

# **Overview of SME Policies in Selective Economies**

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## **Multiple Facets of the SME Sector**

It is now commonly agreed that a healthy industrial structure requires enterprises of all sizes play complementary roles in an economy, SMEs as well as their larger counterparts (Marshall, 1890). Much attention has been paid to the development of SME sector as well as the corresponding policies. A number of experts were invited to contribute to the PECC project, "The Policy Environment for the Development of SMEs". This analysis is drawn from a review of the contributing studies of SMEs in ten PECC member economies, consisting of Australia, Canada, Chile, Columbia, Japan, Korea, New Zealand, Singapore, Chinese Taipei, and Vietnam.

One major lesson drawn from the studies of the task force is that there is heterogeneity inherent in the SME sector. It is also well noticed that the roles SMEs played in economies with varies degree of economic development may be different. Even within the same economy, the SME sector itself demonstrates transformations throughout the economic development process, and SMEs may play different roles in different regions of the economy at the same time. But still, there is a general consensus that a sound SME sector is conducive to economic development. We see SME policies design or redesign in these economies to fulfill the ultimate goal of boosting the socio- economic growth.

Under the versatile facets of SMEs, however, there are some important common characteristics shared by all SMEs in essence. Before we ardently adjust the policy, we have to put these features of SMEs into consideration. It is obvious that most host economies initiated their SME policies based on more than one of the prominent features of SMEs, they are job generation, competitiveness, resilience, networking, and entrepreneurship.

### ***JOB GENERATION***

The existence of SMEs provides more employment possibilities. For example, SMEs offer employment opportunities in the rural area where no large firm exists. Since small businesses tend to use more labor-intensive technique in production than their larger counterparts, they do absorb a larger amount of labor relative to turnover size.

SMEs also help providing jobs where there is certain discrimination in large firms, or where discouraged workers find their prospects of promotion blocked in large firms. Barriers to employment can be resolved in SMEs as discouraged workers become self-employed. We notice women entrepreneurs are encouraged in many economies when the chance of being hired is low. Further, the probability that an owner of an SME is a former employee of an SME is greater than their being a former employee of a large firm. The fact that small companies breed other small companies creates a virtuous cycle help to relief the unemployment problem of an economy.

### ***COMPETITIVENESS***

It is common knowledge that SME sector has higher entry and exit rate than large firms do. The successful small firms 'graduate' into large firms. Those who fail will soon be replaced by their better peers. Thus SMEs remain the most competitive sector in a Darwinian sense (Hu, 2003a). Given the intensity of competition, it is natural that the failure rate among SMEs should be high. Fortunately, the entry rate is also high for SMEs in contrast to large firms, so that there are always enough newcomers to replace those that fail. SMEs, as the 'competitive fringe', are among the most vibrant actors in the marketplace. This helps to create a healthy industrial environment for an economy's continuous thrive, as Alfred Marshall (1890) put it in his forest

allegory:

*...We may read a lesson from the young trees of the forest as they struggle upwards through the benumbing shade of their older rivals. Many succumb on the way, and a few only survive; those few become stronger with every year, they get a larger share of light and air with every increase of their height, ...Though the taller ones have a better access to light and air than their rivals, they gradually lose vitality; and one after another they give place to others, ... And as with the growth of trees, so was it with the growth of business as a general rule...*

There are many real life cases of such healthy industrial environment, for example, the empirical evidence provided by Aw and Roberts (2003) suggests that in contrast to Korea, Chinese Taipei as an economy with abundant SMEs provides strong competitive pressures that lead to market selection based on productivity differences. With the competitiveness stimulated by a well-performed SME sector, the looser market structure decreases the share of producer surplus and pushes the economy further closer to welfare maximization (Scherer and Ross, 1990).

## **RESILIENCE**

Apart from the labor-intensive SMEs' well-noticed contribution in the labor markets, and their provision of competitive mechanism in the economy, SMEs are also considered outperforming their larger counterparts in dealing with the business downturn due to the flexibility rooted in SME sector, as they provide the resilience needed in the turmoil. The SME sector as a whole is often considered more flexible than the larger firm sector. They can respond quickly to outside change. Stigler (1939) long ago pointed the smallness that enables a firm to respond quickly to outside changes could be more important than scale efficiency. Therefore, in the test of a changing environment, small businesses prove to be the fittest form of an organization (Hu, 2003b).

