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# Many small antelopes make a dragon

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## Abstract

This study focuses on small business in Taiwan. It first discusses the most important features that modern small firms provide, how they are involved in the growing integrated world economy, and the recent rising trends in the number of small and medium sized enterprises (SMEs). This trend, which follows an earlier decrease is further investigated in the context of the Taiwan economy. Finally, three conditions of Taiwan's successful small firm sector are discussed: appropriate policy, global involvement, and entrepreneurship. Alternative small business futures depend on the conditions that encourage the development of SMEs. In one scenario, where SMEs can find the niche markets quickly, and enhance their expertise in logistics, a rise in SMEs in the global market may be expected. In another scenario, if SMEs fail in forming alliances and networks when confronting with giant firms or large Foreign Direct Investment, there might be a reduction in enterprising behavior. Judging from the former performance of Taiwan's SMEs, it can be concluded that there is a good chance that SMEs will remain a vibrant and important participant of its economy and the world economy in the future.

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*Keywords:* Small firms (small businesses, Small and Medium-Scaled Enterprises, SMEs); Economic development; Integrated World Economy

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## 1. Introduction

The well-known futurist, John Naisbitt [1] long predicted the growing importance of the concept: 'small is beautiful'. Acs [2] as an economist observes small business in the US and Europe and finds an increasing trend in their importance since the nineteen-eighties. Liargovas [3] suggests that small firms are considered the 'back-

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bone' of local economies in Europe. In the Asian financial crisis, small and medium-scaled enterprises (SMEs<sup>1</sup>) were depicted as 'an army of ants' for Taiwan to fight the Crisis.<sup>2</sup> As Acs, Carlsson and Karlsson [4] (p.12) put it:

*“As we move toward the 21st century, the emerging conventional wisdom seems to suggest that small firms and entrepreneurship are both necessary for long-run macroeconomic prosperity.”*

Taiwan, which is categorized as a newly industrialized economy and famous for its prolific SME sector, stands now at a crossroads. To maintain the vibrancy needed in the new century, small businesses must take part in the integrated world economy, and lead the economy for pursuing continuous growth. The main purpose of this paper is to identify the growth of small business in Taiwan, the Republic of China (ROC), how these are involved in the integrated world economy, and the political, social and cultural drivers that influence this situation. In Sections 2, 3, and 4 of this paper, three points will be made: the features of small business, their involvement in the integrated world economy, and the recent rise in small firms' share of economic activity. The social and cultural background of Taiwan's SMEs are then discussed in Section 5. The concluding remarks are made in Section 6.

## 2. The roles of small firms in contemporary society

SMEs are economically and socially involved with society. For example, according to Storey [5] they act as competitors, seed corn, they provide jobs and a better working environment, help in local development and fuel technological change. The three most important features inherent in SMEs are:

1. **Entrepreneurship.** There is typically one entrepreneur in each firm, regardless of the size of the firm. In other words, no matter how large the capital scale a firm employs, what really counts is the way people handle the capital. More than ninety-five out of one hundred enterprises belong to SMEs in places like Japan, Switzerland, France, and Taiwan [6]. Most of the entrepreneurship resource in such economies as these is found in the SME sector.
2. **Employment.** The existence of small businesses provides more employment possibilities. For example SMEs offer employment opportunities in the rural area where no large firm exists, or 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 and also when small companies breed other small companies. The probability that an owner of an SME is a former employee of an SME

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<sup>1</sup> Defined variously within this paper, but typically independently owned and under 200 employees.

<sup>2</sup> *The Economist* (Taiwan survey, Nov. 7, 1998: 3–22).

is greater than their being a former employee of a large firm. Since small businesses tend to use relatively more labor-intensive techniques in production than their larger counterparts, they do absorb a larger amount of labor relative to turnover size.

3. **Competitiveness.** SMEs are born and die easily. 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. This is why the SME sector as a whole is often considered to be more flexible than the larger firm sector. They can respond quickly to outside change. Therefore, in the test of a changing environment, small businesses prove to be the fittest form of an organization.

### 3. Small business in the global economy

With the rapid progress in areas like biotechnology, information processing, and telecommunication, globalization has come emerged through the web of linkages and interconnections between states, societies, and organizations that make up the present world economic system [7]. Small businesses actively participate in global business through conducting trade, performing research and development R&D, and by foreign direct investment (FDI). The latter used to be considered in the domain of a large-firm activity. Nowadays, small firms in Japan and Taiwan adopt strategies including FDI to acquire resources and customers in the integrated world economy. Reynolds [8] reports that one survey focusing on eighteen OECD members and eight Asian less-developed countries found that up to the early 1990s, there were about 10% small firms that conducted FDI.

