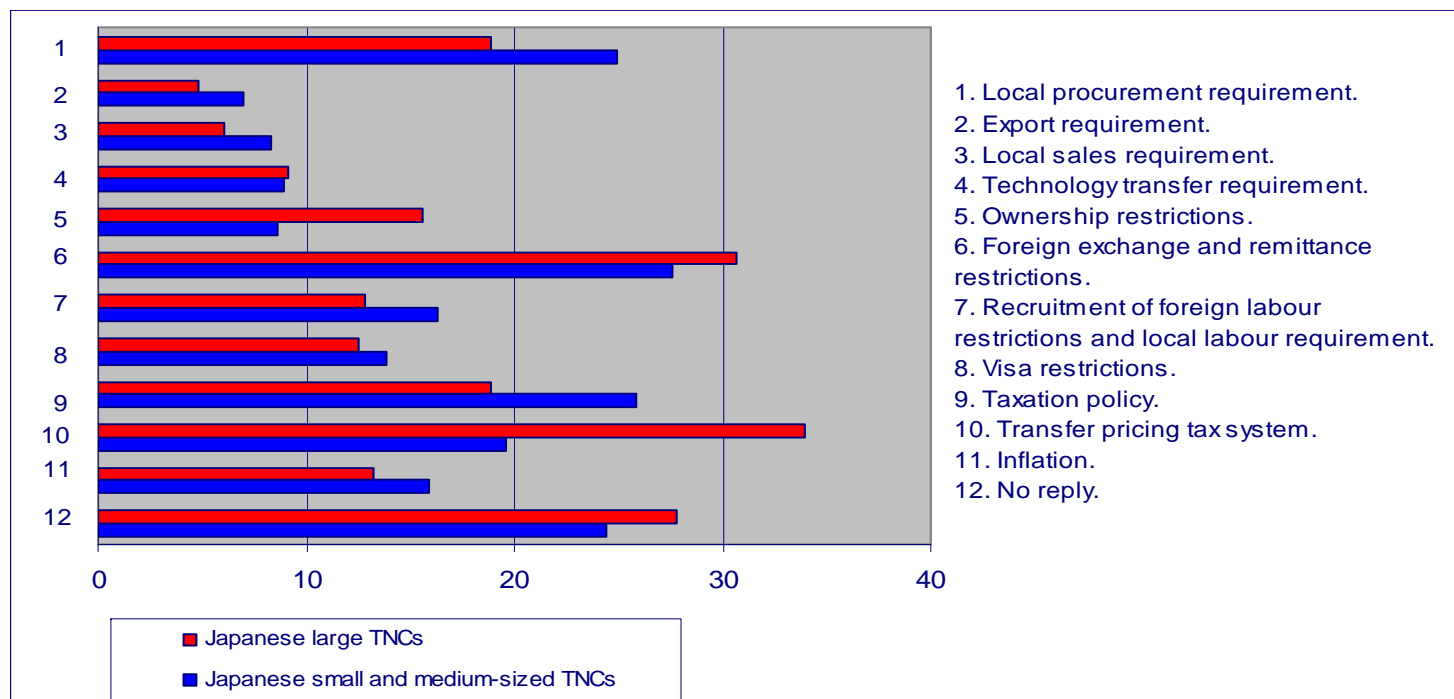


## IV. Problems faced by small and medium-sized TNCs

### Many SMEs are reluctant to invest abroad

- Investment policies: foreign exchange and remittance restrictions, taxation policies, local procurement requirement are particularly important for small TNCs

Problems encountered in host economy by Japanese large TNCs and small and medium-sized TNCs, 2004



**Many SMEs are reluctant to invest abroad  
(Cont'd)**

- **Macroeconomic and cultural constraints**
- **Lack of managerial and human resources**
- **Lack of international experiences**
- **Preference for short-run goals**
- **Limited transfer capabilities**

