

Why should public support be given to the small business sector? Discuss with reference the policies of your own country.

Introduction

Although, there are more and more multination companies are existing, they cannot replace the important role of the small business within a country. For example, Hong Kong Government believes that “Small and medium enterprises (SMEs) have always been a pillar on Hong Kong's economy”(www.business.gov.hk). Bannock, 1981 suggested that small firms work more efficiency in using resources than large firms and they survive in large numbers in every country under the competition with larger firms. Ancrum 1985 confirmed the statement according to a survey by the Confederation of British Industry. He pointed out small firms have more efficient levels than large firms.

Many people may think that the growing of the multinational companies may make the small business become less important, but the most government will consider small business as the tap of the water for their economy. Therefore, most government around the world is looking for different methods to help the small business to start-up and grow as well as Hong Kong government. The policies of different governments to support the small business will be different but the aims and objectives would be similar.

The following paragraphs will discuss about the definition of small business, the reason government support, and with reference the policies in Hong Kong.

Definition of small business

The definition of small business or small firms will different across the boundaries. However, the definition usually used the number of employees to define or the value of turnover. Here is the definition generally accepted by both academic and business.

- **EU Definition based solely on employment size**
 - Micro 1 - 9 employees
 - Small 10 - 99 employees

- Medium 100 - 499 employees

Source: Power point slide from the lecture

Reasons for government to support Small Business

The reasons for the government to support small business or small firms can be categorised into two categories which are Social perspectives and economy perspectives. The most important reason for government to support will be the economic benefits of the small business and small firms bring to the country and government. Therefore, even the government has to spend huge amount of money to support the small business or small firms, she is willing to do so. Since, since the government is looking for more return from what they have been invested into the support of small business. Firstly, the discussion of social prospective for government to support the small business and small firms will be presented with the reference of the Hong Kong government policy and the achievements if applicable. In addition, the economic prospective will be discussed and then discuss about the general support policies from Hong Kong to SEMs.

Background of Hong Kong Government Support to Small Business

SMEs comprise over 98 % of business establishments in Hong Kong and is about 305, 401 SEMs and employ about 60% of the working population in the private sector. The Government has been actively supporting the development of SMEs, through the services and programmes run by the Trade and Industry Department, the Trade Development Council, the Hong Kong Productivity Council and the Vocational Training Council (<http://www.sme.gcn.gov.hk>).

Social Aspects

1. Employment

One of the main reasons for the government to support the small business may be the numbers of employment that will be generated by the start-up of small business. Small firms do have very high rates of job creation and destruction, much due to plant start-ups and shutdowns (Schuh, S and Triest R. K, 2000). According to a study by

Johnson and Darnell in 1978 suggested that new business formation tends to increase when unemployment increases and vice versa. With the reduced opportunities for employment in larger companies and government, attention has turned to self-employment and small firms as important sources of new jobs. Entrepreneurship has a vital role to play in creating them (Arzeni, 1998). Although, there are some arguments from Porter argues that “the actual contribution of SMEs to the performance of contemporary economies is not superior to that of larger firms”. However, the statement was argued by Parker 2002 “the points made by Porter are not disputed but have been explored and used as a foundation for more sophisticated debate regarding quality of employment rather than quantity”. The job creation is one of the most important reasons for government to support small business.

Due the increasing unemployment rate after Asian Economic Crisis in 1997, Japanese and America Economic Recession and 11th September 2001, the unemployment rate in Hong Kong rose from 2.2% in 1997 to 7.2% in 2002 (http://www.info.gov.hk/censtatd/chinese/hkstat/hkinf/labour/labor3_index.html), In order to remedy the problem, Hong Kong encourage unemployment to start their own business by funding and also encourage SEMs to employ youngsters who do not have a undergraduate degree by giving allowance to each employment. The latter policy not only aimed to reduce the unemployment rate, but also reduce burden of SMEs on the salary expending.

2. Potential contribution of small business to the society

With the growth of small firms, they may potentially contribute back to the society. According to The Study of Small Business by U.S. Small Business Administration 1977 “ the tradition of small business has become a valuable contributor to social progress and upward mobility”. For example some of the secondary schools in Hong Kong were built by the small business union. The contribution from the small business to the society may reduce the government’s burden on the social responsibility. This can be the possible reason that government giving support to the small firms.

