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# Globalisation and SMEs in East Asia

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*Edited by*

Charles Harvie and Boon-Chye Lee

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STUDIES OF SMALL AND MEDIUM SIZED ENTERPRISES IN EAST ASIA

**Edward Elgar**

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To Sonya  
(Charles Harvie)

To my mother and to the memory of my father  
(Boon-Chye Lee)

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## 13 Small Chinese Businesses after the Asian Crisis: Surviving and Reviving

Constance Lever-Tracy and David Ip

### 13.1 INTRODUCTION

How rapidly the pendulum of fashion swings, especially in prescriptions for business success. It is only a few years since small and medium enterprises were being discovered as the wave of the future, lauded for their 'entrepreneurship' and 'flexibility'. Their weight in the economies of industrialised countries, after declining for a century, was seen to be rising again from the mid-1970s, and evidence emerged of increasing autonomy, innovation and technical competence. Their 'cooperative competition', in the industrial districts of the 'Third Italy' or the integrated production networks of Taiwan, or in the Township and Village Enterprises of coastal China, was contrasted with the 'sclerotic' and bureaucratic 'dinosaurs' represented by large 'Fordist' corporations and state enterprises (Pyke et al. 1990; Orrù 1991; Storper and Scott 1992) which were instructed to decentralise and spin off.

We now see daily reports of a renewed wave of mergers and acquisitions, sometimes encouraged or mandated by governments (as with Malaysian banks' restructuring), each competing with the last to be the largest on record, accompanied by claims that only thus can they compete in the new global economy. It is, however, unclear if this is really the logic of history and technology, and some have suggested that such mergers are a fashion of dubious economic or financial benefit (Sirower 2000). A somewhat different question is whether this indicates also a new global climate, increasingly unfriendly to small and medium enterprises at the other end of the spectrum. Even if the merger of giants leaves a subcontracting system intact, will it lead to small firms becoming increasingly squeezed, dependent and insecure, and with fewer prospects for autonomous growth?

Before the Asian crisis struck, a strong case was being made that the 'Asian economic miracle' itself could be largely credited to the dynamism of the mainly small and medium diaspora Chinese capitalists networking across East and Southeast

Asia and into China, with connections extending to Silicon Valley, Vancouver, Sydney and elsewhere around the world (Redding 1990; Hamilton 1991; Kotkin 1993; Yamaguchi 1993; Lever-Tracy et al. 1996; and Hsing 1998).

The pundits seized on the crisis to discredit the family management, personal networks and risk-taking diversification of Asian capitalism, and its failure to produce 'world-class' multinational corporations. Asian family businesses, whether owned by small capitalists or as part of the hundreds of firms comprising a tycoon's conglomerate, were seen as unable to compete with professionally managed corporations, strictly focused on their 'core' business, and it was expected that many would be taken over and knocked into shape by Western management. In an article called 'Merge or Perish', for example, Hiscock predicted that 'Asia's family-owned conglomerates could face a lonely death if they don't find a [Western] partner' (*The Australian*, 20 April 1999, p. 32). While the Western takeovers in practice made little headway, it seems that with the recovery from the crisis, more balanced alliances with Western corporations are increasing and there are signs of a new wave of intra-Asian mergers and acquisitions (*FEER*, 20 April 2000, pp. 66–7).

During the crisis, the critical focus was on the tycoons and their 'crony ties', and on their diversified conglomerates with their accumulated mountains of opaque debt for speculative ventures. It seemed likely, however, that the mass of small and medium family firms would have similar weaknesses and would probably have been even worse affected by the crash. Many commentators argued that Asian economic recovery would depend on a thoroughgoing restructuring that would take years.

The recovery was some time coming, but once it took hold, by mid-1999, it accelerated beyond expectations, and predictions and estimates of economic growth in East and Southeast Asia had to be repeatedly revised upwards. The fall and rise and the shifting hierarchy of the tycoon families and their conglomerates are regularly reported, and can be tracked, for example, through the ranked lists of Forbes Magazine and *Yazhou Zhoukan* (Tracy 2000). Less is known about the multitude of smaller family firms – their vulnerability and their resources in a crisis, how they fared, and whether they have been changed by the experience. How far were they destroyed, weakened or subjugated? How far were they able to shield themselves from property, currency and stock market collapses and from the cessation of bank lending? Might the recovery itself in some ways be attributed to their own survival strategies? Have the survivors retreated into a tradition-bound conservatism or is it possible that there will be a new swing of the pendulum and we will again be talking of a new wave of economic growth driven by the dynamism of small and medium firms?

The remainder of this chapter proceeds as follows. Section 13.2 conducts a brief overview of the study being conducted by the authors that forms the basis of this chapter. Section 13.3 discusses in detail the impact of the regional crisis upon the sample of SMEs interviewed for the study, and their responses to it. Section 13.4 identifies a number of defensive strategies adopted by the SMEs and mechanisms that assisted them in surviving the crisis. Section 13.5 analyses the importance of entrepreneurial drive in enabling the sample of SMEs to remain in business despite

the inhospitable business environment within which they were operating. Finally, Section 13.6 presents a summary of the major conclusions from this chapter.

