APEC SME Monitor

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Contents

Foreword 01
SME Development 02
SME Challenges 06
SME Policy 14
Expert Perspectives 16
Global Trend 24
This issue of APEC SME Monitor examines different aspects to assist SMEs through providing insightful articles from experts in the APEC region. In the "SME Development" section, experts focus on the "shifts in Chinese Taipei design industry from an entrepreneurial perspective", investigating the four stages of entrepreneurship and how designers respond to external environment and internal operations by allocating resources. Other experts point out that the leadership of a CEO is the key to success when implementing Business Continuity Management (BCM). A well-articulated Business Continuity Plan (BCP) and well-understood steps by each of the members of the business help enterprises to timely and quickly respond to disasters no matter when and where they happen.

Under the "SME Challenges" section, experts demonstrated an in-depth study on the challenges for construction organizations after the Canterbury earthquakes. According to the study, construction projects temp to increase rapidly after the disaster, construction organizations got a good opportunity to develop expertise and capital base for improving its economic prospects. In addition, finding qualified skilled labors will be the key to recovery. The other article of the section focuses on startups. As an experienced angel investor, the author illustrates common challenges of creating a startup and provides advice on how to overcome the challenges.

In the "SME Policy" section, expert introduces the success factors of "Mittelstand" in Germany. The author demonstrated that by learning from the German experience, SMEs of Chinese Taipei will be able to change the operation model and utilize innovation to achieve the goal of becoming medium-sized enterprises to lead technology and market in their niches.

In the "Expert Perspectives" section, expert from Asian Disaster Reduction Center (ADRC) reports the results of the BCP survey among companies located in the Great East Japan Earthquake affected areas. The expert discussed that for the managers, it is important to visualize tragic scenarios and how they might happen to the company. In another article, with the background of the Growth Enterprise Market (GEM) in China, the author introduces the story of chicken-farm owner "Sunner Development cooperation". By the assistance of venture capital, Sunner Development cooperation changes its business model, now keeping its annual margins higher than 20%.

We continue to cooperate and exchange articles with "Risk + Insurance Quarterly" issued by the international insurance broker Aon Risk Solutions under section "Global Trend". We hope through the complete report of "The 2012 Business Continuity Management Survey", readers could have more understandings of the concept of BCM.

Johnny Yeh
Executive Director
APEC SME Crisis Management Center
Economic Shift in SME - A Case Study on Shifts in Chinese Taipei Design Industry from an Entrepreneurial Perspective

Encouraged by government policy and market trends, design houses and design studios sprout up in recent years in Chinese Taipei. According to statistics gathered by Financial Data Center, Ministry of Finance, design companies in Chinese Taipei witnessed over 50% increase in number during 2002~2011; survey on market demands for design professionals in 2012~2014, done by Ministry of Economic Affairs, also showed that there are huge demands for design professionals in the following three years, including executive managers who can handle increasing challenges of entrepreneurship and industry shift, as well as professionals who can integrate the industry.

Reflecting business life cycle, there are four stages of entrepreneurship (Holt, 1992) – pre-start-up stage, start-up stage, early growth stage, and later-growth stage. After interview surveys on designers in senior design houses and in different sub-industries, on processes of designers who started up businesses, entrepreneurial environment and mechanisms, and on demands for entrepreneurial resources, designers tend to respond to external environment and internal operations, adjusting their demands for resources according to different business stages.

At pre-start-up stage, designers take advantage of surrounding opportunities and resources for starting up their businesses and gradually build up healthy businesses. When entering start-up stage, designers pay most of their efforts to achieve market positioning and segmentation. Most companies are developing products according to market responses, while others which later develop into larger businesses choose to strengthen internal management in this stage. At early growth stage, in spite of continuous research & development for new products, and improvement of technology, most companies seek their expansion, targeting on servicing more customers or extending services for existing ones. Some designers encounter dramatically financial or operational changes through expansion. Most businesses at later growth stage shift focuses to market discrimination or larger market share. However, design houses in Chinese Taipei are relatively young so that respondents...
of the survey did not regard themselves as being in the final stage. Meanwhile, researches suggest that there are plenty of rooms for improvement in design industry in Chinese Taipei, due to limited internationalization trapped by framed local market.