There are many indications or sources of the resilience inherent in SME sector. For example, Van Dijk (1995, p.21) defines 'flexibility' in an industrial context as "the ability to shift promptly from one process and/or product configuration to another and to adjust quantities of output rapidly up or down

over the short run." One possible display of such 'flexibility' is firm's ability to change its factor intensity rapidly when the relative factor price is changing. The labor-intensive SMEs do usually elbow easier than their capital-intensive larger counterparts to change their factor intensity in a wage-increasing environment.

SMEs have often been categorized as production units quick to respond with outside change. This specialty is what we generally call 'adaptability', reflecting another source of flexibility. In the study of organizational behavior, adaptability concerns the organization-environment interface, and the achievement of fit between the organization and its ecological niche (Stoica and Schindehutte, 1999). The terms including adaptability, flexibility, and responsiveness have been used to describe the ways firms adjust themselves to the changing environment. Empirical evidences based on experiences across many economies demonstrate small firms are more flexible than large firms (Mills and Schumann, 1985; Acs, Audretsch and Carlsson, 1991; Das, Chappell and Shughart, 1993; Schive and Hu, 2001). According to Aiginger, Mueller, and Weiss (1998), in the field of industrial organization, scholars of the nineties had held the consensus that small firms were more flexible in adapting to an exogenous shock.

### **NETWORKING**

The concept of network is not a modern invention. Marshall (1890) long before pointed out, that "the advantages of production at a large scale can be as well attained by the aggregation of a large number of small masters into the district as by the erection of a few large works". There are different names designated to such relationship. It reflects a network of firms of all sizes cooperated in many forms (vertically or horizontally) in the economy (Chang and Hu, 1999). It can be built on an abstract relationship. For example, Lovett, Simmons and Kali (1999) identify certain kind of Guanxi-type network that rooted from ancient Chinese traditions that are based on personal relationships (a specialty for SMEs). The scholars preach the advantages of such Guanxi networks: that they transmit information more effectively, they are more flexible, and they adapt more quickly to changing circumstances, and reduce transaction costs.

There are also substantial network relationships. For example, the subcontract system connects small firms with their larger counterparts. In the core-satellite system, SMEs and the center firms interact in a form of vertical disintegration. People also call the relationship found in Japanese 'supplier-group system' (Howard, 1990). Japanese SMEs are thus subordinate firms of large firms in the core-satellite system. According to Kim (2007), Korean SMEs have also acted as sub-contractors of large enterprises. It is also well recorded that there is a well-developed subcontract system in Chinese Taipei (Hu and Schive, 1996). Although it seemed that in such relationship, the well-being of SMEs depends on their subcontractors, SMEs may still act independently. In Chinese Taipei, subcontract system that develops by backward and/or forward integration among related firms builds a healthy self-governing SME sector.

Strategic alliances formed by firms of same interest constitute a different kind of network. Since in most industrialized economies there is competition policy that bans collusion among large firms, strategic alliances are usually accepted among SMEs as a mean to overcome their scale limitation when the advantage of mass production or financial economies of scale appeared. This is important when innovation is a major policy concern, the R&D strategic alliances can be formed to beat barriers of scale economies found in many innovative activities. Many successful experiences are found under certain public-private supporting systems that help link SMEs and innovative institution to form strategic alliances. The public-private cooperation itself is also a network.

When we add in the geographic substance, the relationship further materializes as industrial district, agglomeration or cluster. The traditional concept of 'industrial districts' later has been defined as "productive systems characterized by a large number of firms that are involved at various stages and in various ways, in the production of a homogeneous product".<sup>1</sup> Porter (1998) later defines clusters as critical masses - in one place - of unusual competitive success in particular fields. In their survey article, Fan and Scott (2003) explore the issue of industrial agglomeration and its relationship to economic development and growth in the less-developed countries of East Asia. They provide evidence of a positive relationship between agglomeration and economic performance.

When we further add in technology as an ingredient, the clusters or industrial districts transform into the concept of high-tech 'Science Park'. The Silicon Valley of the U.S. can be seen as a successful example that aimed particularly at manufacturing high-technology products. Similar high-tech clusters are found in many member economies as well. Science Park takes the advantage of network density producing a perfect environment allowing R&D or knowledge spillovers among neighboring firms (Audretsch, 2003; Meagher and Rogers, 2004; Fosfuri and Ronde, 2004). Howard (1990) takes Silicon Valley as a successful example of the network relationship, preaches that government should provide regional institutions as glue of the SME network. The public-private cooperation is thus given new meanings in the profile.