Economic Aspects

1. Gross National Product (GDP)

Many studies show that small business has a great contribution to the GDP of a country. The higher of GDP means the wealthier of a country. The growth of GDP is an economy indicator of a country's economy growth. Thurik 1996 suggested that a positive effect of an increase in the economy-wide share of small firms on growth in GDP. Since the small firms are important to the GDP growth, therefore government will support the small firms in order to generate reasonable GDP growth.

2. Exports (Earning Foreign Ex-Change)

Most of the exporting are conducted by small firms (1971, Bolton). The benefit of the exporting to the government is earning of the foreign ex-change. All the governments and country need the foreign currency to conduct trading with different countries. The earning of foreign currency from the small firms may contribute to the government's foreign currency reserve.

3. Taxes

The more number of the small firms are making a profit that means more tax government will get. In most countries small firms number usually consist of over 90% of the total companies. The tax pay by small firms also can be the one of the major source of income for the government. Therefore, government is willing to support the small business.

4. Cycle of Economy

Entrepreneurship and small firms giving a chance of individual to be rich and they are expected to spend their earnings back into other markets that serve them. That is the cycle of the economy. A society or country have to have cycle of economy otherwise the economy in that society or country will not be wealthy and healthy. Thus, the cycle of economy can be a reason why government support small business.

Hong Kong Government's Policies to Support Small Business

Due to the importance of the SEMs to the Hong Kong's economy which had been mentioned in the Hong Kong Government Support to SEMs, the government giving variety of support to the SEMs in order to help start-up and grow. Generally, the government's policies to support the SMEs can be divided into two categories which are services and funding to the SMEs.

1. Service Policies to Support SEMs

In order to enhance the competitiveness of SMEs in Hong Kong, the Government and a number of industry support bodies and industrial and trade organizations have been providing a wide range of services to SMEs under the Trade and Industry Department.

- The Vocational Training Council runs a Business Start-up Center to provide office facilities and administrative assistance to business starters
- The Hong Kong Productivity Council offers customised business solutions and management training to SMEs
- The Hong Kong Trade Development Council provides SMEs with useful market information and analysis mostly international market

In addition, The Small and Medium Enterprises Office (SMEO) was set up Trade and Industry Department on 1 April 1999. The SMEO is tasked to take the lead in co-ordinating efforts being undertaken by the public sector to assist SMEs. The major activities of the SMEO include policy development, co-ordination of support programmes, as well as provision of SMEs specific services.

Furthermore, the Support and Consultation Centre for SMEs (SUCCESS) was set up by The Trade and Industry Department in November 2001. SUCCESS comprises a physical centre, as well as a virtual centre (<http://www.sme.gcn.gov.hk>). SUCCESS provides free one-stop information and advisory services for SMEs.

2. Funding Policies to Support SEMs

Most of the government may consider funding as an important policy to support SEMs. Hong Kong does have different funding to support SEMs. The support

involves a total commitment of HKD 7.5 billion with an expected maximum expenditure of HKD 1.9 billion. The schemes, administered by the Trade and Industry Department, the details of the funding discussed as follow.

SME Loan Guarantee Scheme

To help SMEs secure loans from participating lending institutions for acquiring business installations and equipment and meeting working capital needs.

SME Export Marketing Fund

To provide grant to SMEs encourage them to actively participate in export promotion activities to access international markets.

SME Training Fund

To provide training grant to SMEs to encourage them to provide training relevant to their business operations, and to assist the SMEs to enhance their human resources, and improving the SMEs' capabilities and competitiveness.

SME Development Fund

To provide financial support to organizations or institutes that would like to carry out projects which will enhance the competitiveness of Hong Kong's SMEs.

The government policy reacts to the environment change quickly. Due to the influence of SARS in the SMEs in Hong Kong, the Government had raised the amount of each funding in terms of money granted. However, the Chief Executive had mentioned that funding is not the fundamental method to help SEMs, but help them to access other market and find business partner (<http://www.tid.gov.hk>). From the policy of Hong Kong government to support small business, we may feel the importance of the small business in Hong Kong's social and economy.

Conclusion

In short, the reasons of government to support small business and with reference to the policies from Hong Kong Government had been discussed. From the discussion in this paper importance of small business to a country had been showed. Since, the

small business is vital to a country's social and economy, many governments giving variety of policies to support small business from the example of Hong Kong Government's policy we can see that. However, the trend of the policy to support small business may change from funding base into service base. Since, service may be more important to the long-term of small business, but funding is important in terms of short-term assistant. In the future, the support policies from the government to small business will be continue since their have vital role in the country's social and economy.

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