As a supporting industry, development of design services is in coordination with industry trends. Besides, services of the sector expand according to customer requirements. For example, so far the services cover a span from front-trends researches to branding and marketing consultation. At early-start-up stage, design services, mostly smaller companies, aim at networking with customers, so as to increase case volume and ensure stable revenue. Businesses at early growth stage, with established customer base and straight links with suppliers and customers, tend to develop designer products on the bases of established brand awareness, and participate in sales exhibition to increase brand exposure. This is the way which enables several designer brands to shine and then sell their products through exclusive channels, forming a featured new type of industry. When design services are expanding, they not only possess reliable financial status and management systems but also build up their own features. Some of the companies attract spotlights with designer brands, while others establish certain style among specific groups by publishing professional books, holding seminars and exhibitions, opening new stores or planning tours led by experts. Diverse operation allows designers to shine and to attract fans who have great potential to buy. Popular products increase business owners' confidence in the products. Moreover, media reports help to build up credibility of brands. These are invisible business potential which is neither quantifiable nor negligible.

Ministry of Economic Affairs estimates that industry output of design industry in Chinese Taipei will reach NTD 100 billion by 2013, revealing that there are plenty of rooms for design industry's growth. In recent two years, design industry in Chinese Taipei was under vigorous growth. Manufacturing industry and service industry are willing to add design elements to new products. Besides, a large number of young designers joined the line of entrepreneurship. New entrepreneurs have positive influences on the entire industry. A shift in design industry not only diversifies product options but, most importantly, increase capacity and value of the industry. Other industries and customers that require value-added design services can also benefit from greater range of more innovative and elegant merchandise.
Business Leadership for Private Sector Partnership on Disaster Risk Reduction in Asia

The recently held meeting Asian Private Partnership on Risk Reduction in Manila, Philippines on 25 September 2012 emphasized that disasters are having tremendous economic and human impacts on corporations, private or public and even more on small businesses. Mr. Jerry Velasquez, senior regional coordinator of the UNISDR Asia Pacific, said a continuity plan would allow businesses to provide the needs of their customers and mitigate risks posed by disasters. More than 30 chief executives attended this one-day meeting from companies across different sectors. Business Continuity Management (BCM) was identified as a first step towards safeguarding their businesses against disasters.

BCM helps anticipate and lesson the negative impact from uncertainties and threats such as economic, natural disasters, terrorism and even cyber-attacks as there are becoming common phenomenon. In this era of high-speed connectivity and interdependence, any serious disruptions to businesses can cause damages that can be felt by many. The recent disasters in Asia particularly the Great Eastern Japan Earthquake and Tsunami as well as the Thailand Floods in 2011 has proved that the way forward to build resilient business to avoid disruption in supply chain at national, regional and global levels. However, not many have really adopted any business contingency plans (BCP) in Asia.

Strong leadership from business houses is key to development and implementation of the business continuity planning. A well-articulated BCP and well-understood steps by each of the members of the business helps immediately act upon when and wherever necessary. The BCM that includes BCP as its integral component offer profound opportunities for planning and implementation risk reduction activities throughout the course of the normal monthly, quarterly, and annual business cycles. The leadership role of CEOs in taking up BCM is crucial and to ensure its own longevity in the face of adversity. The UN Special Representative of the Secretary General (SRSG) for Disaster Risk Reduction, Ms. Margareta Wahlström once said, "The biggest question facing us is how to influence behavioral change. Who do we need to convince? How do we do it? The private sector is the perfect advocate for resilient thinking because of its direct relationship with customers, suppliers and everyone in between. A private sector committed to disaster risk reduction can steer public demand towards materials, systems and technological solutions to build and run resilient communities." The United Nations International Strategy for Disaster Reduction (UNISDR) has created a Disaster Risk Reduction Private Sector Partnership (DRR-PSP) in May 2011 with the top executives of much global business organization. The main objective of such partnership is to promote business continuity management and disaster risk reduction by exchange of knowledge and expertise. This partnership aims to serve as a catalyst to bring together a wide range of private sector entities into a global partnership for action that will encompass private
businesses, both large and small, multiregional and local, business trade organizations, as well as government-owned business enterprises.