### ***ENTREPRENEURSHIP***

Entrepreneurship and small businesses are often considered to be overlapped concepts (Thurik and Wennekers, 2004). There are many definitions of an entrepreneur, and even more of the concept of entrepreneurship. Entrepreneurship can range from merely the creation of new enterprises (Low, 2001) to the eagerness to deploy resources in the pursuit of an opportunity that is independent of the origin or ownership of such resources (Johannisson, 1998). In highlighting personal characteristics, Hebert and Link (1989) have defined the entrepreneur as someone who specializes in taking responsibility for and making judgmental decisions that affect the location, the form and the use of goods, resources or institutions.

There is typically one entrepreneur in each firm, despite the size of the firm. In other words, no matter how large the capital scale a firm employs, what really count is the way people handle the capital. In almost all economies, there are more than ninety out of one hundred enterprises that belong to SMEs, and in places like Japan and Chinese Taipei, the corresponding figure of the number of SMEs out of one hundred enterprise amounts to ninety-five (Hu and Schive, 1998). Therefore, most of the entrepreneurship resource in the economies is found in the SME sector. Small businesses are vehicles for entrepreneurship.

The enterprising behavior inherited in the SME sector helps shaping the foundation of a wealthy nation in a stable environment. This is what Adam

Smith (1776) has described with his doctrine of invisible hand, where:

*"Every individual endeavors to employ his capital so that its produce may be of greatest value. He generally neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own security, only his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it."*

In a survey article, Wennekers and Thurik (1999) review the East Asian miracle as a historical evidence that links entrepreneurship and economic growth. In a more modernized context, as an economy transformation into a knowledge-based one, entrepreneurship draws special attentions in the world. The economy is put in a more dynamite, versatile setting under such regime. Since one feature of the knowledge-based economy is a high degree of people starting new firms to pursue, explore or carry out new ideas, Audretsch and Thurik (2000) thus synthesize knowledge-based economy with entrepreneurial economy. They point out that the developed economies are undergoing a fundamental shift away from a managed economy and toward an entrepreneurial economy. They further emphasize the innovative role of entrepreneurs, granting entrepreneurship a key to successive creation of knowledge that leads the economy to further development. Acs, Carlsson, and Karlsson (1999, p.12) also consider that "small firms and entrepreneurship are both necessary for long-run macroeconomic prosperity" in the new century.

## **SME Policies of the Selective Economies**

This section aims to review the SMEs development and the relating policy of the selective economies. Brief comments are also made in summarizing each contributing studies.

### **AUSTRALIA**

Australian SMEs enjoy a friendly environment, and have already play

important role in the global market. The entrepreneurship resources that have been brought in by immigrants are well noticed. Low transaction cost allows Australian entrants to set up a business in two days (Braun, 2007). The self-reliance culture found in the economy may be good for independence and individually orientation that many considered to fit in the entrepreneurial profile (Beugelsdijk and Noorderhaven, 2005). However, for established SMEs, the pervasive culture of 'going it alone' may hinder the future development.

Australian SME policy aims to create an enabling environment for SME development. After the release of Committed to Small Business statement in 2004, several programs are initiated, such as tax cut, providing venture capital, and supporting R&D. The main focuses of these programs are on the information and communication (IC) industries. Australian SME policies are designed to boost innovation, improve efficiency, and increase international competitiveness. Programs built upon public-private partnerships have proved to be successful. The Cooperative Research Centres (CRC) Program established in 1990 is said to become a global role model for collaboration between business, academia and governments. Furthermore, innovation, technological development, and job creation will be the focus for future SME policy design in Australian.

## **CANADA**

Canadians have noticed the increasing importance of SMEs, and yet, most policies or programs are not designed specifically for SMEs. The last policy statement addressing SMEs on the federal scale was dated 1994. Since then, only specific agendas consider mainly the mature SMEs with designated purpose. Most recently, three major concerns that relating to SME development are found in Budget 2007, they are taxation, the paper burden, and the access to finance (Lever, 2007).

Canadians notice that a disproportionate cost burden of red tape (paperwork burden) put upon SMEs compared with larger firms. The Paperwork Burden Reduction Initiative (PBRI) launched in 2005 was designed in great detail to reduce, rationalize and simplify regulatory requirements by the government. These and other emphasis help create a climate conducive to doing business,



and thriving entrepreneurship. The special financing programs combine with innovation supports and consulting service, as well as venture capital produce a righteous environment for start-ups and small businesses.