## 13.2 THE STUDY

This chapter is a report on 25 open-ended interviews with ethnic Chinese small and medium business owner-managers, in Taiwan, Hong Kong and Australia, carried out in late 1999 and early 2000. This is a report on work still in progress, leading eventually to 120 interviews in these three economies and also in Singapore. The interviews were carried out, generally in Chinese languages, by the researchers themselves in Hong Kong and Australia and by a local interviewer in Taiwan (where they were recorded and sent back to the researchers for translation). The interviews were obtained through snowballing introductions, starting with individuals known to the five interviewers personally (through friends, family, colleagues or students) or from earlier research and then moving out to other respondents introduced by these. The requirement was that they be currently involved in the management of their own business, and that it have some transnational dimension to its activities such as trade or offshore production. Respondents were not clustered in any particular occupation or industry, or any particular district in the four cities covered. The group was not, however, selected in any statistically representative fashion and generalisations from the findings must be made with great care. Little can be said about precise frequencies. At most it might be suggested that features common in the group may be presumed to be not uncommon in the wider population. The range of experiences should give some indication of the extent of differences to be found more widely. Where features are absent or very rare, we might presume that they are probably uncommon, at least among sections of the Chinese business community in these countries. As part of a wider study, which will also include analysis of statistical data and more representative survey material, such qualitative findings aim to provide questions for further study and also some indications of causation, perceptions and motives.

The interviews discussed the experiences of respondents and the way they perceived their own weaknesses and strengths in the context of the Asian financial crisis. Many respondents were active in more than one line of business. At the time of the interviews ten of the respondents had manufacturing as their main business, mostly employing fewer than 100 workers, with the largest two employing 400 and 1000 workers. One of these had production located in Taiwan and Vietnam and all the remainder carried out at least some of their production in Mainland China. Seven had been primarily involved with international commerce as traders, import export agents or shipping agents. One was a factory builder (for Taiwanese-owned ventures in China). One was in aquaculture and two owned a number of retail outlets (including a restaurant and a number of shopping centres). Whether or not they saw themselves as directly affected by the regional crisis, all had felt its impact through the mood of insecurity

that permeated the region in which they and their friends were active and had themselves felt threatened at some time or another.

These interviews were restricted to survivors, people who were currently still operating a business. Furthermore we must assume that those who felt they had reason to be proud of their achievements were more likely to be nominated and introduced by others and more likely to agree to an interview. Nor can we expect that the promise of anonymity will always induce people to speak fully about their own failures and mistakes. We have sought to balance this a little by asking respondents also to tell us about the experiences of unnamed acquaintances.

No method of enquiry can present a fully valid picture but where silences and falsifications are the issue, personal introductions and in-depth conversations may often obtain a more valid picture than quantitatively more reliable techniques. The interviews themselves are part of a wider study into the impact of the crisis on diaspora Chinese businesses, including an analysis of macro data, a larger structured survey of foreign joint ventures in China and a multi-pronged monitoring of the fortunes of larger firms and tycoon families.<sup>1</sup>

### 13.3 SMALL AND MEDIUM BUSINESSES AND THE CRISIS

#### 13.3.1 Big Business and the Crisis

A number of our respondents, particularly in Taiwan, understood the crisis as a problem created and mainly experienced by big businesses. In Taiwan there has historically been a clear divide between the big business sector, supported by the Kuomintang party and the state, and the main body of small businesses, most often made up of ethnic Taiwanese, who have been in the forefront of export-oriented industrialisation (Hamilton 1997). Five Taiwanese respondents nominated the instability of government-supported large firms in crisis as a primary explanation for the differing vulnerability of entire economies, contrasting Taiwan with other countries in the region.

The main cause [of the crisis] is over-borrowing, especially in countries where enterprises are dependent on government support ... In Taiwan, where most enterprises are SMEs, the government is shielded from the storm. (TW7)<sup>2</sup>

South Korea's economy was controlled by 50 *chaebols*. Yet they had more liabilities than assets. It was no surprise that the country was in trouble. Taiwan is fortunate because the energy of Taiwan's economy comes from SMEs. Most SMEs rely on their own capital. (TW5)<sup>3</sup>

Taiwan is an economic community of SMEs. They know what to do when a crisis strikes, with their own ingenuity rather than being reliant upon

government intervention. That is why most Taiwanese businesses have survived the crisis. On the contrary, the *chaebols* in South Korea had to depend on the support from their government and the banks. It was not surprising to see the domino effect taking place when a chaebol started having problems. (TW6)<sup>4</sup>

[The crisis was] caused by countries with weak economies dominated by large corporations propped up by their national government. For example, when Hyundai, Daewoo or Samsung were in trouble, many of the small SMEs closely tied in with them also suffered great losses. Fearing that they would be unable to make payments, even enterprises in China were not willing to accept contracts and orders from Japan, the Philippines and Thailand. (TW8)<sup>5</sup>

The South Korean government's continual direct involvement in propping up the *chaebols* to keep expanding regardless of economic performance could only bring failure to the businesses and the whole economy. (TW11)<sup>6</sup>

It was also the Taiwanese in particular who made a qualitative distinction between the networks of SMEs and the influential connections of tycoons and big companies.