Such a partnership depends on how business sector recognizes that risk reduction activities are not limited to response planning but a comprehensive approach encompassing the overall cycle of disaster risk reduction. To achieve this, the UNISDR’s Private Sector Advisory Group (PSAG) has proposed the following:

- Develop and implement internal codes of conduct and procedures, support the development of national and local laws, regulations, and policies when possible and needed.

- Leverage sectoral private sector expertise and strengths to advance disaster risk reduction and mitigation activities, including enhanced resilience and effective response.

- Promote public-private partnerships for disaster risk reduction to analyse the root causes of continued non-resilient activity and develop frameworks to change these causes. Develop financial risk-sharing mechanisms, as well as innovative approaches and instruments to incorporate resilient in the investment cost of new infrastructure and facilities.

- Foster a collaborative exchange and dissemination of data: Share information on assessment, monitoring, prediction, forecasting and early warning purposes and action between the public and private sectors.

- Support national or local risk assessments and capacity building, and demonstrate opportunities where resilience building is a sound economic strategy, with attractive returns and competitive advantages.

A meeting of key officials from private sector is scheduled at the fifth Asian Ministerial Conference for Disaster Risk Reduction (AMCDRR) in Indonesia during 22-25 October 2012 to influence the private sector entities, national and local governments and other stakeholders make BCP a priority activity and enhancing awareness on the necessity and benefits of disaster risk reduction and building resilience. This will lead to a better engagement between private sector and government at APEC and ASEAN level to promote disaster risk reductions at the national, regional and international platforms. Given the growing disaster risks due to the development of global supply chains in the Asia-Pacific region, increased efforts by individual entities and cooperation between private and public sectors are required to enhance resilience and to protect development gains in the global supply chain.

With the increasing exposure of its people and economic assets, the disaster risks in Asia-Pacific will continue to increase. The economies in Asia and the Pacific demonstrate a high level of sensitivity to different types of risks and committed to various risk reduction interventions. Business entities are essential partners to reduce such economic and human losses caused every year by disasters. However, they cannot help much if business itself is not secured and continued during disasters situation. Having a BCM in place satisfies majority of the clients, as business contingency plans are now requirement by many. It also gives assurance that economic losses can be minimized through such framework in place and implemented by business entities.
The Canterbury Earthquake: Challenges and Opportunities for Construction Organisations

Key Points

- The construction sector plays a large role in driving New Zealand's economic growth; however, it is subject to boom-bust cycles far more than other sectors. The imminent surge in construction activity following the earthquakes offers the sector the chance to develop skills and capital base for improving its economic prospects.

- Construction organisations, largely being labour-intensive, are more influenced by human resource effects. As the rebuild picks up, skilled labour could be a key constraint to recovery and economic growth in Canterbury.

- Many construction organisations are facing difficulties with immigration issues and housing incoming workforces. At the same time, there has been an inflationary impact which flows through to higher property rents, and makes attracting tradespeople from other parts of New Zealand harder.

- The earthquakes have led to a shift of organisational focus from running business operations to building resilience through innovation and partnership. Small construction organisations tend to form partnering and alliance-like clusters for mutual promotion and to attract skilled expertise.

1. The New Zealand Construction Sector

At the time of the Magnitude 7.1 Darfield Earthquake on 4 September 2010 (the first event in the Canterbury earthquake sequence) the New Zealand construction industry was going through a recessional period of low activity. The rebuilding programme in Christchurch and seismic strengthening nationwide, in particular have presented the sector with an opportunity to revive from recession.
The construction sector plays a large role in driving New Zealand’s economic growth; however, it is subject to boom-bust cycles far more than other sectors. Between 2006 and 2009, the construction sector contributed to a 1.2% fall in productivity nationwide. While the construction sector provides one in twelve jobs in New Zealand, it is characterised by small businesses and low labour productivity.