Several beneficial factors boost the future prospect of entrepreneurship in Canada. The culture of independence and family value creates a fairly high self-employment rate. New Canadians (immigrants) also bring in entrepreneurial energy. The aging baby boomer becomes a source of entrepreneurship (seniorpreneurs) is also a novel idea for mature economies. One important policy prospect is to build supportive system to allow the potential entrepreneurial resources (women, young, and new Canadian) easy access to education, training program that help nurture, successful entrepreneurs.

However, being a resource based economy in the past signifies special challenges for Canada to further develop the manufacturing and service sectors, which can go hand in hand with the flourishing SME sector. One important learning idea for policy maker is to recognize that small, new firms, as well as large, mature firms are all important for creating a healthy production system (Marshall, 1890; Acs et al., 1999). Furthermore, the high exit and entry rate of SMEs may signify a risky sector, and it also demonstrates a high competitive business environment that adapts quickly in the knowledge based environment.

## **CHILE**

The lack of an adequate SME promoting policy design is noticed in Chile. Therefore, there is long way to go for Chilean micro, small and medium enterprises (MISMEs). The under development of MISMEs may hamper the achievement of some economic goals. For example, one of the major challenges for Chile is the deficient income distribution, as this is coupled with the insufficient development of the SME partly due to decades of policy biased against SME. The political culture makes situation even worse for not being able to recognize the importance of MISMEs (Riveros and Morales, 2007).

This is one of the major obstacles for Chilean MISMEs. It is evidenced SMEs perform better when competing in a less distorted on-line system. Experience

drew from other economies also indicates a less biased industrial policy may be the best that SMEs can expect (Hu and Schive, 1998). A business environment with more transparency, and less discrimination is just the medicine for the Chilean SMEs to rise from the rural beginnings.

It is also important to recognize MISMEs represent various business entities. For the purpose of boosting regional development, MISMEs may act as job-creators. There are also entrepreneurial MISMEs that are suitable for enhancing export competitiveness of the economy. For these SMEs, the future policy prospect may focus on three general aspects: helping MISMEs to have fair access to financing, training, technology and innovation.

Furthermore, for an economy used to export intensive in natural resources, like Chile, to distribute economic activities among firms of different sizes is important to maintain international competitiveness. Under the circumstance, a sub-contract system bridges large firms and SMEs may be an answer.

## **COLOMBIA**

Colombians notice the structural inadequacies of economic activities dominated by large firms. Therefore, a well structured Law 590 and the Law 905 were promulgated in 2000 and 2004, respectively. These Laws that aim at SMEs promotion and development have created a friendly climate for SMEs in Colombia. Although the Colombian SME sector is still far from a modernized sector when measured in the degree of internationalization, the consensus that SMEs are engine of the economy helps form a beneficial environment for SME development (Acosta and Rojas, 2007).

The Law 590, Law 905 and the other rules, programs and strategies in the consecutive years cover all major concerns of SME development that are found in other economies. Colombian government also notices the importance of institutional synergy in supporting SMEs. Colombia also sets up a prize to encourage elite SMEs in technological and managerial innovation (Prize INNOVA). Similar devices can be found in other member economies, for example, there is an annual prize for best-performed SME owners in Chinese Taipei. For small business owners, it is glamorous to be named as role models to their peers. This provides a motivation that triggers

SMEs' continuous pursuing for success.

Apart from the usual practice, there is special interest in the cross border integration of SMEs. The policy intends to build network relationships with neighboring economies and the Pacific Basin. These and other measures that focus on issues about globalization, competitiveness of SMEs demonstrate integration into world economy and are Colombian policy goals. Although these projects have been carried out for a short period of time, some successful results have been noticed. For example, the sharp increase in the number of exporters and the figures of export sales are recorded under the Proexport program.

## **JAPAN**

Japan is always known for having a large SME sector. The SME Basic Law was enacted as early as 1963. However, under the hierarchical business structure of the economy, Japanese SMEs used to play passive, supportive roles to large firms. They were thus considered the vulnerable entities. The 1999 SME Basic Law amendment finally changed the perspective. It was only recently, SMEs in Japan were recognized as an important player in the economy.