High-tech based industrial districts similar to Silicon Valley in the US are found across Europe and Asia. These kinds of productive systems are characterized by a large number of firms of all sizes that interact in networks. SMEs are no less efficient than large firms are in these networks. The Hsinchu Science Park located in the north of Taiwan is the core of the world's third-largest high-tech industry. Numerous small businesses are found in the Park area.

Since the World Trade Organization (WTO) formally replaced the General Agreement on Tariffs and Trade (GATT) in 1995, there has been a new order directing world trade. Countries, whether advanced or not, must take part in world trade under WTO rules to gain from specialization and cross-border exchange. SMEs have played a leading role in expanding Taiwan's export markets. The average export share of SMEs relative to larger enterprises is 26% for industrialized countries, and 35% for less-developed countries in Asia. The manufacturing export share of SMEs with fewer than 200 employees relative to firms with over 200 employees was 32% in Taiwan in 1996. The manufacturing export share of Taiwanese firms under 500 employees was 46% in 1996, compared to 30% from USA firms in the same size range.<sup>3</sup> A recent empirical study showed that of export-oriented manufacturing indus-

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<sup>3</sup> The manufacturing export share of Taiwan's SMEs with fewer than 300 employees in 1996 was 38%, compared to Japan 35% and South Korea 34% in 1988.

tries in Taiwan, smaller sized exporters were more productively efficient than larger exporters [9]. Since export activities are often thought to benefit from economies of scale, some may consider Taiwan's experience abnormal. However, there is a growing appreciation of the trend for small companies to begin establishing footholds in foreign markets directly or indirectly in an integrated world economy [10,11].

As well as spreading risks over different markets with different business cycles, small exporters benefit from being competitive globally and domestically competitive as well. Reynolds [8] suggests that by the year 2005, approximately 80% of small firms will be involved in international trade and that while small companies are currently a significant part of the global market, their role will increase in future years. The evidence suggests that more countries will experience an increasing role of small firms in their export market.<sup>4</sup>

Apart from the growing importance of small firms in world trade, participation in export markets has also improved SMEs integration in the world economy. For instance, Pearson and Semeijn [12], p. 181 and Schive [13] note that increasing globalization and the implementation of new management practices has had a major impact on the role of logistics in companies. Logistic management organizes networks of variously sized firms to act together in a coordinated fashion to reduce inventory, handling costs and cycle time, to improve customer service. Thus logistics plays a key role in this coordination of firms in the network supply chain. Many Taiwanese exporting SMEs have successfully developed their logistical integration.

## 4. A rising trend of small firms

### 4.1. An international rising trend

Storey [5] records that SMEs reversed their declining numerical trend, and have risen in number since the 1970s in several countries. Storey then identifies three sources of such changes. First, a worldwide business slump resulted in a rise of unemployment; people who lost jobs then became self-employed SME owners. Second, managerial diseconomies of scale also brought up the notion that smallness is fashionable. Third, as people became wealthier, there was a growing demand for product differentiation. Acs [2] also analyzes the changes attributed to such a trend, and additionally suggests the integration of the world economy as a cause of the increase in numbers of SMEs.

European countries have, on average, experienced an increasing share of small firms employment in the late 1980s and early 1990s. In the US the employment share of firms with less than 500 employees increased from 49.8% to 56.9% between 1988 and 1991. In fact, this rising trend was starting in the mid-70s, as the statistics

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<sup>4</sup> For example, Pearson and Semeijn [12] (p. 181) record that for the US companies with fewer than 500 employees, their percentage figure for exporting products and services are 11% in 1992, 16% in 1993, and 20% in 1994.

from the manufacturing sector show. Japan's employment shares of SMEs are the highest of the sample countries shown in Table 1 for the years in which data is available, despite the differences in definition of SMEs. In Taiwan, the employment share of firms hiring less than 300 employees was 72.1% in 1991, which is similar to Japan. These trends are summarized in Table 1.

#### 4.2. *The picture in Taiwan*

Table 2 highlights the shares of different size classes of Taiwanese firms in the manufacturing sector over time. The analysis shows five different roles of firms in production are considered: their contributions to stimulate entrepreneurship, generate employment, provide capital, produce outputs, and export. The five categories are represented separately by the percentages in number of enterprises, persons engaged, asset using, net value added, and export sales by different size classes of enterprises.