I am referring to a more dubious relationship between the government and big businesses and not situations relating to friendship or family. What I am saying is that if you are in financial difficulties, it's fine if you go to ask your friend or relative for help. But it would be inappropriate for one to ask for special privileges from the government simply because you have special connections with some government officials. They are not always reliable anyway. I know of many big corporations that, at one time, could almost get whatever they wanted from the government. But when their business started to go downhill, few government officials were willing to stick their neck out. (TW1)<sup>7</sup>

TW4<sup>8</sup> and TW11 also felt such connections might be unreliable in a crisis.

The big corporations have [political] connections. So do the enterprises controlled by the Nationalist Party [KMT] ... I think there is a difference between connections (*guanxi*) and network (*renmo*). Your network is more organic, like your friends and neighbours. Connections are more instrumental and they require deliberate cultivation. In times of crisis, I am not sure if your connections are willing to help you overcome your problems, but your network will try to help. (TW4)

### 13.3.2 Respondents' Experiences in the Crisis

In contrast, the story these respondents told of their own experiences in the crisis were of surprisingly limited damage. Ten said they had been negatively affected to some extent (but only three significantly so), ten had been completely unaffected and five said the crisis had benefited them. The worst affected were HK10<sup>9</sup> who had had to sell his garment factory in China to the Chinese 'for a dime' and OZ1<sup>10</sup> who lost half a million Australian dollars on a failed fashion boutique, embarked on just as the crisis struck. Both, however, were proud that they had not lost so badly that they could not make a new start.

Another seven spoke of temporarily slowed growth and expansion plans postponed, rather than of any decline or serious problems. TW10<sup>11</sup> had abandoned a project to open a new office in Malaysia and TW2<sup>12</sup> (who described his business as 'not badly affected') had abandoned some traditional markets in Indonesia and Thailand, fearing he might not be paid. Ten respondents, three Taiwanese, one in Hong Kong and six in Australia (two of whom were exporting to the region and one dependent on the custom of Chinese immigrants in Australia) were emphatic that they had experienced no impact from the crisis at all.

It is a truism that it is an ill wind that blows no good and from every crisis there emerge winners as well as losers, the former often at the expense of the latter. Five respondents, four in Hong Kong and one in Taiwan, had benefited directly from the crisis. These had still growing markets in the West, especially for innovative or higher-tech products, or found the demand for their low-end electronic products reviving in Asia, as substitutes for more expensive alternatives. HK1<sup>13</sup> thought the crisis had given his business in a sunset industry 'a new lease of life for a few extra years'. Even where their customers were able to demand lower prices, these respondents had been able to pass this on, with advantage, in lower payments for materials and labour and in more extended credit by their suppliers. Some were able to take over the customers of those who had been less efficient or financially prudent and gone under, or who were in countries where the currency collapse prevented them obtaining their needed inputs or credit.

When the W.I. trading company in Hong Kong closed its doors HK6,<sup>14</sup> facing unemployment and knowing her ex-employer's connections in Brazil, had decided to use her own savings to start an export agency. She examined the client networks inherited from her old company and found a number of small buyers the company had not bothered to deal with very much. She contacted them and found that they were eager to import from her. Their orders were never really big, but they were reliable in making payments, and ordered from her consistently. Her new business was now flourishing, although it was constrained from expanding by lack of access to capital. She concluded that 'This has taught me that big is not always beautiful and, in times of crisis, being small is not necessarily a disadvantage'.

Our respondents were, as we noted, in part self-selected as survivors and may have sought to downplay their own losses. Yet the picture of survival and of readiness

to start again meshes well with the macro evidence of rapid recovery in the region, which has contradicted so many gloomy predictions. Nor did they present their own experience as unique. When we asked whether they knew personally any others whose business had suffered from the crisis, eight could not think of any and only seven (four in Hong Kong, two in Taiwan and one in Australia) could bring to mind anyone they knew who had actually been ruined by it. Most of these were said to have mortgaged their businesses in order to speculate on the stock or property markets or were already on a downward slide for other reasons, but some had been hit by the bankruptcy of major customers in Southeast Asia, especially Indonesia. HK4<sup>15</sup> remarked that 'I know people in my field of business [electrical manufacturing] who were suffering great financial difficulties but somehow they managed to stay in business'. 'People found it harder to export, but are still surviving.' (OZ20)<sup>16</sup>

## 13.4 DEFENSIVE STRATEGIES OF SMALL AND MEDIUM BUSINESSES

### 13.4.1 Conservatism

Our respondents spoke often of the handicaps resulting from their small size, especially the difficulty in raising capital, in the absence of support from banks and government, as well as the pressures of powerful contractors and customers, and the limited professional expertise at their disposal. Yet some of these could, with hindsight, be seen as strengths in disguise. Most, as we saw, had been relatively unaffected by the crisis or had revived quickly, and they largely attributed this to their own efforts.

