

ENTERPRISING CULTURE IN HONG KONG

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Various governments have intervened in their respective economies, such as to modify the environment for entrepreneurship. In contrast, the policy of British Hong Kong has been one of *laissez-faire*. As 1997 approaches, many entrepreneurs in Hong Kong have begun to prepare for changes. This paper will examine the current state of affairs in Hong Kong.

INTRODUCTION

Life is good in Hong Kong. Hong Kongers drink the most Cognac; drive the most Mercedes Benz cars (the highest Mercedes Benz market share in the world and over 12.5% of the colony's private cars); export the most textiles, toys and watches; gamble the most; and read the most newspapers in the world. The colony has 69 registered newspapers, including two English-language dailies, among them, the *South China Morning Post*, which developed the world's first Braille daily. Hong Kong also has more cellular phones, per capita, than anywhere else in the world; this provides instant communications for entrepreneurs, banks, brokers and bullion centres. Although 98% of Hong Kong households own televisions, the people of Hong Kong go to the cinema on average ten times annually; this is more than do most people in any country.

Hong Kong has one of the world's most comprehensive and *unsubsidised* public transportation systems. The underground Mass Transit Railway carries over two million people daily while about 3½ million passengers use at least one of Hong Kong's three franchised bus services. Hong Kong also has 163 electric trams, comprising the world's only all-double-deck tram fleet. The new airport, scheduled to open in 1997, is part of

the largest civil engineering project in the world. Hong Kong's Kwai Chung container port is the biggest in the world, and new facilities are being built by the private sector.

Despite eventual vulnerability to China's policies, entrepreneurs are appreciating the fact that the environment for entrepreneurship in Hong Kong helps perpetuate enterprising culture. This article shall discuss the factors which have contributed to the entrepreneurship sector in Hong Kong, including:

- minimal government intervention and low taxation;
- a fragmented, multicultural market;
- population density;
- the China link;
- liberalisation in China;
- a growing market in China; and
- the Taiwan embargo.

Since the Sino-British Agreement, however, there has been concern about Hong Kong's reversion to China. This paper gives an overview of the environment for entrepreneurship in Hong Kong, as its days of Crown Colony status come to an end.

METHODOLOGY

This paper is the result of field research conducted in Hong Kong using ethnographic methods. Those interviewed include Hong Kong entrepreneurs in Hong Kong, Hong Kong entrepreneurs abroad, foreign entrepreneurs in Hong Kong, public service officials and foreign observers in the colony.

A SHIFT IN PARADIGM

In the eighteenth century, Cantillon (1755) defined the entrepreneur as being an individual who takes the risk of being self-employed. For the next two hundred years, entrepreneurship was viewed as a function of an

entrepreneurial individual. Classic contributions to the literature, including those by Schumpeter (1912), Knight (1921) and later Barth (1963) focused on entrepreneurship as a function of the entrepreneur.

McClelland (1961) found a positive correlation between the "need for achievement" which he termed "*n-ach*" and entrepreneurial behaviour. Doing research in the U.S., Italy and Poland, he attributed the individual entrepreneur's need for achievement as the variable influencing entrepreneurial behaviour. He interpreted his results to suggest that individuals with high *n-ach* would be influenced by that need and consequently pursue entrepreneurial activities.

Hagen (1962) cited McClelland who had shown that individuals with a high need for achievement shy away from ventures with low odds. Hagen then elaborated that "need achievement implies willingness to take risk, for in facing any problem there is risk of failure. It does not, however, make an individual a gambler (p. 106)." In fact, empirical studies, including Sexton and Bowman (1985), have subsequently shown that entrepreneurs may have a tolerance for calculated risk, but only a low propensity towards risk. Propensity towards risk, therefore, is not an adequate explanatory variable for entrepreneurial behaviour.

McClelland (1961) also investigated other *cultures*. Not only did he find that some *individuals* have a higher *n-ach* than others, but also some *cultures* may have a greater need for achievement than others. Specifically, he examined the relationship between folk literature of an ethnic or national group or society and entrepreneurial *n-ach*. It was discovered that societies with folk literature in which protagonists succeeded in various feats against all odds tended to have more individuals with high needs to achieve, each consequently expressing a respective high *n-ach* in entrepreneurial activity.

McClelland's research influenced numerous other studies which established a link between a high need for achievement and a belief in internal locus-of-control. Hull, Bosley and Udell (1980) found a correlation between internal locus-of-control and entrepreneurial activity. Although Brockhaus did not find a causal link between ownership of a business and a high *n-ach* (1982, pp. 42-43), Brockhaus (1982) and

Begley and Boyd (1987) contended that entrepreneurs generally have a more internally oriented locus-of-control than do managers. Sexton and Bowman (1985), however, did not find a significant difference in locus-of-control between managers and entrepreneurs. Shaver and Scott (1991) elaborated on the subject of locus-of-control.