Due to the limitation of the data sources, only five size classes are considered, among them, firms (enterprises) employing less than 100 persons in three size bands and larger firms in two further size bands, 100–499 and 500 or more employees. First, the number of enterprises, accounting for the rare resources of entrepreneurship in an economy. SMEs constituted 99.43 percent of Taiwan's total manufacturing firms in 1954, the highest level ever recorded; 95.26 percent in 1976, the lowest; and 98.07 percent in 1996. Among them, the smallest firms, employing fewer than 10 persons, accounted for 90 percent of all firms in the manufacturing sector in the 1950s.

Significant change took place in the 1960s, when many of the existing small firms expanded rapidly into larger classifications, and many new companies were established with 100 or more employees. However, since 1971, there has been a decrease in the proportion of very large firms employing more than 500 persons. Again, firms employing from 10 to 99 persons evidently increased faster than other sizes of firms until the late 1980s.

With respect to employment share, the changing trend was much clearer over the whole period. In 1961, when Taiwan's manufacturing sector was very much backward and full of SMEs, SMEs took 57.59 percent of that sector's total employment. In the next decade, the larger firms took the lead in creating jobs, shown by a quickly declining employment share attributable to SMEs. However, since 1971, Taiwan's manufacturing SMEs regained their competitiveness quickly and steadily, and contributed more significantly to job creation than their larger counterparts.

Looking at the performance of different size categories of SMEs, there is also evidence of variation over time. The smallest firms, employing fewer than 10 persons, took 31.07 percent of the total employment in 1961. The corresponding figure fell dramatically over the next decade, remained at around 10 percent in the 1970s and after, but then the smallest firms gained some ground since 1986, climbed back to 16.35 percent in 1996. Medium-sized SMEs, employing between 10 and 49 people, saw their share of employment decline slowly in the 1960s, but then settle into a strengthening trend from 1971 onward. The larger SMEs, employing between 50 and 99 persons, steadily increased their share of employment from 6.40 percent

Table 1  
The employment shares of SMEs (Unit: %)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1996	
Persons engaged in SMEs																		
Taiwan <sup>a</sup>	–	–	–	–	–	–	–	–	–	–	<b>68.3</b>	–	–	–	–	<b>72.1</b>		
Japan	–	–	–	73.6	–	–	73.1	–	–	73.0	–	–	72.9	–	–	–	–	
Korea	–	–	–	–	49.4	–	–	–	54.7	–	–	–	–	64.1	–	–	–	
Taiwan <sup>a</sup>	<b>68.8</b>	–	–	–	–	<b>70.5</b>	–	–	–	–	<b>71.9</b>	–	–	–	–	<b>77.9</b>	<b>77.0</b>	
Belgium	65.9	66.4	–	66.7	66.8	–	67.3	67.4	–	–	–	–	64.9	–	–	65.1	62.8	
Finland	–	–	–	–	–	–	–	–	–	–	–	–	–	61.4	–	–	–	
Portugal	–	–	–	–	–	–	–	–	–	–	–	–	76.5	–	–	79.0	–	
UK	–	–	–	–	–	–	–	–	–	–	–	–	64.8	–	–	66.2	–	
Canada	–	–	–	–	–	–	–	–	–	–	–	–	61.2	–	–	65.4	–	
US <sup>a</sup>	–	29.0	–	–	–	–	30.3	–	–	–	–	–	–	–	–	–	37.4	

Sources: Statistics for Taiwan were calculated by the author from *Industrial and Commercial Census of the Republic of China*, various issues, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC. Loveman and Johnson[24], Storey and Johnson[23], Storey and Karlsson[4], and Carree and Thurik[25].

<sup>a</sup> Manufactures only.