The Canterbury earthquake sequence caused widespread damage to built infrastructure. This included more than 60% of CBD buildings being severely damaged, 124 kilometres of water mains and 300 kilometres of sewer pipes damaged, 600 kilometres of roads seriously damaged with 50,000 road surface defects, and 438,000 Earthquake Commission (EQC) residential claims. Increasing rebuild requirements in the region raise concerns about the capability of the local, regional and national construction industry to deliver a timely rebuild.

This report presents the latest lessons learned from construction organisations in Christchurch in response to and recovery from the Canterbury earthquakes. The information is based on the results of an ongoing study conducted by Resilient Organisations (www.resorgs.org.nz). The data was collected through two questionnaire surveys of construction organisations in Christchurch (launched December 2010 and October 2011), by interviews with key informants, and in-depth case studies of selected organisations. A range of businesses of different sizes were sampled, ranging from architectural and engineering consultancies to contractors. Opinions from government agencies and insurers’ Project Management Offices (PMOs) were also utilised.

2. Sectoral Vulnerabilities

2.1 Socio-economic and demographic attributes

The construction sector in New Zealand has long suffered from volatility and the lingering effects of low productivity. Workers are the fourth lowest paid in New Zealand and the industry employs a relatively young workforce with higher levels of Maori and Pasifika demographic cohorts. These two ethnic groups are characterised by a higher unemployment rate and a lower education rate. The majority of businesses in the sector are small, with little capital and human resource development. These

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Description</th>
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<tbody>
<tr>
<td>Wage</td>
<td>4th lowest hourly incomes of all sectors in New Zealand, at NZD 23.60 an hour</td>
</tr>
<tr>
<td>Age</td>
<td>Prime working age: 4th highest proportion of 15 to 24 year olds; 5th highest proportion of 15 to 44 year olds</td>
</tr>
<tr>
<td>Ethnicities</td>
<td>High share of Maori (5th highest) and Pasifika (8th highest) employment</td>
</tr>
<tr>
<td>Qualification</td>
<td>Lowest share of people with Bachelors or above qualifications, sits at mid-field with school qualifications and below</td>
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attributes (specified in Table 1) tend to increase the sector's vulnerabilities to disturbances in social and economic climates. In an estimate by Business and Economic Research Limited (BERL) a 10% increase in labour productivity in building and construction would boost national GDP by NZD 2 billion. The imminent surge in construction activity following the earthquakes in Christchurch offers the sector the chance to develop skills and capital base for improving its economic prospects.

2.2 Resource effects

Construction organisations, largely being labour-intensive, are more influenced by human resource effects. The sudden increased workloads after the September 2010 earthquake have generally affected their "business as usual" projects. Following the February 2011 earthquake, construction organisations in Christchurch experienced major resource shortages for both post-quake damage emergency response and rebuild/reconstruction stages. Ongoing aftershocks caused structural and land inspection personnel to be constantly diverted from existing jobs to new damage.

In a Resilient Organisations questionnaire issued between October 2011 and January 2012, resource pressures were primarily from human resources associated with structural, architectural and land issues. The three most frequently reported "problematic" human resources were: structural engineers (17%), geotechnical engineers (15%), and draughtsperson (7%). Of those organisations that reported some impact from the shortages of human resources, 60% are large organisations, 24% are small-sized and 13% are micro-sized organisations (Figure 1).

Construction businesses in Christchurch seemed to be less concerned about building material and plant availability (Table 2). A consensus emerged that resource endowment in South Island, particularly in the timber and quarry industry, would ensure sufficient supply of raw materials to meet rebuild demands. At the time of writing, a longitudinal study shows that there has been a gradual change in the possible level of resourcing since January 2012. In the second quarter of 2012, many organisations have reported their difficulty with finding suitable project management expertise such as site engineers, project managers and quantity surveyors.