The major SME-related Laws since 1999 cover both protective and supportive approaches for SME development, the former targets disadvantaged SMEs, and the latter targets ambitious enterprises. Still, many of the political resources are concentrated on the elite SMEs (world-class SMEs), for example, creating local branding, formation of cluster, and other supportive measures. The Nagoya City experience (with Industry Revitalization Plan launched 2005) and the One Village One Product Movement (advocated since 1979) are both brilliant designs with fruitful results. Policies that target on the development of SMEs in remote and rural areas are also introduced in Japan (Yoshimura and Kato, 2007).

Even though the current SME-related Laws have changed perspective about Japanese SMEs, most policy measures are put in the regional horizon. It is true that SMEs can boost local economic development. Still, the potential of SMEs being an important international market player, and the entrepreneurial

resource largely endowed in SME sector are worth to be explored.

## **KOREA**

Korean SME policy is experiencing a change from traditional protectionist to an enabling one. SME act was first promulgated in 1966. However, under the backdrop of hostile industrial policy toward SMEs in the postwar era, it is well received that the distorted policy design restricted the development of Korean SME sector and hindered the foundation of Korean economy toward later prosperity (Chon, 1996). This may also explain the inherent deficiencies of traditional Korean SMEs in comparison to some other economies.

The inauguration of World Trade Organization (WTO) in 1995 marked the obvious shift of the policy focus, SMEs have since aimed to transform into an innovative entities equipped with competitiveness needed in the global arena. A system of policy measures is structured to create a very sophisticated SME policy paradigm in modern Korea. The certification of innovative SMEs is one example that demonstrates the ambition of Korean government in adjusting her SME policy to create an elite SME sector (Kim, 2007).

SME sector includes firms with high degree of heterogeneity. Some successful SMEs graduate into to large firms. However, a majority of SMEs that comprise the foundation of the entire SME sector may never become innovators. Therefore, it is impractical to expect every SME can grow into innovative one. There are ample of examples that SMEs can be a born global firm as well as a born innovative firm, for these firms, no transformation is needed. It is the entrepreneurial talent that needs to be explored. Apart from being the innovators, SMEs play many different roles in the economy. The overall performance of the SME sector and the effectiveness of the SME policy still need to be carefully evaluated in Korea.

## **NEW ZEALAND**

New Zealand established the Small Business Agency (SBA) in 1976 to help small firms grow. Recent statistics show that the SME sector dominates the New Zealand economy (Massey and Ingley, 2007). The fast growth self-employed rate of Asian New Zealanders is also reported in the statistics.

In order to transform from an economy that depends largely on agricultural sector towards a knowledge-based one, New Zealand has experienced a policy changed toward liberalization and deregulation since 1980s (Hamilton and Dana, 2003). Under the non-interventionist philosophy, since 1986, the SME policy in New Zealand minimizes government intervention, allows SMEs to compete on their own. The policy emphasis instead is now on providing fair environment and suitable infrastructure.

In view of the globalization of the economy, New Zealand government launched the economic transformation agenda in 2006. A more aggressive policy measure is set up to boost productivity, export, innovation, and internationalization. As an economy with abundant resources, the true challenge for the policy designer may be the special national trait of lacking the motivation for growth. Since self-employed entrepreneurs are often ambitious, they may be immune from such national trait. SMEs thus become the ideal means for New Zealand government to reach designated policy goal.

## **SINGAPORE**

It was not until 1986 that the contribution of SME sector to Singapore economy was finally recognized. Since then, the job creation and entrepreneurial sourcing functions of SME sector are both appreciated by Singapore. Here after, we find policies designed specifically for SMEs.

There are two SME master plans in Singapore, published in 1989 and 2001. In 1989, the first master plan issued to focus on the general issue about strategies for SME growth. After a decade, the policy was evaluated, and then made adjustment accordingly. In 2000, poor productivity performances of SMEs were reported. Several obstacles were noted, for example, weak entrepreneurial culture, and hassle of red tape and bureaucracy. In 2001, the second SMEs master plan was published to groom innovative high-growth SMEs, develop productive SME sector, and to create a knowledge-based, pro-enterprise environment (Liang, 2007).

Some special Singaporean experiences may provide lesson for other economies. For example, in contrast to traditional infrastructure, the entrepreneurship infrastructure building has been paid with special attention in

Singapore. It has been noticed in Singapore that there are many SMEs that are not aware of the policy measures or have no initiative to resort to public help. Singapore also calls for setting up a SME agency with higher political profile and role to gather resources and fulfill policy goals.