In a literature review, Timmons (1978) listed fourteen characteristics on the entrepreneur:

1. Drive and energy
2. Self-confidence
3. Long-term involvement
4. Money as a measure (of performance)
5. Persistent problem solving
6. Goal setting
7. Moderate risk taking
8. Dealing with failure
9. Use of feedback
10. Taking initiative and seeking personal responsibility
11. Use of resources
12. Competing against self-imposed standards
13. Internal locus of control
14. Tolerance of ambiguity and uncertainty (Timmons 1978, pp. 7-11).

Hornady (1982) listed the entrepreneurial characteristics most reported in academic surveys:

1. Self-confidence
2. Perseverance, determination
3. Energy, diligence
4. Resourcefulness
5. Ability to take calculated risks
6. Need to achieve
7. Creativity
8. Initiative
9. Flexibility
10. Positive response to challenges

11. Independence
12. Foresight
13. Dynamism, leadership
14. Versatility, knowledge of product, market, machinery, technology
15. Ability to get along with people
16. Responsiveness to suggestions and criticism
17. Profit-orientation
18. Perceptiveness
19. Optimism (Hornaday 1982, p. 28).

According to Lachman (1980), individuals with the characteristics of entrepreneurs, will have a higher tendency or potential to act entrepreneurially than people who do not possess these characteristics.

Other significant contributions among many dealing with the theme of psychological traits include Belley (1990); Brockhaus and Horwitz (1986); Gartner (1989); Gasse (1977; 1986), Johnson (1990); Kets de Vries (1977), Learned (1992); Sapienza, Herron and Menendez (1991); and Sexton and Upton (1990).

More recently, summarising the resolutions of an international summit of leading researchers of entrepreneurship, Leighton concluded that "studying entrepreneurs as individuals is a dead end (1988, p. 74)" and that environment is an important determinant in entrepreneurship development. Shapero and Sokol (1982), Shapero (1984), Peterson (1988), Soon and Huat (1990), Gasse and Neff (1990), Giamartino (1991) and Dana (1995) emphasised entrepreneurship as a function of environment.

Gradually, governments began to recognise the value of entrepreneurship and its positive impact on society. Consequently, some governments attempted to modify the environment for entrepreneurship in their respective countries. Examples include Australia (Meredith, 1984), Canada (Dana, 1988), and the United Kingdom (Gibb, 1986-7).

Peterson (1988) identified three levels of government intervention, each of which affects the environment for entrepreneurship:

- **Strategic Intervention**, as practised in Namibia (Dana, 1993).
- **Limited Environmental Policy**, as practised in Sint Maarten (Dana, 1990).
- **Laissez-Faire Policy**, as practised in Hong Kong.

HISTORICAL BACKGROUND

Prior to the arrival of the British, Hong Kong Island had a small population and the economy was based on fishing. In 1821, the U.K. began using the natural harbor as a base for opium vessels.

Following the first Opium War (1839-1842), the Treaty of Nanking resulted in Hong Kong Island being ceded to Queen Victoria. As a result of the second Opium War, the Convention of Peking transferred Kowloon Peninsula and the Stonecutters Island to the U.K. In 1898, the New Territories and another 235 islands were leased to the British government, for a period of 99 years.

ENVIRONMENT FOR ENTERPRISE IN BRITISH HONG KONG

Hong Kong has long benefitted from being a duty-free port, *i.e.*, the colony has no import tariffs. The only duties are those on alcoholic beverages, cosmetics, hydrocarbon oils, methyl alcohol, motor vehicles and tobacco, regardless of whether these are imported or not.

Unlike many governments which fund new ventures and offer loans to entrepreneurs, Hong Kong offers *no* special incentives. However, a *laissez-faire* policy of free trade and low taxation, coupled with minimal regulation and an excellent infrastructure, have made Hong Kong an attractive business centre. This has perpetuated a very strong enterprising culture.

- **Minimal Government Intervention and Low Taxation**

Minimal government intervention and low taxation helped make Hong Kong a manufacturing and financial centre, the eleventh

largest trading entity in the world. It is relatively easy to create a new venture in Hong Kong; even foreigners have no obstacles to set up an enterprise there. A company may be established within 72 hours of application. A branch office of a foreign company with limited liability is also simple, and requires only three weeks. Income tax is a flat 15%, regardless of income. Furthermore, there is no sales tax nor V.A.T. in Hong Kong.

A Fragmented, Multicultural Market

A multicultural population (including Americans, Australians, British, Canadians, Chinese, Indians, Japanese, New Zealanders, Pakistanis and Singaporeans), representing several religions (Buddhists, Christians, Hindus, Jews, Muslims, Sikhs and Taoists), result in fragmented market, creating a diversity of needs, and catered to by an overwhelming number of small enterprises. This allows entrepreneurs to select specialised niches, and benefit therefrom.

Population Density

Although limited in geographic size to an area of approximately 1,100 sq. km. (land is constantly being reclaimed from the sea), population in Hong Kong's urban areas exceeds 40,000 per sq. km. This results in consumers being clustered tightly, facilitating logistics of distribution in a vast market.

The China Link

Adding to the vastness of the market is the fact that Hong Kong citizens make purchases for relatives residing in China, and in recent years, an increasing number of Chinese have been coming to shop in Hong Kong. Also important is the fact that entrepreneurs in Hong Kong have had considerable success exporting Chinese products overseas.