I'm an old hag in this industry and I've seen lots of ups and downs ... There's very little luck involved. If you're like me who has survived for so long, you have already learned the tricks to stay away from trouble. (HK1)

The advantages attributed to SMEs in a financial crisis seemed to be of two kinds. First, the low debt and self-reliance of small firms could be seen, at least with hindsight, as an insulation against the disastrous consequences of sudden credit droughts and the bursting of speculative bubbles. While this mode of operating had been perhaps initially objectively imposed by the absence of bank and government support, it became incorporated into a collective conservative ethic of autonomy, family responsibility and productivism. Second, their long-term, trust-based personal relationships with customers and suppliers could provide some security and, when necessary, extended credit, so long as too much was not expected of them.

If we had borrowed heavily to expand we would have been in deep trouble. I heard stories about other people who are not in my business who had to flee or

disappear because they defaulted on all kinds of repayments. We are doing all right because we only have a very small loan from the bank. (HK8)<sup>17</sup>

I would not borrow money to start a new business... I would only transfer money from my reserves to get it up and running. (TW10)

Such financial conservatism also makes possible significant contraction without disaster:

When our business is good, we operate our factory in full capacity. When the situation is a bit dull, we operate in 70–80 per cent capacity. We have very low personnel and general expenses. If we find that business is really bad, we stop ordering raw materials and decrease our production until a recovery is visible. (TW2)

If debt-based expansion was seen as a cause of the crisis, even more damaging to economies and to businesses was short-term speculation especially if it relied on borrowing. Seventy per cent of all respondents (six in Hong Kong, four in Australia and six in Taiwan) were critical of speculation in stocks and property as a primary cause of the Asian crisis, of business failures by people they knew or as a hazard to 'serious' 'honest' businesses.

I think it is a matter of over extension of credit. First you had the speculation boom in Japan and Taiwan, then spreading to the rest of Southeast Asia. Property and share prices were hot and they provided the perfect playground for Soros. When the foreign hot money retreated, the governments had to devalue their currencies. (TW4)

The 'easy money' and 'get rich quick' temptations of such activities were condemned in ethical terms, separated by a moral divide from responsibility to family, personal control over ones own fate and gains made through hard work.

The lure of fast money was powerful. (HK10)

It [speculation] is too risky ... I feel that I have to be responsible to my father and my family to carry on the family's business ... At least I can say I haven't failed my father's expectations. (HK8)

I never speculate on properties or shares because I have real responsibilities to my family and relatives. They gave me so much support in getting this business off the ground, the least I could do is to make it viable, safe and credible. (HK9)<sup>18</sup>

Speculation and productive enterprise were contrasted as incompatible.

When you are involved in manufacturing [*shi ye*, literally means real or concrete business], you shouldn't gamble with your business. (HK9)

I am not interested in speculative activities, like buying and selling shares ... I believe in good, honest investment. (TW6)

I wouldn't put any money from my core business into speculating on shares or properties. I know that when they crash, I would have nothing left. I won't have a business anymore. (HK4)<sup>19</sup>

The big companies, who were best positioned to play such games, were also likely to be the biggest losers.

Most people who lost their shirts ... were the people who had to spend big to prop up the value of the shares of their own businesses, such as National Automobiles, Hanshen and Guangsan Department Stores. They were the ones who were manipulating the stock markets, inflating their assets by remortgaging their own shares to contract bigger loans, normally worth 70 per cent of their value, and use the money to purchase another piece of property ... when the market started to dip ... they became extremely precarious in making repayments. And when the market continued to tumble, the whole thing collapsed. (TW1)

Small businesses could protect themselves by avoiding such activities.

Sticking with what you do – not gambling away your business in speculating properties or stock market. Of course, speculation is quick, easy profit but only if you are lucky. I refused to play the game and that's why now I'm still a small fry in this business. (HK1)

While several admitted to being tempted they congratulated themselves on resisting.

Every one I know in Hong Kong back then was persuading me that I should give up my business in Australia and return there to speculate on properties and the share market because it was easy money ... I was tempted. (OZ3)<sup>20</sup>

I must admit that there were times I was absolutely disheartened by the fact that it was so easy to make money by speculating on properties. ... one could easily make \$100 000 just for standing in line overnight to get into the

developer's office to buy a flat off the plan ... Now people say that I am having the last laugh ... (HK4)

Even the few who admitted to some speculative activities dissociated themselves from those who allowed them to endanger their real business.