### ***CHINESE TAIPEI***

It has been well received that Chinese Taipei's economy has grown largely as a result of international business in which SMEs have been heavily involved (Fuller, 2003). Although the Rule for Promotion of SMEs was promulgated in 1967, and there were many subsequent measures aimed at promoting SMEs, no definite evidence to prove the effectiveness of these policies (Hu and Schive, 1998). Ronnas et al. (1998) have conducted an in-depth analysis of the Asian experience of small business and have acknowledged that Chinese Taipei is a classical success story, in which the government has played anything but a passive role.

Since 2000, Chinese Taipei has made an obvious change in her SME policy. Apart from providing guidance for SMEs, SME policy gradually shifted to a much active role in improving the business environment for SMEs (Chao, 2007). The policy change has been partly triggered by the requirement of the emerging knowledge based economy. Since then, many mature and sophisticated policy layouts have been designed to upgrade the SME sector in Chinese Taipei.

SME sector is a heterogeneous production sector. In order to achieve the desire goal of the policy measure, it is important to learn first the intrinsic characteristics or essence of the targeted SMEs. SMEs in Chinese Taipei have long participated actively in the international arena. Their adaptabilities to the fast changing global market decide their future.

### ***VIETNAM***

Modern Vietnamese private sector was relatively young in comparison to other economies, as it was formed in 1991. Vietnamese SME sector had developed in a hostile environment until 2000, when the New Enterprise Law took effect. Soon after, in 2003, SME Development Promotion Council was

organized. The job-creation and export potential of SMEs are exploited under the SME-related policy (Do and Pham, 2007).

Although there are still obstacles, Vietnamese SME sector is experiencing a speedy development. Drawing inference from the SME developing experience of other economies, the urgent challenge for Vietnam may well be the creation of a stable macroeconomic environment combined with an open and freer market in terms of low entry barriers and transaction costs (Hu and Schive, 1998). For example, free information is an important segment of market mechanism, as well as infrastructure in knowledge based economy. In a survey, information access is shown to be important for Vietnamese enterprises.

The accession to WTO in 2006 marked a new phase for Vietnamese economic development. New focus was added in the SME policy. Vietnamese SME sector has to be able to mature quickly, so as to enhance managerial and innovative ability as well as competitiveness to help with fulfilling its designated socio- economic goals.

## **The SME Policy Outlook**

After reviewing the findings of each study, in this section, we will compare and draw inferences from the member economies' experiences. The various policy objectives, institutional backdrop, and the dual nature of entrepreneurship will be our main focus.

### ***VARIOUS POLICY OBJECTIVES***

The economies that participate in the project demonstrate the policy environment for the development of SMEs, are with varied degree of economic development. For example, we have well-advanced economies such as Canada, Japan, Australia, New Zealand and Singapore at one end, newly-developed economies of Korea and Chinese Taipei in the middle, and Columbia, Chile, and Vietnam as shining new stars at the other end.

Since the economic status varies, we find that each economy has policy design or concern differently in planning their SME policies. Basically, the most urgent problem facing rural economies is unemployment, so that job generation is the policy concern. While for developing economies, how to catch up with mature economies, adaptation to globalized environment, and industrial upgrade are the policy objectives. For those well-developed economies, maintaining their competitiveness, creating a vibrant environment to nurture entrepreneurship, and building a sound knowledge based economy are more of their concern.

Of course, each economy also faces its distinct problem and special policy interest. These considerations form the background for each participating economy when designing their SME policies. We can roughly categorize three SME policy objectives in these studies. First, we find that in Canada, Australia, New Zealand, and Chinese Taipei, the major focus of the SME policy is to stimulate R&D ability, innovation, and entrepreneurship. Then, there are also economies that address the issue about job creation, for example, Vietnam, Colombia, Singapore, Korea, and Chile. Finally, Colombia, Singapore, Korea, and Japan put their policy efforts on sub-contractor system. Japanese SME experience in the area of regional development proved to be a successful example of an ingenious policy design.

Many policies aim at clearing hurdle for SMEs. If we concentrate on the obstacles that SMEs confront, each economy shares some common experiences. The major concerns of SME sector include sources of funding, managerial ability, quality of human capital (employee training), and so on. These are emphasized in almost all economies' studies.

There are also problems confronting policy makers which are unique to certain economies. For example, reducing bureaucratic red tape that hinders enterprising behavior is emphasized as the highlighted policy for Canada, New Zealand and Singapore. Although Chinese Taipei has long been famous for her SME environment, an amendment in the Corporate Law to facilitate SMEs (improving business environment) was launched only recently, in 2000. On the other hand, an Australian new comer can set up a firm within two days and this creates an ideal example for other economies to follow.