### Table 2: Proportion of construction organisations experiencing resource shortages

<table>
<thead>
<tr>
<th></th>
<th>Human resources</th>
<th>Building materials and products</th>
<th>Construction plant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felt resource effects</td>
<td>60%</td>
<td>7%</td>
<td>12%</td>
</tr>
<tr>
<td>Not affected</td>
<td>40%</td>
<td>93%</td>
<td>88%</td>
</tr>
</tbody>
</table>
2.3 Organisational vulnerability

Prior to the earthquakes, many construction businesses had their offices or "yards" outside the Christchurch CBD; this included sole trader businesses such as plumbers and electricians. A few architectural and engineering consultancies were located near to the CBD. In the months following the February earthquake, displaced companies identified the most destructive impact of the event to be the disruption to IT infrastructure and supply chain relationships.

Some engineering consultancies have reported ongoing issues sourcing people with high skill levels. Since the September 2010 earthquake, young engineers and mature project management skills from Europe continue to be the largest inbound demographic group involved with the rebuild in Christchurch. Many construction organisations are facing difficulties with immigration issues and housing these incoming workforces. At the same time, there has been an inflationary impact which flows through to higher property rents, and makes attracting tradespeople from other parts of New Zealand harder.

3. Response to Post-quake Recovery

3.1 Capacity building

Following the September 2010 earthquake, the New Zealand Government and Christchurch City Council have taken initiatives on many fronts to link the sector's development with immigration, education and training. For example, the Budget 2011 includes a NZD 42 million package for trades training in the Canterbury region. Many construction organisations have put solutions in place to build their capacity, including sharing, borrowing, recruiting, retaining and optimising existing skills. Others, by reflecting on lessons learned during the period following the earthquake, have continuously improved productivity enhancing management techniques to better position themselves for future.

3.2 Innovation and partnership

The earthquakes have led to a shift of organisational focus from running business operations to building resilience through innovation and partnership. Small construction organisations tend to form partnering and alliance-like clusters for mutual promotion and to attract skilled expertise. Large construction companies faced a more competitive market following the disaster. Several organisations of large size have formed joint ventures, and thus being better able to secure contracts. There are indications that many businesses, following the earthquakes, reinvented themselves in innovative technology and techniques, such as social media, new IT software, satellite phones, web-based seminars, video conference facilities and GPS.

4. Challenges for Construction Organisations

Companies had thought that the major build-up of work would start in the mid of 2012, but now the start has become the big "unknown". The speed of the rebuild, coupled with uncertainties about the future of the CBD and commercial reconstruction work in Christchurch City, has posed difficulties for construction organisations with forward planning.
The Canterbury earthquakes have had implications for other New Zealand cities and towns, with their earthquake-prone buildings coming into prominence. Construction organisations are aware that there will be ongoing resource shortages for the rebuild in Christchurch due to increased construction demand in other places such as Auckland and Queensland. As the rebuild picks up, skilled labour could be a key constraint to recovery and economic growth in Canterbury.

For construction organisations, opportunities and risks go hand in hand during the recovery period. The key challenge is to look at ways to overcome its inherent vulnerabilities. Despite the uncertainties, current and ahead, most construction businesses are still optimistic about the future of recovered Christchurch, themselves, and their employees. But the question still remains as to how to create a sustainable and vibrant construction sector— the answer lies in three key points: business, innovation and employment.
Strategies for Overcoming Challenges of Startup Companies

Launching a technology startup is not an easy endeavor. Startups encounter unique business challenges. It can be difficult to launch a startup, especially in markets with no history of success and exits. Action-oriented events like Startup Weekend are enabling entrepreneurs in emerging startup economies to meet like-minded people, form a team and connect with mentors. Startup Weekend now takes place in 100+ economies. This article explores common challenges of creating a startup outside of the Silicon Valley and provides advice on how to overcome the challenges.