They were gambling with their businesses, and I wasn't. They were not diversifying their business – in fact, they were shifting into speculating full time. (HK10)

In general respondents indicated that such activities breached a shared code of values, and that shame would prevent such people from seeking assistance from their friends when in trouble

You don't want to help ... anyone who comes to you to borrow money to pay their gambling debts. (TW2)

I only helped those who deserved to be helped. Like those who genuinely had business difficulties. (TW5)

#### 13.4.2 Trust-based Networks

The high level connections of big firms were perceived as both a temptation to unsound practices and as an unreliable support in a crisis.

We heard stories that even when you thought you had 'good connection' with banks, they would not treat you any different from any other client – no personal favours, no exceptions. I suppose they would have to behave that way because in times of crisis, who could risk their necks for you? (HK4)

Lacking assistance from government and banks, 21 respondents had benefited from advice and support from personal networks of kin and friends, and from establishing long-term trust with proven, reliable suppliers and customers. Unlike those of large firms and tycoons, the networks of SMEs were praised. Twelve respondents (two from Hong Kong, three from Australia and seven from Taiwan) believed or knew from experience that such networks could be a valuable support in a crisis. 'Friends are more appreciated when you are in difficulty' (OZ20). Five had actually themselves given or received financial assistance when in need.

We just wanted to develop a mutual system of support and information exchange so that we could develop strategies to help each other out of our predicaments. (TW8)

We've also been fortunate because we have very good, loyal clients who have been supporting us all along since I started my own business. Mind you, their loyalty is hard earned because it is the result of a long-term relationship based on trust. (HK9)

The only kind of relationship I treasure is the one related to my clients, friends, upstream and downstream partners. These are the relationships that must be well maintained. (TW2)

My upstream partner supplies me with raw materials, my downstream partner is responsible for marketing and retail and we have been working as a production network for ten, fifteen years. As a network we are almost working like a big corporation, but we don't have the pressure of a big corporation, especially in terms of capitalisation and risks. Simultaneously, when we work as a network, we also have a better chance to survive. (TW1)

Among my friends in Taiwan, we helped each other during the crisis. We gave them jobs and we lent them money to help them tide over the difficult times. (TW4)

Cash-flow problems were ameliorated by suppliers allowing longer repayment credit to regular, trusted customers. Eight people spoke of credit extensions, which sometimes were crucial in allowing a business to stay afloat. In this mutual aid and good business combined.

What saved us from going down was the fact that... given the connections I had accumulated from my previous job in the same field, it was relatively easy for me to ask for an extension to pay for the shipment. (OZ7)<sup>21</sup>

Only those people downstream [the retailers] are not in direct competition with you. So, if they have financial trouble, I would still supply them my products, I would give them more time to make repayments. They are your clients and your friends. If they are in trouble, you should give them a hand. (TW2)

The grapevine was highly valued even by those who stressed autonomy. 'Being independent is most important' asserted TW11, but added that 'we often share our business experiences with friends', and TW11 had relied on it to warn him of potential clients with shaky finances.

Yet the help provided by such networks in a crisis had limits, as seven respondents stressed. Both the scale of financial need of those in trouble and the fact that everyone



was having problems often precluded direct financial help and the shared values of autonomy discouraged people from asking, except as a last resort.

I don't think one can rely too much on networks to solve one's business problems ... In business, people will have to look after their own interest first before they can help you, even if you are their best friend or closest relative. There is a distinction between *renqing* (sentiment) and *daoli* (principle). Network is about sentiments, allowing you to enjoy special privileges among a certain group of like-minded people, but when things get tough you should also know that the principle is to look after yourself and not relying on using sentiments to ask people to bail you out especially in a crisis situation when everyone is almost in the same boat facing similar threats. That's why one cannot abuse the principle by over reliance on sentiments. Once you abuse it, you will be excluded from the network. No one will want to see you again. (OZ2<sup>22</sup>)

Few people would ask you for monetary help during this time because they also know that things are tight all round. (TW2)

Indeed arguably the networks themselves could not survive if too many demands were made on them.

The consensus among our respondents was that a financially conservative strategy, before and during a crisis, was the best defence. Avoid speculation; minimise debt and have as little to do with banks as possible; maintain a cash reserve for bad times and conserve capital for future uses; beware of too much risk! Sustain long-term personal and business networks, without expecting too much from them! But such conservatism represents only one dimension of the views and responses of our respondents.

## 13.5 CONTINUING ENTREPRENEURIAL DYNAMISM

### 13.5.1 Coexistence of Conservatism and Entrepreneurship

It is not, however, through conservatism that small and medium Chinese businesses in Asia had played their major role in economic development and the entry of China onto the world market. They have, rather, been renowned for entrepreneurship, an innovative search for new products, methods, designs and markets and for a diversification which combines existing activities with quite different, new and often risky ventures.<sup>23</sup>

Arguably, this willingness to venture into unknown territory was a major source of the dynamism of East Asian economies in the years before the crisis. Over the pre-crisis period of rapid growth there was also a substantial upgrading of products and

technology, and moves upward from contracting to OEM production\* and then to increasing their own design input and aspiring to their own brand names (Hobday 1995; Gereffi and Hamilton 1996). Innovation and calculated risk taking are not so common among small businesses, and seem to require the encouragement of an entrepreneurial culture as well as mutually supportive institutions such as business networks. How far has the crisis tipped the balance away from these and towards conservatism and self-sufficiency?