Apart from the differences in economic status, the inherent endowments of these economies are different too. For example, Australia, Canada, Chile, and New Zealand all have abundant natural resources that have long born impacts on their economic focuses, and also entailed different policy angles.

### ***INSTITUTIONAL BACKDROP***

It is emphasized that economic development requires not only physical and human capital formation, but also institutional support (Assane and Grammy, 2003). Due to the institutional and cultural differences, different economies may conceive SMEs differently. These perceptions affect the design as well as the successfulness of SME policies. Take the time when the first SME-related policy published in each economy for example, back in 1960s, Japan, Chinese Taipei, Korea, Columbia all had their first SME policy launched. New Zealand set up Small Business Agency (SBA) in 1976. Other economies have their policy focus on SMEs in much later date. Even though the starting points are different, the late developers can often learn from early experiences, their policy contents may be equally sophisticated.

The policy concern often reflects or interacts with the underlining culture or other institutional frameworks. Take Chinese Taipei for example, the Rule for Promotion of SMEs was first promulgated in 1967. In 1997, under the growing consensus about the achievement made by SME sector, the SME Protection Clause was put in the Amendment of Constitution. The result demonstrates a general consensus, which help creates a culture of identification as well as a friendly environment for SMEs in Chinese Taipei. This is also a valuable asset promising the SMEs' further prosperity in the island.

Culture and other institutional factors that affect SMEs as well as policy are also depicted in other economies. It is noticed that in northern Vietnam, a relatively conservative cultural surrounding may make it a challenge for building a knowledge based economy in comparison to southern Vietnam. In Korea and Chile, SME used to symbolize backwardness and a sector lacking competitiveness, this invites difficulty for policy aim to promote SMEs. It is also noted that Chilean passive culture may demand a stronger policy initiative to make it possible for a more autonomous SME sector. Singapore

admits a weak entrepreneurship culture, which is not a proper environment to nurture entrepreneurship as well as SMEs. For practice oriented New Zealanders, innovation is not a well received concept. Furthermore, it is said that economies with abundance resources that are not used to the idea of pursuing growth by innovation instead of resources, may build a culture that is fruitless for entrepreneurial development. This may also explain why New Zealanders lack the motivation for growth.

On the other hand, many economies enjoy the imported entrepreneurial resources that are brought in by new immigrants. Both Canada and New Zealand notice the high self-employment rate of the new nationals. In a globalized world, speedy movement of human capital via immigration may help to change culture disadvantage, so as to develop entrepreneurship.

Nowadays, not just immigrants, SMEs as a production entity also move across border. For example, SMEs in Chinese Taipei are known for their capabilities of diversifying their activities abroad through export (Aw and Batra, 1998; Schive and Hu, 2001). When enterprises need to adjust their organization to adapt to a changing environment, two strategies they often adopt are diversification and/or foreign direct investment (FDI). In Chinese Taipei, it was SMEs rather than large firms that were the first to embrace such choices back in the mid-1980s (Schive, 1995). Since many SMEs in the island have resorted to outward FDI, the recent decline in SMEs' share may require a broader examination to read the true message. People should also note that there might be concurring trends in macro-economy and SMEs' performance. Therefore, the worry with the latest decline of SMEs' share in Chinese Taipei may be pre-matured. This is also a lesson worth noticing when making policy judgment in a growing globalized world.

### ***THE DUAL NATURE OF ENTREPRENEURS***

So far, we have been looking at SME sector as a whole, however, not all families of SMEs are performing alike; there is alienation within the SME sector. For example, there are micro-enterprises as well as larger SMEs. We can find SMEs in traditional sectors as well as in high-tech industries. Some SMEs confine their operations domestically while others engage in global activities. These are all typical SMEs that can be found in almost any given

economy. It is dangerous to treat all SMEs alike when making policy decisions. We find several economies set up different strategic measures targeting specific SMEs for achieving diverse policy goals.

By the same token, not all entrepreneurs are the same. Furthermore, the role of entrepreneurial activity differs empirically across the stages of economic development (Sternberg and Wennekers, 2005). In the new economic era that features speedy advancement in technology, entrepreneurship has become one important element of production. The two well-received features of entrepreneurship are new entry or start-ups, and innovators or newness. The latter clearly is closer to the entrepreneurship concept raised by Schumpeter that relates technological progress to continuous prosperity of an economy. Many define entrepreneurs with such quality of 'real' entrepreneurs.