Table 2  
The shares of Taiwan's manufacturing enterprises: 1954–1996 (Unit: %)

Employment size (persons)	1–9	10–49	50–99	<i>1–99</i>	100–499	500 and More
By number of enterprises						
1954 <sup>a</sup>	90.73	8.02	0.68	<b>99.43</b>	0.50	0.07
1961	89.49	8.94	0.83	<b>99.26</b>	0.62	0.13
1966	72.11	22.38	2.72	<b>97.21</b>	2.31	0.47
1971	68.66	23.02	3.75	<b>95.43</b>	3.82	0.75
1976	68.12	22.84	4.30	<b>95.26</b>	4.10	0.64
1981	70.29	21.53	4.11	<b>95.93</b>	3.54	0.53
1986	63.60	27.72	4.71	<b>96.03</b>	3.54	0.43
1991	66.08	27.93	3.57	<b>97.58</b>	2.12	0.30
1996	70.00	25.19	2.87	<b>98.07</b>	1.67	0.26
By persons engaged						
1961	31.07	20.12	6.40	<b>57.59</b>	14.03	28.39
1966	12.82	21.21	8.68	<b>42.71</b>	22.52	34.77
1971	9.45	16.95	9.22	<b>35.62</b>	28.25	36.13
1976	10.11	17.45	10.99	<b>38.55</b>	30.20	31.25
1981	10.81	18.96	11.89	<b>41.66</b>	28.80	29.54
1986	10.42	23.98	13.46	<b>47.86</b>	28.09	24.05
1991	14.07	29.59	12.82	<b>56.48</b>	21.30	22.22
1996	16.35	29.83	11.76	<b>57.94</b>	19.21	22.85
By assets actually used						
1966	4.52	7.56	4.50	<b>16.58</b>	20.73	62.69
1971	4.04	8.43	5.15	<b>17.62</b>	24.27	58.12
1976	4.51	8.08	6.56	<b>19.15</b>	22.64	58.22
1981	6.75	10.01	7.63	<b>24.39</b>	22.06	53.56
1986	5.67	11.86	8.23	<b>25.76</b>	25.16	49.08
1991	10.47	17.26	8.66	<b>36.39</b>	22.28	41.33
1996	9.72	16.10	7.31	<b>33.13</b>	21.20	45.67
By value added						
1971	6.03	9.85	5.71	<b>21.59</b>	20.52	57.89
1976	7.68	12.54	8.03	<b>28.25</b>	27.85	43.91
1981	7.94	13.52	9.41	<b>30.87</b>	26.40	42.73
1986	7.37	17.13	10.51	<b>35.01</b>	26.73	38.26
1991	9.85	20.87	10.22	<b>40.94</b>	21.79	37.28
1996	10.96	20.64	9.75	<b>41.35</b>	19.63	39.02
By export						
1986	1.16	11.39	12.49	<b>25.04</b>	38.19	36.77
1991	1.52	13.23	12.68	<b>27.43</b>	32.97	39.60
1996	1.05	10.09	9.51	<b>20.64</b>	25.63	53.73

Data Source: Industrial and Commercial census, Executive Yuan, Taiwan, ROC, 1954–1996.

<sup>a</sup> Factors.

in 1961 to 13.46 percent in 1986, with but slight change to 13.36 percent in 1991. The figures then declined to 11.76 percent in 1996. These figures imply that the smaller (and medium) SMEs have been competitive since 1986. The larger SMEs had been more competitive than their small and medium-sized counterparts only before 1991.

Larger firms, employing more than 100 persons, showed an upward trend in their share of employment in the 1960s, especially the largest ones with more than 500 employees. Since the 1970s, the largest firms have become less and less important as employers in Taiwan's manufacturing sector, while those employing between 100 and 499 persons maintained a stable share of employment at around 28 percent between 1971 and 1986. That share dropped to 19.21 percent in 1996.

As for capital assets, SMEs shared the same increasing trend until 1991. Starting from 16.58 percent of total asset using, SMEs gradually built up to about one third of manufacturing capital (36.39 percent in 1991, and 33.13 percent in 1996). This is quite an accomplishment. It was through such SMEs that Taiwan progressively overcame the fable as a symbol of backwardness. Those firms with 49 to 99 employees in particular gained their share in capital assets between 1966 and 1991. All three classes of SMEs reduced their share of capital assets between 1991 and 1996.

Next, the most important indication of firms' contribution to an economy, the value added (output) figures. Back in 1971, SMEs accounted for 21.59 percent of total value added of the entire manufacturing sector. The figure then followed an increasing trend, and almost doubled in the next twenty years. Some 41.35 percent of output value was attributed to SMEs in 1996, with large firm' share decreasing in the same period.