Our respondents, despite the widespread expression of financially conservative sentiments, and the advocacy of 'keeping low in lean times' (TW11), had not abandoned their entrepreneurial drive. Only six had limited themselves to one product or activity over the previous few years and were not seeking to diversify or upgrade their activities or to find or develop new products, new markets or new methods, either as a response to uncertainty or as a continuation of prior practices. There was widespread awareness that too limited a range could leave them trapped in a declining or overcompetitive sector and render them vulnerable in a crisis.

Entering new fields and new markets demanded investment of money and of time to acquire new skills and develop trust in new networks. But even those who had shied away from such risks seemed apologetic, giving age or lack of resources or an especially cautious temperament as the reason for avoiding what they knew might be the wiser, though riskier, path.

HK1 had thought of moving from the sunset industry of making portable radios into toys, but felt he would not now have the time in the six years before he intended to retire to build the new networks required or to recoup the high capital costs. TW1 had similarly considered doing something new but rejected the idea.

It is correct to say diversification is good for minimising risks but if you finance your projects by overborrowing that becomes extremely risky ... If I had lots of money I certainly would diversify. However ... diversification is a bottomless pit.

Few had unmixed feelings. The same business culture that enjoined productive conservatism at the same time promoted entrepreneurship, and each individual had to juggle their own combination which varied with temperament. The received wisdom, cited by many, was that even a conservative strategy must involve 'not putting all your eggs in one basket'. If a crisis made some established markets unreliable, it might be better to cut them off and find new ones. If there were pressures on profit margins it may be necessary to move production to places where costs were lower or to move out of overcompetitive 'sunset' industries and into new ones. Innovation

\* OEM stands for an original equipment manufacturer, who is responsible for subcontracting, coordinating and carrying out all the processes for a finished product, to the detailed (or sometimes) sketchy design requirements of a brand-name contractor.

might be a necessity for moving ahead or just keeping up. At the same time such moves were hampered by shortage of capital and the difficulty and risks of borrowing.

I think one should diversify and not be too conservative. One should always look for the opportunity to expand overseas and diversify your market. Otherwise you will not grow. Nevertheless, one should not overdiversify. One should not spend more than 30 per cent of the business' capital for that purpose. (TW4)

I do not oppose people diversifying into other businesses but you can do so only when you make sure your core business is secure. (HK4)

It is a good thing not to put everything in one basket. But it is equally important to know what you do best and not lose sight of that. (OZ4)<sup>24</sup>

I like diversification ... People did say to me that diversification involves risks but I am fairly cautious, I test things out first a bit. (OZ6)<sup>25</sup>

You should take advantage of opportunities but also pay attention to risk management, have some reserves and contingency plans. (OZ20).

### 13.5.2 Diversification

A strategy of diversification is the hinge that links together the two seemingly contradictory principles of conservatism and entrepreneurship. This involves combining, under common ownership (but often in formally independent ventures), different products, activities and markets. The diversity is on the one hand an insurance policy but on the other it allows for experimentation and trial and error, while protecting a familiar terrain. In a rapidly changing and unpredictable world big leaps can be made, while allowing for a gradual transition if they are successful and a retreat if necessary. In our earlier research on Chinese business, over the last decade, we have found diversification of both large and small owners to be ubiquitous. In this survey it is clear that the crisis has not halted this tendency, which remained widespread.

Respondents who were import-export agents in Australia had moved from importing building materials to carpets, had added Chinese teas to herbal imports and had changed from a focus on wool to iron-ore exports and the import of agricultural machinery. Taiwanese manufacturers had added fabric printing to the manufacture of synthetic textiles, the development of new designer containers to standard bottles and had started to produce machinery parts (for themselves and others) that they had previously subcontracted. One respondent in Hong Kong, after developing and making a range of innovative lighting products and a device for watching TV in 3D, was shifting from a focus on manufacture to one based on licensing their production, with

transfer of designs, equipment and components, to manufacturers around the world. Others had moved from clothing manufacture to the import of pharmaceuticals and health foods and from computer retail and servicing to the testing and sale of a newly invented organic fertiliser (in France, Malaysia, Vietnam and Taiwan). HK9 combined manufacture of leather products with the ownership of rental properties; OZ4 owned shopping centres as well as having shares in a restaurant and a karaoke club; TW4 built factories for Taiwanese in China as well as investing in a fruit orchard there, and TW8 owned a shipping agency as well as having interests in a rubber factory, a restaurant and a discothèque and, perhaps in the future, an orchard. Both HK9 and TW1 had installed new machinery in order to produce better-quality products (plastic bottles and leather bags), aimed at upmarket niches. Both, however, planned to retain their established mass production facilities and markets as well.