The self-employed population may include a majority of managerial business owners, a group which is generally excluded from the category of Schumpeterian 'real entrepreneurs' (Wennekers and Thurik, 1999), largely because during a business downturn, discouraged members of the population who have become newly unemployed may suddenly find themselves forced to be their own bosses. In fact, it is well documented that individuals may be pushed into own-account status by the lack of work opportunities (Earle and Sakova, 2000).

In such a case, it is the business downturn itself that causes the increase in self-employment, with such reluctant self-employed people actually exhibiting very little entrepreneurial potential. Therefore, some mixed signals are expected when using the self-employment rate or the new entry as proxies for entrepreneurship capital in any empirical studies.

Indeed, the Global Entrepreneurship Monitor (GEM) research found clearly that there are two main reasons why people set up their own businesses: opportunity and necessity (Sternberg and Wennekers, 2005). The former motivation demonstrates the well received Schumpeterian 'real entrepreneurs' concept. It is this kind of self-employed behavior that stimulates innovation. While the latter, when people become self-employed out of necessity, they perform little entrepreneurial function.

Under the backdrop, an important lesson to learn is that when SME policy targets on boosting innovative entrepreneurship, it may work better via instrument, such as incubating system, venture capital, R&D related funding, public-private cooperation, and so on. The policy aims at assisting entry may only fulfill the goal of maintaining a competitive market environment. And the special programs that help facilitating self-employment are essential when the social-economic goals are kept in mind, such as a low unemployment rate, an undistorted income distribution, and in the interest of taking care of the disadvantage group.

## Conclusion

SMEs provide jobs, act as competitors, inject resilience, constitute network, incubate entrepreneurship and fuel technological change. This analysis has shown these main features of SMEs, as they are the cornerstones that help us understand SMEs, and provide blueprint in designing SME policy.

Multi- facet SMEs help fulfill social-economic goals. The contributing studies to this analysis have offered an opportunity for us to learn experiences of SMEs and SME policy development of different economies. If we trace the path of policy adjustment in each economy, we realize that the fast changing global environment is the main force behind the policy redesign. The time when an economy joins WTO often marks the turning point when the economy starts to establish or enlarge its knowledge based or entrepreneurial sector. When exposed under the international markets, the competition pressure inevitably forces an economy to mature. However, most economies comprise knowledge based and resource based traditional sector at the same time. SMEs and entrepreneurship incubated within can be the engine or fuel in both sectors. Therefore, policy makers should bear in mind to properly split policy resources among both sectors. Apart from policy transformation, parallel policies that promote both traditional and entrepreneurial sectors should also be considered.

Furthermore, regional economic integration is another trend that affects global economic environment. Regional integration contributes to cross border

cooperation, experience and knowledge sharing, and growth. The current project is an example of collaboration. When the research results are put together, we find common ideas as well as dissimilar experiences. It is hoped that from the mutual learning process, coherence will be formed. This would enhance our knowledge and policy performance. For example, there exists the suggestion to generate policy guidelines towards best practice in SME development across the Asia-Pacific region. It is hoped that the efforts will realize the pursuit of welfare and growth for economies.

Similarly, the European expert group for SME policy research organized by European Commission had held their first meeting in June 2007. One of the main objectives of the European expert group of SME policy research is to bridge the gap between SME research and policy-making. This is thus also an example of the public-private collaboration or networking in a larger scale. Economies should consider making current project a regular association to provide analogous function. It is important that through the public-private cooperation, a platform is established to facilitate the communication among government, industry, and research institute.

Finally, there are controversies about whether experiences in one economy can be effectively transferred to other economies. It is believed that cultural and institutional factors make many differences regarding the transferability of successful experience. The economies' studies provide interweaving evidences about culture and institutional background. It is important to learn experiences from other economies with similar culture or institutional backdrop when making policy decision. It is also important to understand the policy goals and the policy takers. Further, different institutional frameworks, traditions and legal frameworks have been developed around the world. Therefore, before engaging in any redesign or adjustment of the existing SME policies, it would be prudent for policy makers to clearly understand the underlining development of their SMEs, the institutional and culture background, and fellow economies' experiences. Under the circumstances, with carefully chosen and evaluated policies, a healthy and trusty SME sector that helps achieve social-economic goals may be expected.

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## Notes

1. This definition was made in 1995, by the International Institute of Labour Studies in Geneva.