Challenge #1: Idea

One of the most common mistakes entrepreneurs make is not to launch a company out of fear somebody might steal their idea. Especially in markets outside Silicon Valley/the US there is a secretive nature in startups, and companies aren't used to collaborating with others or sharing ideas in fear that those ideas will be stolen. Often entrepreneurs have great ideas but don't take the necessary next step - building a team - because it would require them to share their idea with others. Reality is, the key to launching a successful startup is not having the best idea, it is all about the execution. One can copy ideas, but no one can steal execution or passion. That's why early-stage investors don't fund individuals or ideas. Savvy investors are not even interested to meet a startup unless they know the startup has a minimum of two co-founders and there is a plan for execution. Even if someone steals an idea, they can't steal the more important resources and skills that aren't apparent in the context of that very small snapshot. Startups need to focus on the things unique to them that their competitors cannot steal: the long term vision, domain expertise and a founding team comprised of an experienced business person with his/her technical co-founder.

Challenge #2: Solve a Real and Focused Problem.

The problems startups solve for their customers should be real in that they need to address valid pain points and solve existing problems – seen or unseen – prior to the product or service's arrival in the market. Sometimes, founders of startups work on addressing problems they believe are real, but the market doesn't see things the same way. For example, Netflix solved a real problem of eliminating high late fees charged by Blockbuster. Often, "world domination" and the pursuit of the "mass market" lead to failure of a given startup. Consequently, 90% of all startups fail. The more focused the problem is, the better chances of success. Take Segway, the revolutionary personal transporter, as an example. When Segway's founder tried to pursue the "mass market for pedestrian travel", it failed to gain market traction because the value proposition wasn't compelling for the average customer. The company adjusted its go-to-market strategy and has become successful in specialty markets, e.g., public safety, with its Segway Patroller for employees at airports.
Before startups start writing any line of code they need conduct market research first. Market research enables the process of systematically examining the viability of a given startup idea. Market research helps identifying customers and understanding their needs, assessing competitors, and the market. Research done right - via focus groups, online survey tools and due diligence calls -, allows the entrepreneur to create the business model, fine tune existing products/services or develop new ones, and assess the commercial viability of the business idea.

Challenge #3: Team

Building a startup team is a complicated, tricky endeavor. There are a number of reasons why forming a team or at minimum finding a cofounder are the critical next steps for entrepreneurs who have an idea and how to take it to market. Often entrepreneurs share their idea with potential cofounders but cannot find talents who are willing to join the team. This is a good reality check for the entrepreneur, if he/she is not even able to convince a co-founder there might be no market for the idea; or the entrepreneur needs to rethink the "pitch".

The founder can be the best judge of character, conduct all the reference checks but can still make bad hiring decisions. Before imposing some attributes on building the right team, let's explore why early-stage startups need a team in the first place. World renowned incubation programs like YCombinator will reject applications if there is not at minimum of two people applying for one project. What's the biggest driver for building a team?

- to raise funding from investors
- to create a product
- to execute
- to help the founder focus on the big picture

With so many challenges, the question is: how can startups attract the talent that they need to build a world class business and raise funding? Things to look for in a co-founder are enthusiasm, complementary skills, the ability to 'pull their own weight'- these are cofounders, not employees -, good conflict resolution skills and strong personality. The person must be the right fit, with both personality and drive. Attributes such as enthusiasm and passion are important and qualities like a belief in the company, motivation and ability to take initiative are important factors to consider.

As many startups are unable to incentivize their employees with competitive salaries, they can offer their staff equity or stock options, sometimes in combination with a base salary, as an alternative form of compensation.

Aside from financial gains, employees in early-stage startups join because of their desire to change the world, incremental growth opportunities and the potential of financial independence if the startup gets bought out or goes IPO.

Confidence of employees and belief in the vision are key factors which can have a huge impact on the future success of the business. Take highly successful salespeople as an example, they know whether or not they will close the sale before they even make a sales call.
It is critical to build a complementary team and hire staff members with industry experience in the field the startup operates in. It's not only important as it gives the startup credibility when raising funding, but also helps building business relationships with potential partners and effective go-to-market strategies early on.