Within SMEs, different size groups performed differently in different time periods. Before 1981, all three size groups of SMEs were gaining shares in their outputs. Then the share of the smallest firms, employing fewer than 10 persons, decreased from 7.94 to 7.37 percent in 1986, then regained its position, and reached a new height: 10.96 percent of total value added in 1996. The medium-sized SMEs, employing between 10 and 49 people, followed the same increasing trend. Larger SMEs, employing between 50 and 99 persons, were reducing their share of added value output between 1986 and 1996.

Finally, SMEs directly produce more than a quarter of Taiwan's export. If small firms' indirect contribution to production of commodities in the export market through subcontracting relations, core-satellite system, network, or conducting original equipment manufacturing (OEM) as well as original design manufacturing (ODM) for other exporting firms is included the figure could be much higher.

## **5. The backgrounds of Taiwan's successful SME sector**

From the exhibition of the evolution of Taiwanese enterprises shown in Table 2, it can be seen that Taiwan's manufacturing SMEs did not perform uniformly over time. In the 1950s, there were only a few larger firms in Taiwan's manufacturing



sector, which was at that time dominated by SMEs. The SMEs consisted of cottage industries, helping to absorb surplus labor in the rural areas of Taiwan. However, when the pace of Taiwan's industrialization accelerated after 1960, the smaller firms gradually assumed an increasingly important role.

In the 1970s, with the export-oriented phase of development, Taiwan's SME reversed its downtrend, linked with Taiwan's so-called economic miracle. The wage income provided by SMEs also helped to improve income distributions in Taiwan, and enhance the 'quality' of Taiwan's economic growth. Taiwan's manufacturing SMEs had extended even further by 1996, right before the Asian Crisis.<sup>5</sup> In this section, the issue about the institutional background behind the evolution of Taiwan's modern industrialization process is addressed.

Hsiao and Hsiao [14] (p. 29) attribute the vitality of Taiwanese SMEs almost entirely to the inheritance of the Japanese educational system (under the colonial rule from 1905 to 1945), as well as the postwar Japanese technology and marketing network. This theory is questionable, as it can be argued that same vitality is not present today in Japanese SMEs. In Chu's discussion of the causes of Taiwan's SMEs phenomenon, the author points out that the commercial or market experiences prior to postwar industrialization (under Japanese occupation) cannot be a sufficient condition for the subsequent development [15], (p. 16).

Chu [15] identifies the origins of Taiwan's industrial entrepreneurs from policy issues and institutional factors. Van Warmelo [16] also identifies three origins of Taiwan's small firms. Hu and Chen [17] later stress three sets of mechanisms as institutional backgrounds for the further maturity of Taiwan's SME sector. In summary, the necessary as well as sufficient environments for Taiwan's flourishing small firm sector are first, appropriate policies; second, international market participation; and third, abundant and superior entrepreneurs.

### *5.1. Government policies*

The emphasis is two-fold. What is needed is a stable macroeconomic environment that is conducive for doing business and self-restrained industrial policies which minimize intervention in the market [6]. The land reform and market oriented policy that started back in the late 1950s and 1960s encouraged the emergence of the private sector after the colonial rule [16].

The conditions that constitute a good business environment are different depending on the phase of economic development. In the early days of modern development in Taiwan, fiscal and monetary policies maintained a reasonable government budget and stable prices while building up the traditional infrastructure, including lowering transaction costs. Nowadays, more emphasis is placed on advanced infrastructure

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<sup>5</sup> When manufacturing SMEs are defined officially as firms with a work force not exceeding 200 persons, or with a paid-up capital not exceeding 60 million New Taiwan Dollars, the 1999 SME share of enterprise units, employment, sales, and export were 97.25%, 77.61%, 28.41%, and 17.39%.

that includes information networks to help SMEs keep close to the market, as well as new technology [18].

As for the industrial policy, although in Taiwan the first material policy for promoting SMEs was promulgated in 1967,<sup>6</sup> the impact was either small or generally unclear [6]. What is more important for building up a well-performing SME sector is industrial policies that do not discriminate between large and small enterprises. In other words, government should focus on how to minimize intervention in the market, and make room for small firms.

Chu [15] (p. 18) further emphasizes the existence of a dualistic financial system. On the one hand, there is a formal financial market, where for example exporting SMEs can get subsidized export loans. On the other hand, the government made efforts to make sure that there are other financial intermediaries available, such as the curb market. Further, since the mid-1980s, for the purpose of developing a high-tech SME sector, a venture capital industry was formed in Taiwan under government guidance [19].