# 1. Country and firm levels

## a. Country level

- **Continued liberalization process**
- **Utilization of home country programmes**
- **Extension of coverage of domestic SME policies to foreign SMEs**
- **Creation of records of FDI by SMEs**
- **Infrastructure**

# 1. Country and firm levels (Cont'd)

## b. Firm level

- **Increasing awareness of international business for local firms**
- **Assistance at the pre-project stage**
- **Assistance in the selection of partners**
- **Assisting local firms to access financial resources**

## 2. Regional and international levels

- Provision of expertise
- Coordination of policies
- Provision of information
- Intermediary role
- Centralization of SME FDI data
- Creation of database on potential SME investors
- Creating meeting opportunities

# World at Night



(NASA)

# Unimaginable Opportunities



(The World Islands, Nakheel Corp)



# Open Societies



(U.S. Department of Defense)

# Unimaginable Growth

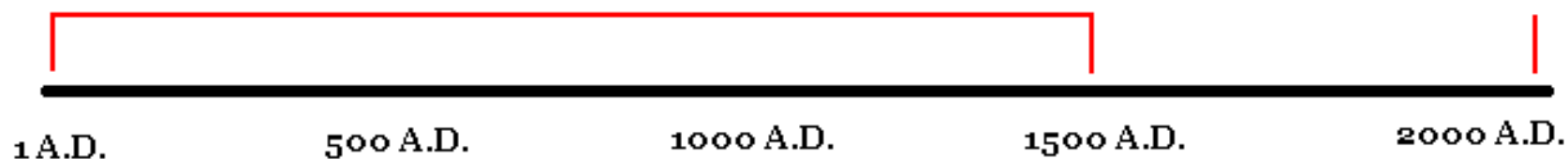
## Global Per Capita GDP Growth (Constant U.S. Dollars)