With this strategy failures can be limited and accepted. OZ3, when we interviewed him in 1993, was combining a printshop, a newsagency and a curio shop. When we spoke to him again seven years later, these were both ticking over but he had also been running a Chinese video rental business. This had closed down in 1998 when the spread of the Internet and cheap video compact disks (VCDs) from Hong Kong reduced demand.

I don't regret to closing it down. I always believe in diversifying your business especially if you can afford to expand. In this case, I didn't lose any money and I enjoyed the experience. It just didn't make money for me. I think for what its worth, it's better to seize the opportunity and try things out rather than let it go by. Who knows, you might not have the same opportunity again in your life. I don't think one should stick to 'core business' too often. Sure, if that's what's giving you the security and your livelihood, you should stay in it. But if you could afford to try something different, you should give it a go. You'll never know if you never try. You may say that's kind of risky, but everything you do involves a certain amount of risk. As long as you don't put your 'core business' at risk, there's no harm diversifying yourself.

His latest venture was to open a restaurant, with the help of his sister-in-law's experienced advice and contacts.

OZ1 had been operating a prawn farm that was struggling, with Japanese demand in the doldrums. She decided to open a fashion boutique, leaving the aquaculture in the hands of other family members, but she had misjudged the Australian market, and although her friends' custom kept the venture afloat for a year she finally sold it with a loss of half a million Australian dollars and retreated back into the earlier business. This was now doing better as they had become more experienced and had also made efforts to find new markets for seafood, and a diversification into abalone exports. She described the shop as an 'honourable failure ... Despite the financial loss, we are doing okay because we didn't lose our shirt'.

### 13.5.3 Networks and Entrepreneurship

We have noted above how networks could be an important, although necessarily limited, resource for survival. Such networks were often even more important for the ability to change direction, providing advice, information and personal introductions for new products and markets. 'Network is ... about giving you extended access to information and opportunities' (OZ2).

The positive evaluation of the contribution of such networks was almost unanimous. One Taiwanese respondent thought the cultivation of networks, even in China, was 'a waste of time', but he was a solitary voice. Nineteen believed, or knew from experience, that they were useful, even indispensable in starting or running a business.<sup>26</sup>

Recently I joined the Taiwanese Business Association and met new contacts. In times of an uncertain economic future, I think everyone is keen to cooperate with one another to minimise unnecessary competition and willing to share market information and develop business strategies that are able to bring benefits to all. The advice I get from others has been very useful. (TW10)

I didn't have many difficulties in my new business because ... I have developed a string of connections that I could rely on, in terms of giving me leads for distribution ... (HK10). I have received no assistance from either the Taiwanese or the Chinese government. Friends in my network introduced me to new clients and new agents. They're helpful to my business. (TW8)

Three had set up their own businesses during the crisis on the basis of the contacts they had made as employees with suppliers and customers (in two cases in failing businesses).

My business has been having a smooth run since it started. I consider myself extremely lucky because I am strategically placed to develop a good network and have a good distribution base [the clinic]. I meet an awful lot of people first as patients, then they became my friends. They came from various backgrounds and they were always very helpful if you needed any information. I am truly blessed because many of my business opportunities were offered to me by my patients. When I decided to import Chinese herbal remedies into Australia, the idea actually was suggested by several of my patients. They even gave me suggestions as to how I should run my import business and some of them gave me leads to contact suppliers. (OZ6)

You could say that I could not have started my own business without connections. My relatives are important to back me up financially, but more

important are the suppliers and their willingness to give me an exclusive dealer/distributorship. In China, particularly, you wouldn't be able to accomplish anything if you don't have the right connections. (OZ7)

The differing career paths of OZ20 and OZ21<sup>27</sup> give an indication of the importance of networks for changes of direction. We interviewed them first in 1993 when both had high hopes for exporting wool to small end users in China. OZ21, an immigrant from Malaysia, was by far the most experienced of the two, working in partnership with a mainland Chinese who had good contacts. OZ21 was herself from China, with friends there but no business background or financial resources. Shortly thereafter, it seems, this kind of trade declined and then collapsed, under pressure from new tariffs and from cut price Russian competition. At the same time OZ20 lost contact with his Chinese partner. He rejected an opportunity to put money into property development near Shanghai because 'We didn't have people over there, it was too much risk', and thereafter he abandoned projects in China.

OZ20 on the other hand was clearly prospering when we interviewed her again in 2000, and had diversified successfully into more promising fields of trade with China. She was still 'Working through long term connections in China, not through the phone book ... I try to deal with people on a basis of trust', and she had been able to move successfully into a wide variety of other import and export activities involving iron ore, wheat, education and machinery.

### 13.5.4 Restructuring

Most of our respondents had been taking a variety of new initiatives but, although the pathways opened by networks may lead in new directions, these may often seem random or eccentric, deriving from accidental meetings and chance conversations. Can we obtain from these interviews any indications of overall trends or wider restructuring? Directions taken by several respondents may provide some hints.

