

Taiwan's Small and Medium Enterprises (SMEs)

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This essay is a basic introduction to Taiwan's vibrant small and medium enterprises (SMEs). In what follows, we define SMEs, provide an overview of their importance to Taiwan's economy, explain SME organization and management, and share case studies of two successful SMEs.

SMEs are businesses whose employees are below a certain limit. The European Union limits small enterprises to fifty people and medium-sized enterprises to 250 people. In contrast, Taiwan's government separates SMEs into two categories based upon product types, available capital, and number of employees. Category 1 includes manufacturing, construction, mining, and quarrying with investment capital from shareholders of NTD (New Taiwan Dollars) \$80 million (US \$2.42 million) or less, with fewer than 200 employees, and Category 2 includes agriculture, forestry and fisheries, water, electricity and gas, commercial, transportation, warehousing and communications, finance, insurance and real estate, industrial and commercial services, or social and personal services industries, with sales revenues of NTD \$100 million (US \$3.03 million) in the last year and with less than 100 regular employees.¹

Taiwan's SMEs are unique within Asia in several important ways. Since Chiang Kai-shek relocated to Taiwan in 1949 and established the Republic of China, the central government has played an active role in industry. However, compared to Japan and the Republic of Korea, the government's relations with industry have been more distant. The latter two nations

spent much more time promoting and often guiding large private conglomerates than Taiwan. This resulted in an industrial structure in Taiwan characterized by a much more dominant SME sector.² SMEs have continually been numerically both the largest number of business enterprises and the largest employers in Taiwan. Government statistics from 2015 indicate that the number of SMEs reached an all-time high of 1.38 million (well over 97 percent of total businesses nationwide) and employed 78 percent of the nation's workforce.³

Taiwan SME owners have a well-deserved reputation as fiercely competitive entrepreneurs. SME owners frequently, although the situation is now changing, have been Taiwanese Chinese who came to the island before the mainland Chinese who fled to Taiwan after the Communists' 1949 victory ending the civil war. SMEs produced low-value-added products for export such as Christmas tree lights, toys, and cheap appliances, and were contract employees for American and Japanese firms during the 1950s and 1960s. In ensuing decades, SME-produced products have expanded and now include substantially more high-value-added products and a variety of services. Current examples of goods and services produced by SMEs include mobile video systems, agricultural food additives, social media political consultancies, environmental planning services, and specialty consumer food-related products.⁴

Taiwan SMEs: Organization, Incentives, and Management Cultures

Compared to large enterprises, the labor productivity of SMEs may not be as high. This is because while big corporations have long-term financially lucrative contract orders, SMEs often have limited funds and generally deal with production on a smaller scale. However, SMEs have inherent advantages compared to large companies, including more flexibility, a greater willingness to undertake new projects, and, sometimes, more competitive prices. These advantages are especially recognizable when these SMEs are clustered together in a small area like Taiwan, an island with a surface area of 35,779 square kilometers (13,814 square miles) located 180 kilometers (111 miles) east of the south-central China coast.

There are approximately eighty well-known clusters of SMEs located in Taiwan in various places. Most of these clusters are made up of companies or businesses in the same field. For example, semiconductor industries are clustered together in industrial parks designated for manufacturing or science parks that focus on research and development.

Each of the clusters produces products that allow Taiwanese workers to make a wide array of goods, ranging from textiles to electronic equipment. Generally within the clusters, companies are located within ten kilometers (approximately six miles) of each other. The close proximity of these companies ensures that most firms who manage to thrive in their field are effective businesses capable of competing internationally. It is also relatively easy to monitor the differences in manufacturing processes and compare the relative quality of products among related companies. This pushes up the quality of goods while at the same time lowering prices. Also, SMEs are generally quite competitive, which has helped Taiwan's economy. One of the most obvious examples is SME tea production in Taiwan. Even a small area like Sun-Moon Lake has at least four brands of tea, and each of these tea enterprises has its own recipe and characteristics.

Government and the media sometimes call SME clusters "hidden heroes" not only because they create cheap, high-quality goods and services, but also due to the fact that the clustering of similarly oriented businesses

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allows the recognition of exceptional businesses or enterprises. Furthermore, these recognitions are, more often than not, well-known to businesses producing the same goods but unknown to firms that are not in the same market. To put it another way, business-to-business (B2B) branding is extremely high due to these clusters.

Because there is a limit to improving quality and lowering prices, SMEs develop various products in interesting ways. In order to attract more customers, SMEs rely heavily on innovative operations. An example of one such innovation in the tea business is bubble milk tea. Bubble milk tea originated in Taiwan, and variants of the product are now popular worldwide. Many SMEs are founded by people who have recently retired from other work, particularly from research and development departments in larger companies. As a result, many SME founders have skills and a certain mindset that lend themselves to constant product innovation. Former employees from larger companies who start or work in SMEs also have valuable work experience and oftentimes critical connections to investors.