In addressing the question ‘can small business help countries compete’, Howard [20] concludes that ‘SMEs can help countries compete only if countries create the conditions that make for a dynamic small business sector’. In view of the success story of Taiwan, a liberal atmosphere is found in every aspect of activities in the economy, which benefits the continuously booming SME sector. Schive and Hu [19] further conclude that “as long as Taiwan’s SMEs continue to grow and thrive, then its economy will go on growing and thriving”. Other policy involvement is discussed in the following subsection.

## 5.2. *Globalization*

In the 1950s, there was a slowing of industrial growth in traditional manufacturing industries in Taiwan. This maturity of the domestic market was caused mainly by the policy emphasis on import substitution.<sup>7</sup> Then after the 1960s, the economy entered its export-oriented phase of economic growth, SMEs produced labour-intensive products and prospered in the export markets. The export promoting policies since the 1960s have boosted Taiwan’s fast growing SME sector [15,21]. Export expansion was a major factor in the economic growth in many newly industrialized economies including Taiwan in the 1960s and 1970s. Apart from exports, building up or taking part in multi-national enterprises is also a form of participating in the world market. With policies direct or indirect involvement, small firms in Taiwan are active in both activities.

On the other hand, back in 1952, the government promulgated two sets of regulations to guide overseas Chinese investment. Later in the mid-1960s, Taiwan finally experienced a large amount of FDI inflow. The inflow of trade-oriented FDI to the

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<sup>6</sup> The policy was actually launched under the requirement of the aid aimed at the SME sector provided by the United States.

<sup>7</sup> Van Warmelo[16] also stresses the geographic advantage of the island as one origin of Taiwan’s SMEs.

island brought in the marketing skill and technology and built the foundations for later exporting success. SMEs then diffused the imported technology, and helped to increase the subsequent productivity growth in Taiwan [19] (p. 271). Because of the global involvement, the period from the mid-1970s to the 1980s is widely considered the golden age of SMEs in Taiwan.

In the mid-1980s, faced with strong New Taiwan dollars, high production cost, and the competition from other economies catching up, the government embarked on the path of economic liberalization. Under the Great Liberalization, deregulation policies were applied, for example in financial markets and the foreign exchange market.

Under this liberalization, since the 1980s a large amount of Taiwan's SMEs went abroad engaging in outward investment in Southeast Asia and Mainland China. While those who remained in the island pursued technical upgrades. Foreign markets remained the important targets of the domestic and overseas-based Taiwan SMEs. To maintain their international competitiveness without a technological or research and development niche, many exporting SMEs in Taiwan resorted to improvements in logistics management with prominent success.

To recapitulate, though methods of participating in the trade might be different, the continuous involvement in the world economy is one of the important factors that keep small firms in Taiwan vibrant, maintaining the economy's subsequent growth. The Taiwanese SMEs indeed were and are internationalized.

### 5.3. *Human resources*

Since the SME sector is the most volatile in the economy, entrepreneurs come and go easily. There must be a lot of contenders each equipped with certain potential for success, to maintain the amount and quality of the pool of entrepreneurship needed to build up a sound SME sector, such as the one found in Taiwan.

Chu [15] attributes the abundance of the island's entrepreneurs to a Chinese tradition that the family inheritance was divided among males in the family. This custom results in a disintegration of individually owned business and the build up of a family business. One may also take into consideration an old Chinese saying: better the head of a chicken than the tail of an ox. There are a lot of people who just want to be their own boss. It is the culture and social heritage of Taiwan that creates business owners to form such a well-performing small firm sector for Taiwan.

Given a large amount of entrepreneurial contenders in society, what then further guarantees a successful evolution process that transforms these human resources into a consecutive generation of prosperous small firm owners? In the traditional Chinese culture, under the influence of Confucianism, *scholars* have been put in the highest position in the scale.<sup>8</sup> Education is an important part of Taiwan culture. Apart from

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<sup>8</sup> The priority of social classes in Chinese tradition has long been scholars, peasants, craftsmen, and merchants. Although as Hsiao and Hsiao[14] noted, the anti-merchant Confucianism tradition has difficulty in explaining capitalism (p. 32), they did admit that Taiwanese entrepreneurs practice a 'limited' Confucianism: honor and value the family, loyalty, human relations, while oppose principles of hierarchy, ritualized behavior, respect for central authority, and rote learning (p. 30).

the emphasis on the education rooted in such Chinese tradition, as well as the improvement of the education system of the island by the government, there are other factors that contributed to the high quality human resources found in Taiwan. Hsiao and Hsiao [14] (p. 32) trace the influence of the ancient Chinese Han Dynasty (206 BC–AD 220) as Taiwanese ancestors. The inheritance includes hard working, brotherhood, strong family ties, competition, and similar attributes that form the basis for strong family businesses.