**\$50**

**1500 Years Growth**  
(1 A.D. - 1500 A.D.)

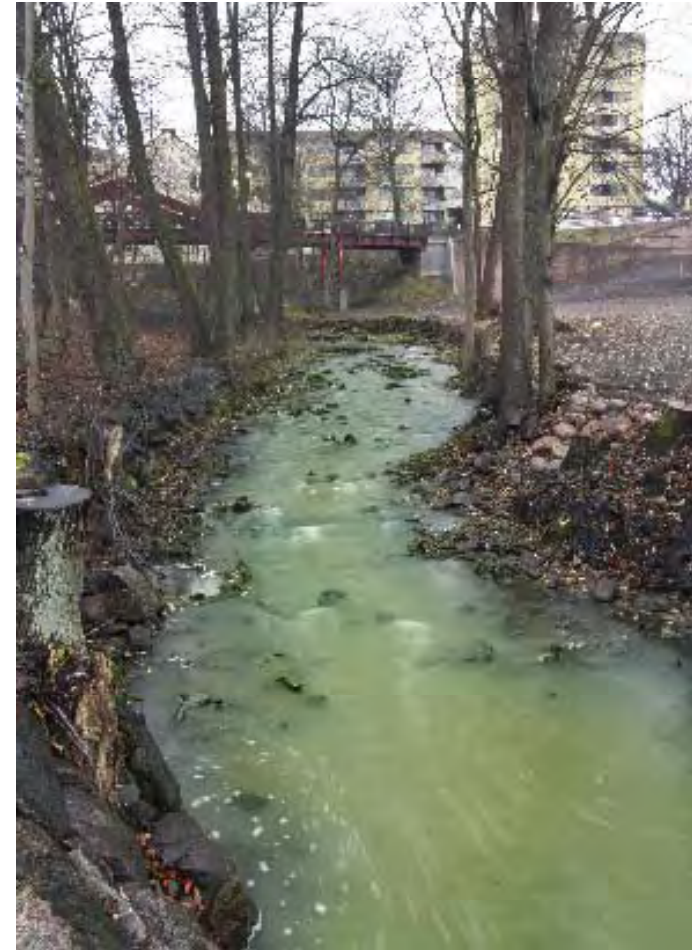
**\$211**

**1 Year Growth**  
(2005 A.D.)

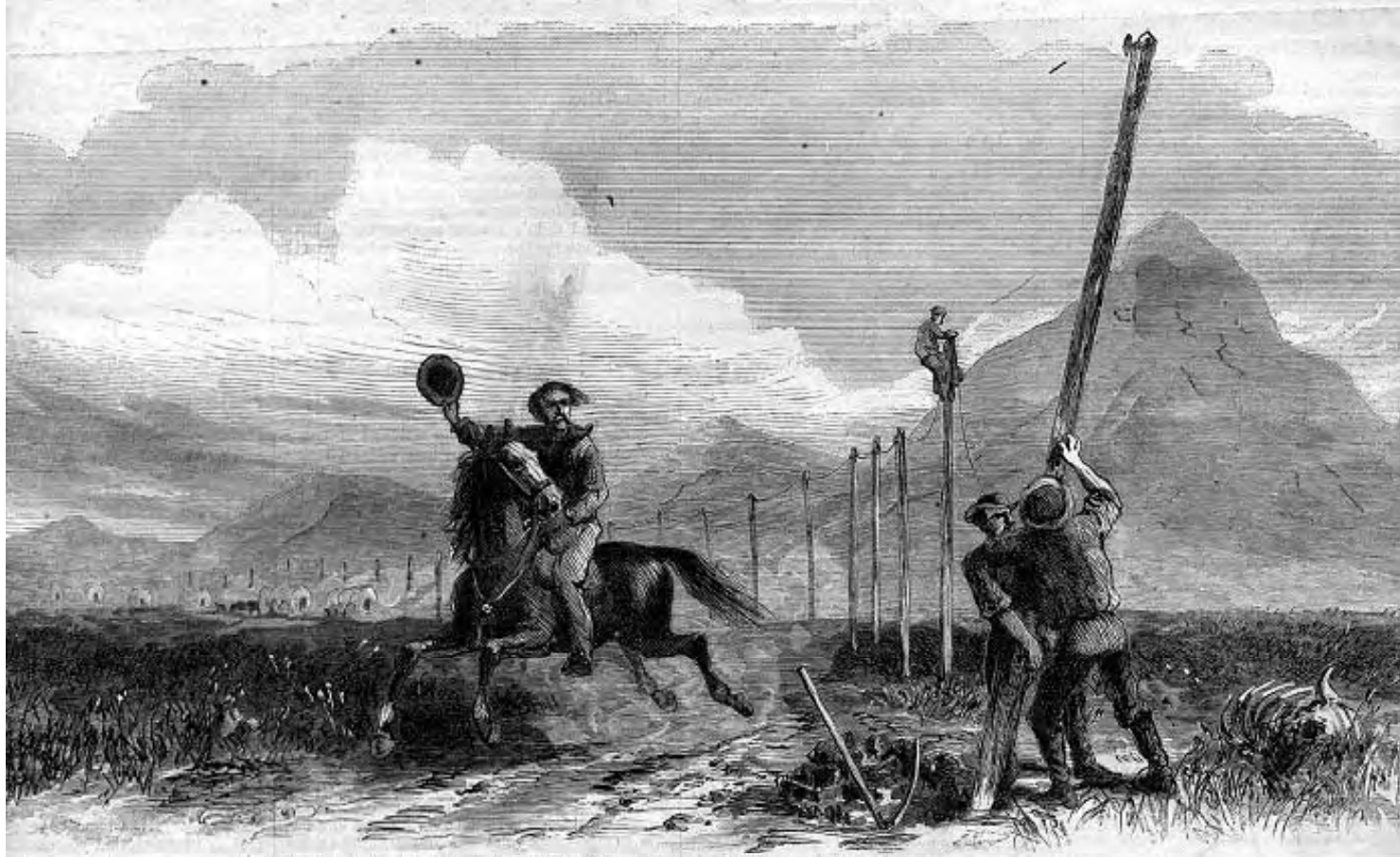


Sources: "Globalization, The Oldest 'New Phenomenon in History...'" Yeomin Yoon, Ph.D. United Nations Institute, May 2005; "World Economic Outlook Database", October 2007, International Monetary Fund; "International Database," U.S. Census Bureau.