- **Liberalisation in China**

The adoption of an open-door economic policy by China, and the development of special economic zones within China have helped Hong Kong entrepreneurs to acquire low-cost merchandise in China. Small manufacturers relocating manufacturing facilities to China have benefitted greatly from inexpensive production; in Guangdong province alone, there are 16,000 Hong Kong-owned factories employing two million people. In 1995, China announced major tariff cuts effective 1996; such market-opening measures in China mean more opportunities for entrepreneurs in Hong Kong.

- **A Growing Market in China**

The birth of an emerging middle class in China has resulted in a greatly expanded market, easily catered to by Hong Kong entrepreneurs acting as middlemen between China and industrialised countries. On an average day, 14,000 trucks cross between Hong Kong and China. About 60% of the total box traffic passing through Hong Kong consists of containers transshipped to and from China.

- **The Taiwan Embargo**

Hong Kong entrepreneurs also benefit greatly from the embargo between Taiwan and China. Whereas it is forbidden for a Taiwanese enterprise to export to China directly, Taiwanese entrepreneurs sell to Hong Kong entrepreneurs who trans-ship to China. The value of merchandise transshipped from Taiwan to China via Hong Kong exceeds \$3 billion U.S. annually.

THE SINO-BRITISH AGREEMENT

In 1984, the Sino-British Agreement was completed, its principal document being the Joint Declaration pronouncing the reversion of Hong Kong to China in 1997. At that time, Hong Kong is to become a Special

Administrative Region of China, the latter having agreed to a concept of "one country, two systems", such as to ensure the survival of capitalism up to the year 2047. The Special Administrative Region is to have its own legal and judicial system alongside economic autonomy. Nevertheless, some entrepreneurs in Hong Kong have expressed doubts as to whether Hong Kong will continue to be an international financial center with free movement of capital and free convertibility of the Hong Kong dollar (pegged to the U.S. dollar since October 1993).

EXODUS AND RETURN

Uncertainty about the future of Hong Kong has prompted an exodus from the Crown Colony - over 60,000 persons annually. Many have been going to Australia, and others to Canada, both of which have business migration programmes targeted at entrepreneurs.

Since 1978, Canada's business migration programme has lured numerous Hong Kong residents to Canada. The programme offers different options:

- Persons may migrate to Canada in the capacity of *entrepreneurs*, creating jobs for Canadians;
- Persons may migrate to Canada in the capacity of *self-employed*, creating their own jobs; and since January 1986,
- Persons may migrate to Canada in the capacity of *investors*, each with a net personal worth of at least \$500,000 (Canadian), and investing a minimum of \$150,000 for a three-year period into business development and job creation.

Since 1982, Australia has also had a business migration program. It offers residence and citizenship to those transferring a minimum of \$500,000 (Australian) "for the purposes of engaging in a commercial enterprise of benefit to Australia".

Thousands of people from Hong Kong have migrated from Hong Kong

to Australia, Canada, England, the United States and elsewhere. In Hong Kong, this has been perceived as a brain-drain; people were subsequently offered higher salaries in order to remain in Hong Kong. Meanwhile, in Australia, immigrants from Hong Kong have been seen as pushing up the value of real estate.

Interestingly, many Hong Kong people who had moved to Australia, Canada, England and the United States have returned to Hong Kong. About one-third of those who left Hong Kong between 1988 and 1994 have moved back to Hong Kong for better jobs, better pay, quicker promotions, fewer taxes, lower taxes, and a better environment for entrepreneurship. Most of those returning to Hong Kong do so from Canada; according to the Canadian Chamber of Commerce in Hong Kong, the number returning from Canada is about 80,000, but some estimates exceed 200,000.

In 1995, the government of Newfoundland (a province in Canada) approved a new business immigration investor fund, granting immigrant status to those investing \$250,000 in the small business sector of Newfoundland. Industry Minister Chuck Furey commented that this was very timely, because of Hong Kong's reversion in 1997.

TOWARDS THE FUTURE

Worry about the Chinese takeover of Hong Kong in 1997 has subdued. Instead, Hong Kong's enterprising culture, and with it prosperity, is spreading to China. Guangdong, an agricultural province just a few years ago, is becoming a formidable industrial power, as Hong Kong is becoming a higher wage service economy.

The economies of China and Hong Kong are already being merged, gradually. Physically, a railway links Hong Kong with China. Demand is so high that sometimes trains are fully booked. The author once had to purchase a ticket from an entrepreneur in the black market.

As there is no central bank in Hong Kong, currency is issued simultaneously by the Hong Kong and Shanghai Banking Corporation and

the Standard Chartered Bank. One-fifth of Hong Kong's banknotes and coins are believed to be circulating in the Guandong province of China. Yet the Bank of China is already gaining importance, and its currency is expected to soon replace that of Hong Kong. Although the Chinese yuan is prevalent in Canton (Guandong's capital, known as Guangzhou in Cantonese), watches are set to Hong Kong's standard time, as opposed to summer time as decreed by Beijing.

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