Seven respondents had turned to the still growing Chinese domestic market, developing or seeking products for it. One had withdrawn from markets in Indonesia and Thailand and was hoping to develop new alliances for distribution in the Middle East and Canada. Several were moving out of sunset manufacturing and into supplying new kinds of demand which they predicted would grow in the future: two were now trading Chinese medicines, therapeutic teas and mushrooms and Western pharmaceuticals and health foods to what they both described as increasingly health conscious ageing populations in Hong Kong and Australia; three were making or trading new products aimed at growing environmental problems that they saw as of increasing concern to governments – organic fertilisers, recycling machinery and water purifiers.

A number of respondents were seeking to improve or upgrade their skills, technology or modes of operating. Three Taiwanese had recently been shifting more production and technical work into China to cut costs and one of these was also

looking to move some production to Singapore, Malaysia or the Philippines to reduce the perceived political risk of too much investment in China.

Four manufacturers were taking steps to improve the quality of their products, to incorporate more of their own design, to promote their own brand name or to cater to a more discerning segment of the market. Five respondents claimed to have improved on the performance of erstwhile competitors or employers, whom they had taken over or displaced, by establishing more long-term and trustworthy ties with suppliers and customers. Three were seeking to adopt Western professional management systems and to enter into partnerships with Western companies in order to gain such expertise.

### 13.6 CONCLUSIONS

Our findings must be very tentative because of the, as yet, small number of respondents and the unavoidably non-representative nature of our selection procedures. Precise distributions cannot be relevant in such a study. What we have found, however, is a seemingly almost consensual coexistence, in the immediate post-crisis period, of both conservative and entrepreneurial values and strategies in varying combinations.

Conservative prescriptions call for small-business people to ensure a sound cash flow and cultivate long-term networks; avoid high-risk speculation aimed at getting rich quick; avoid debt that cannot be repaid if things go wrong, and above all make sure that the existing core business is sheltered from the implications of failure. On the other hand such measures alone cannot guarantee safety, not to speak of growth and success. All your eggs in one basket is generally recognised as a foolish way to court disaster; in a changing world thriving activities can become sunset industries, new competition can eliminate profits and prosperous markets can be hit by crisis.

With enthusiasm or resignation almost all respondents knew that they might have to diversify, upgrade or change direction, but that they must do so with caution, and most said they were trying to tread this fine line. Most had continued to seek new products, markets and methods and were making some contribution to a restructuring of their economies. The rapid recovery in the economies of the region matches well the picture we have found.

### NOTES

- 1 Funded by Australia Research Council. Carried out by David Ip, Richard Lam, Constance Lever-Tracy and Noel Tracy.
- 2 Taiwan interviewee number 7.
- 3 Taiwan interviewee number 5.
- 4 Taiwan interviewee number 6.
- 5 Taiwan interviewee number 8.

- 6 Taiwan interviewee number 11.
- 7 Taiwan interviewee number 1.
- 8 Taiwan interviewee number 4.
- 9 Hong Kong interviewee number 10.
- 10 Australian interviewee number 1.
- 11 Taiwan interviewee number 10.
- 12 Taiwan interviewee number 2.
- 13 Hong Kong interviewee number 1.
- 14 Hong Kong interviewee number 6.
- 15 Hong Kong interviewee number 4.
- 16 Australian interviewee number 20.
- 17 Hong Kong interviewee number 8.
- 18 Hong Kong interviewee number 9.
- 19 Rita Ho, who has carried out an unpublished study of the relationship between Chinese business and gambling (Ho 1997), suggests that there may be a bifurcated business culture, with one group inclined to gambling in business affairs, and the other (mainly those involved in manufacturing) averse to it. Both groups felt there was likely to be some incompatibility between speculative and productive activities (personal communication).
- 20 Australian interviewee number 3.
- 21 Australian interviewee number 7.
- 22 Australian interviewee number 2.
- 23 A reviewer of this chapter has suggested that diversification may be a declining practice, appropriate for low-skilled activities and owners with limited education. Historical accounts suggest, rather, that diaspora Chinese have tended to move away from narrow occupational niches originally ascribed to groups defined by dialect and place of origin. Our earlier study of Chinese and Indian immigrant businesses in Australia, found high levels of education and did not clash with pervasive strategies of diversification (Lever-Tracy et al. 1991, pp. 71–7). In the current study also, while some wished to restrict their diversification broadly to fields for which higher education had prepared them, others were happy to be more randomly flexible and opportunistic. Those most inhibited, who felt most restricted to the familiar, were the older and less-educated respondents.
- 24 Australian interviewee number 4.
- 25 Australian interviewee number 6.
- 26 One woman described them as necessary to her own identity and ability to start a new life after a broken marriage. Her biggest frustration, she said, was not having her own contacts, because every friend she had was her ex-husband's friend. Only when she had built her own personal network did she feel she was a person herself again, able to get on with her own life and to establish her own, now thriving, business.
- 27 Australian interviewee number 21.

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