# Confronting Challenges Requires Economic Growth



# Dynamic Job Market



(“The Overland Pony Express” – Harpers Weekly, 1867)

# Unimaginable Change



# Building Bridges



# Entrepreneurship

70%

Jobs from SMEs

50%

Jobs from Companies  
<5 years old

# Dynamism Creates Opportunity





# Kauffman Partnership

www.Entrepreneurship.gov

The screenshot shows the homepage of Entrepreneurship.gov. At the top left is the logo with the tagline "United by the power of ideas". A search bar is located at the top right. Below the logo are navigation tabs for "Resource Center", "News", "Events", "Global", and "About".

**Quick Access**

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  - Sales & Marketing
  - Products & Services
  - Operations
  - The Entrepreneur

**Entrepreneurial Activity Remained Strong in 2007**  
Major Shifts Among Men, Women and Immigrants, according to Kauffman Foundation Study  
The rate of entrepreneurial activity among women dropped sharply in 2007 while the activity rate among men and immigrants surged, according to a national assessment of entrepreneurial activity by the Ewing Marion Kauffman Foundation.  
[Read the whole story.](#)

**Freedom is just another word for entrepreneurship**  
Heritage Foundation Releases 2008 Index of Economic Freedom. The Report explains that only in free societies can the renewing forces of entrepreneurship and innovation boost a nation's economic performance.  
[Read the whole story.](#)

**Events** [All Events](#)

**Global Entrepreneurship Week**  
Around the World November 17 - 23, 2008  
Millions of young people around the world are joining a growing movement embracing innovation, imagination and creativity.  
[Event details](#)

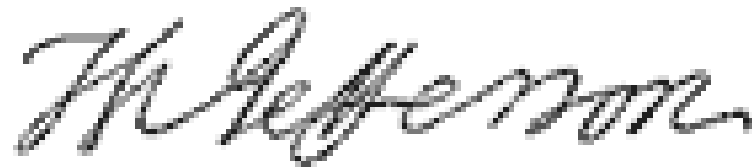
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# Thomas Jefferson

I like the dreams of the  
future better than the  
history of the past.

A handwritten signature of Thomas Jefferson in cursive script, rendered in a light gray color.



# Enhancing Entrepreneurship for SMEs

Hanoi 17 -19 June 2008

APEC SME WG

Practical Examples of how Shirlaws have worked  
with SMEs in helping develop their businesses

**Lindsay Munns**

**Shirlaws Australia**

Business Coach to the SME sector

[lmunns@shirlawscoaching.com](mailto:lmunns@shirlawscoaching.com)

**Shirlaws**  
Love business.

# Agenda

## Case studies and examples

1. Cluster coaching – micro start-ups
2. Cluster coaching – growing businesses
3. Coaching to increase sale valuation



**Shirlaws**  
Love business.

# 1. Cluster Coaching – Micro start-ups

- Disadvantaged group (long term unemployed)
- All at start-up or pre start-up phase
- Lacking confidence and commercial skills
- Group coaching, cluster support