In the late 1940s, when the KMT government retreated from Mainland China to Taiwan, a large amount of high quality human resources were injected into the island. On the other hand Chu [15] (p. 17) points out that at that time, as the participation of the local elite in politics was somewhat restricted, their energy was shifted toward economic activities. The Taiwanese native elite thus also helped to improve the quality of entrepreneurs.

Another “hidden” cultural resource is entrepreneurial women. The culture of Taiwanese business appears to be male dominated. A recent study of Taiwan’s SMEs was focused not on the business owner, but his wife (sic) [22]. The discussion angle was different from the discussion of the family business. For in the traditional Chinese or oriental philosophy, apart from taking care of the domestic affairs of a family, wives must stand by their husbands especially when the husbands decide to start up their own business. The own-boss’s wife acts as an entrepreneur—the extension of her husband’s idea, and one most faithful, trustworthy employee at the same time. Some sociologists describe Taiwan as a boss’s island, one can imagine at the same time, it is also an island of own-boss’s wives.

Perhaps the most fundamental factor for the success of SMEs in the Taiwan economy is persistence. People start up businesses with the hope of being their own boss as well as making money. They want to be their own boss and work hard everyday to keep it that way. The aggregate outcome is a highly flexible and successful economy. Acs et al. [4] (p. 12) consider that “small firms and entrepreneurship are both necessary for long-run macroeconomic prosperity” in the new century. The mechanism of such economic prosperity has been observed in Taiwan, as Schive and Hu [19] (p. 271) depict its small businesses in their words:

*. . . SMEs have no aspirations for molding markets to their own ends, nor are they concerned about their influence in the markets; their chief concern is to stay in the game, do the best they can, and survive to play another day. And in this way they do in fact become hugely influential players, contributing greatly to the competitive process of the market.*

## 6. Concluding remarks

The study first discusses the most important features modern small businesses provide: entrepreneurship, employment and competitiveness. These features are beneficial to the economic prosperity of a state, such as Taiwan. The Taiwan economy has long been famous for its prolific small firm sector, the economy is also known

for growing rapidly. In 2000, Taiwan's per-capita GNP is expected to reach US\$14,634, the amount has grown nearly eighty-four times since 1953.

Rising exports have promoted the growth of world economy in the past 50 years,<sup>9</sup> and there is a prospect of freer trade in the new century. As the time path extends into the future, the small firm's ability to take part in the growing connected global economy is put to closer examination. Taiwan's SMEs, already equipped with the power of exporting, taking part in R&D, and investing abroad, are stepping vigorously into the global economy.

The evidence and the explanations of the worldwide increasing trends of SMEs was also considered. Among the industrialized countries, also in Taiwan, the recent industrial transformation process of the economic activity from large firms to small firms was noted. The rising trend of Taiwan's SMEs first appeared in the mid-1970s, during the outbreak of the first oil crisis. And then in the mid-1980s, a major economic transformation happened. SMEs in Taiwan rose at an even higher rate. Even though there has been little data released since the Asian financial crisis that blew up in mid-1997, the small firm sector appears resilient. In such trying circumstances small businesses in Taiwan can elaborate their other good qualities and thrive in the economy, in bad times as well as in good times.

Given the circumstances, will this kind of restructuring pattern in the size distribution of the business units continue? There are several possibilities. In one scenario, in the international arena, SMEs need to be quick to find niche markets and to enhance their expertise in logistics to strengthen or at least maintain their current position. In another scenario, where the advantage of mass production or financial economies of scale appeared, then in competing with giant firms or large FDI, SMEs need to be able to form alliances and networks to reduce the disadvantages of being small. Thus, enterprising behavior may not be reduced.

Judging from their former performance, this brief review of the political, cultural and social backgrounds of Taiwan's small firm sector reveals that there is a strong chance that SMEs in Taiwan will remain a vibrant and important participant of its economy and the world economy in the future.

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<sup>9</sup> The proportion of world trade to total output has risen from 8% in 1950 to 26.4% in 1998. *The Economist* (World trade: the battle in Seattle. Dec. 3, 1999: 21–23).

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