SMEs in Taiwan also have certain characteristics different from those in European and US enterprises, and in other Asian countries. Kishikawa Zenko's *Twenty-First-Century Management Strategy* focuses on features common to Taiwan SMEs, including family-oriented management, high flexibility, risk-taking, and highly mobile employees.

Many of Taiwan's SME entrepreneurs are also influenced to some extent by Confucian-inspired cultural values such as filial piety, hard work, and loyalty to business associates and employees. SMEs in Taiwan are often family-oriented. It is common for people in Chinese-based cultures to hand over positions or property to their relatives instead of outsiders, regardless of family member capabilities. Foreigners seeking cooperative partnerships with SMEs are advised to form a good relationship with the owner and his or her family so that trade agreements and partnerships will proceed more smoothly, especially when one is considering long-term partnerships after a certain level of initial relationships is established.

However, this form of management transfer carries obvious risks when succeeding family members may not be suitable leaders for the enterprise and can result in the business falling apart. In Western, and especially American, firms, managerial changes are typically not limited to the members of the business's founding family.

Taiwan SMEs greatly vary in size. Small enterprises in Taiwan can include microenterprises where the number of employees might only constitute a sole proprietor, or the firm might have up to 100 employees. As a result of the small number of employees, the amount of capital invested and the number of investors in the enterprise is not overly high. Although seemingly disadvantageous at first glance, the lack of accountability to multiple investors often means that it is easier for some SMEs to maneuver quickly to adjust to shifting consumer demand for goods and services. Thus, SMEs in Taiwan can quickly withdraw from a product and shift their focus toward another as demand changes.

Most owners of SMEs are more than willing to take the risk that usually comes with attempting new innovations. Some of these innovations propel SMEs into various races to attract customers. The existence of such risk-taking SMEs is generally good for Taiwan's economic development. However, these risk-taking attitudes also have their own disadvantages, such as a lack of long-term planning, which has brought many successful innovations to a halt after reaching a certain level of success.

Two SME Case Studies: Bubble Milk Tea, and Auspicious Black and White Drink

Case 1: Hwa Gung Tea Manufacturing Factory and Affiliated Companies



Source: Banner photo from the Hwa Gung Tea Manufacturing Factory's website at <http://tinyurl.com/hkpvfcb>.

SMEs in Taiwan are renowned for their various product innovations. One of the most famous and successful recent examples, as mentioned earlier, is the invention of bubble milk tea by the Hwa Gung Tea Manufacturing Factory, a now surprisingly famous drink that has spread throughout Asia and other nations.

In the beginning, this enterprise was solely a tea manufacturing company. Once the company obtained a level of success, family members founded two affiliated firms: Quan Fang Tea House–Hwa Gung Tea Company and Hwa Gung Tea Leaves. Recently, another new company, Lucky Good Tea, was founded under the management of another member of the same family. Further information regarding Quan Fang Tea House–Hwa Gung Tea Company may be obtained from its company website (<http://tinyurl.com/hkpvfcb>). Information on Hwa Gung Tea Leaves is available at the following website: <http://www.hgtea.com.tw/>.

Despite the fact that three new enterprises were founded after the original company, these new SMEs were formed not because the original company was unable to keep up with the competition or had a bad reputation. These family SME owners were trying to expand their business operations by extending their reach into the whole supply chain, beginning with farming tea leaves, adding product value through refining, and preparing the leaves for sale and distribution. By having control of their product from production to manufacturing, they are better positioned to control the prices of their goods without fear of significant losses. These endeavors by the owner of the company brought much success, and their final product is quite well-known among businesses that deal in tea leaves.

The company owner's decision to spread control over the supply chain seemed to be astute, as can be seen from the company's success. Yet the attempt to control the supply chain through founding several companies obviously presents a significant risk on the part of the original owner. Unlike the other three companies that mainly deal with production and manufacturing of tea for other businesses, the newest business venture, Lucky Good Tea, will try to connect to the consumer directly.

Lucky Good Tea consists of stores designed mainly to attract those who are new to tea and outlets that are located in shopping malls. These outlets are designed to emulate newer shops in projecting the image of being youthful through appealing designs. In a way, Lucky Good Tea is an attempt by the owners to reach out to a younger generation of customers. This company also utilizes popular social media such as Facebook in their marketing strategy. Interested readers can go to the following link to reach the company's Facebook page: <https://www.facebook.com/goodae1923/>.

This case illustrates how willing many SMEs in Taiwan are to take on risk. In the case of the most recent tea company spin-offs, this gamble is primarily due to a generational gap. Although the parent company has a high reputation among tea companies, its recognition by the younger generation is unexpectedly low. The two new companies are an attempt to garner the attention of the younger generation and prevent the family enterprises from eventually failing.