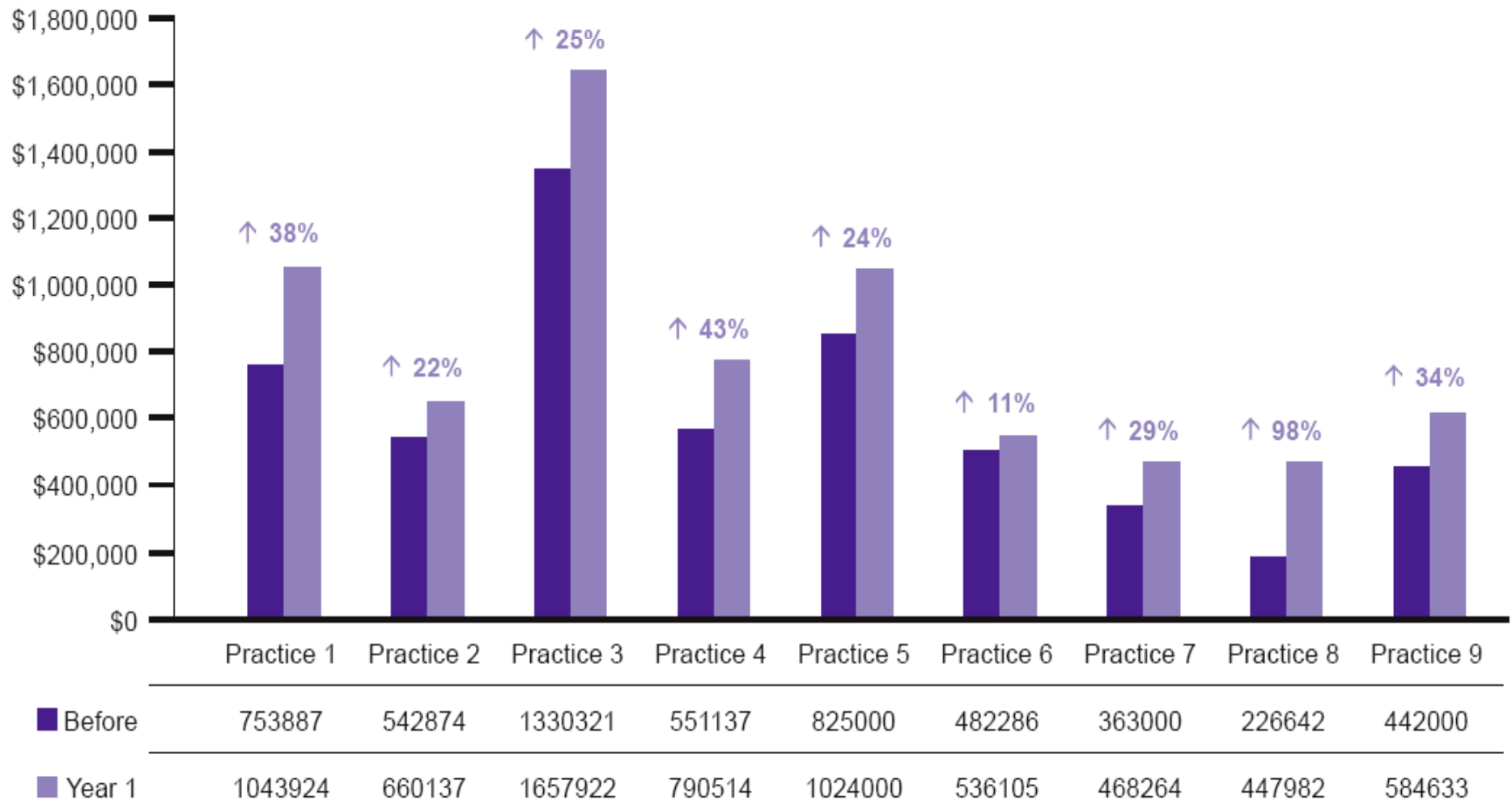


## 2. Cluster Coaching – Growing Businesses

- Independently owned optometry practices
- Employing between 3 and 6 staff
- Program run over 12 months
- Group provide peer support



# Cluster Financial Results



### 3. Improving valuation on exit

- Niche conference organizing business – 2 partners
- High volume, low profit margin
- Extensive “blue chip” client list
- Added executive travel as a second product line
- Sold out to a corporate travel agency for many times original multiple