Case 2: Development of the Ji Liu Hei Pai Yin enterprise



Source: Photo from Ji Liu Hei Pai Yin's Facebook site at <https://tinyurl.com/l4vn5c6>.

Ji Liu Hei Pai Yin is a small firm whose name, if directly translated, means "Auspicious Black and White Drink." Unlike the previous example with family members running four companies, a husband and wife are owner-operators of this small SME and have only one additional employee. Ji Lin Hei Pai Yin, located in Taichung, a city of 2.75 million in central Taiwan, manufactures and sells tea leaves in addition to their drink products.

The circumstances leading to the origins of this SME are interesting. The husband and wife, in the beginning, worked in a successful transportation company. The transportation company owner as he aged wished to reduce the scope of his enterprise by closing the Taiwan branch and returning to his own country. As a parting gift to the husband and wife, their previous boss allowed them to use the building that housed the transportation company for their own business venture. Thus, they were left with the right to use the building but no idea what to do with it.

Interestingly, the direction of their new enterprise came as a blessing in disguise. When they received the building, the new owners had a young child who developed a medical condition characterized by near-continuous headaches. Medical examinations showed that the blood of the child was too thick, causing low levels of blood flow. In order to cure the child, the owner, through the advice of relatives and a Chinese medical doctor, allowed their child to drink a beverage made from a cloud ear fungus (*Auricularia polytricha*), which eventually cured the malady. Taking this chance, both the husband and wife decided to try to sell health drinks with a black ear mushroom base.

During the initial preparation of the business venture, they realized that although the drink made from the mushroom was beneficial to health, the taste of the mushroom itself left much to be desired, and so they began experimenting with improving the taste of the drink. The owners changed the recipe and cooperated with a primary school cafeteria to provide the drink to students and ask for feedback since children, rather than adults, were their primary market. It was a relatively risky venture since children in general dislike the taste of the mushroom, and even adults rarely consume the mushroom for anything other than health purposes. Despite those setbacks, however, they managed to create a delicious drink. Through trial and error, the enterprise currently makes eight flavors of the drink, which are marketed to all age groups.

The owners, in order to make sure of the drink's quality, went to visit nearly all the mushroom farms in Taiwan so they could meet their exact specifications, including having little to no contaminants in the harvested mushroom by utilizing little to no chemical pesticides and fertilizers in its cultivation. The owners also refined the production process of the drink and use custom equipment in making the beverage.

Currently, sales are done through a website. This ensures that the number of employees in the enterprise is low. In addition to their shopping website, the enterprise owners also have another website that features various new products they have produced, as well as information on the general production method that makes them unique compared to other enterprises.

As of 2016, the enterprise has operated for six years and their products have expanded to include silver ear fungus (*Tremella fuciformis*), although the assortment of flavors for the particular mushroom has yet to be as varied as the one for their original product based upon the cloud ear fungus. Further information for this particular enterprise can be seen on the following web page: www.goodlu.com.tw. This case shows how SMEs in Taiwan are capable of creative management in order to compete with other companies.

Conclusion

Although nothing is guaranteed for private firms regardless of their size, for over sixty years, Taiwan's SMEs have been a valuable economic asset for the nation and a subject of much discussion among economists and business management experts worldwide. As long as SMEs can make family ownership management work well and retain their flexibility, innovativeness, and willingness to rake risks, Taiwan, as well as people in other nations who buy SME products, will benefit from this vibrant sector of Taiwan's economy. ■

NOTES

1. "The Definition of SMEs," *Small and Medium Enterprise Administration, Ministry of Economic Affairs (Taiwan)*, accessed September, 8, 2016, <https://tinyurl.com/h47h6uo>.
2. Chia-Yi Chen, Yu-Ling Lin, and Po-Young Chu, "Facilitators of National Innovation Policy in a SME-Dominated Country: A Case Study of Taiwan," *Innovation: Management Policy & Practice* 15, no. 4 (2013): 405-415.
3. Huang Chiao-wen and Evelyn Kao, "SME Number Hits Record High in Taiwan," *Focus Taiwan News Channel*, last modified September 13, 2016, <https://tinyurl.com/jz5lm6k>.
4. "List of Twentieth (2011) Winners," *Small and Medium Enterprise Administration, Ministry of Economic Affairs (Taiwan)*, accessed January 10, 2017, <https://tinyurl.com/hk7hvpq>; please also see chapter 6 in Shelley Rigger, *Why Taiwan Matters: Small Island, Global Powerhouse* (Lanham: Rowman & Littlefield, 2011) for a description of the rise of small and medium enterprises.

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