A great startup team is made up of individuals who have the drive to compete and win. In order to maximize employees' impact, place team members in roles they are comfortable with. The nature of startups is that employees don't have fixed job descriptions and have to fulfill many different tasks, but it's important for CEOs to identify their team members' strengths and compartmentalize their skill sets in a manner that complements what drives them.

Great engineers are by far more productive than average engineers. Hiring fewer people but better people reduces need to be greater coordination and planning. How can startups find great people? Make the office somewhere people like to be and let developers pick whatever workstation, tools they need. Minimize overhead and decentralized data positions through culture/values. As the team grows, values, culture and company mission need to be made more explicit and deliberately taught to new employees. Startups should try to learn from other companies’ growing pains instead of trying to reinvent the wheel. Most startup founders are technical people. They need an operational CEO who understands the market, marketing and sales.

The skills and enthusiasm of a startup team can mean the difference between success and failure. It's important spending time on recruiting the right talent.
Insight into Promotion of "Mittelstand"- A Lesson Learned from International Experience

The government recently announced its resolution to promote "Mittelstand" based on the existing foundation of SMEs of Chinese Taipei. Although there are enough bases for promoting "Mittelstand", it is essential for the government to take into consideration the characteristics of such enterprises when drawing up an outline and policy.

"Mittelstand" are also called "hidden champions". The German hidden champions are the most outstanding players in international market. Besides, many economies treat Germany as a role model when promoting Mittelstand enterprises. Hermann Simon, the iconic German expert who looks into "Mittelstand", has summarized success factors of these companies in Germany:
1. Most of hidden champions are medium-sized enterprises. They have strong ambition and goals to pursue leadership in global technology and market. 2. Concentration and in-depth coverage are highlighted marketing strategies. Therefore, these companies normally focused on niche markets and stay away from outsourcing their core competence. 3. They export directly to customers all over the world so that their products are not sold through common channels. 4. They value research and development, as well as innovation. Meanwhile, they are technology and market-oriented. 5. They operate extremely close to their global customers and their customers' needs are an important driver for their innovations. Therefore, they focus on value-driven strategies (instead of cost-driven). 6. They have sound financial structure. These companies are usually family owned, and focus on long-term operation. 7. Hidden champions have strong management and corporate culture which underlines quality, efficiency and so on. Hermann Simon also pointed out that two-third of Germany's "Mittelstand" concentrate on intermediate goods.

By learning from the German experience, we realize that some companies which focus on intermediate goods and brands which seek for their transformation can work their ways to "Mittelstand". Besides, "Mittelstand" companies can boost opportunities for high-quality jobs. However, in order to do so, a qualitative change instead of a quantitative one is required in the operation and innovation of enterprises. These "Mittelstand" firms need to possess strong ambition and goals towards being medium-sized enterprises which lead technology and market in their niches. In fact, Korea, in order to promote "Mittelstand", especially separated medium-
sized enterprises from traditional SMEs and emphasized on those firms which develop and market world-class products. According to recent statistics offered by Ministry of Knowledge Economy of the Republic of Korea, 50% (451 out of 225) world-class Korean products were produced by technology and innovation-oriented SMEs.

Moreover, "Mittelstand" should cultivate the value chain that they are involved in with concentration and in-depth coverage, as well as directly face and contact customers, so as to form value-driven strategies. In fact, although some German scholars believe that German IT industry boasts of characteristics of "Mittelstand", the industry in Germany mainly focuses on software and information service, instead of hardware which has long been an outstanding strength of IT industry in Chinese Taipei. Therefore, when promoting "Mittelstand", our government should guide potential SMEs towards building a value-driven mode for development and innovation.
What SMEs should Consider before Business Continuity Plan

1. SMEs' Status of Disaster Preparedness

How well are SMEs prepared for disasters? The cabinet office of the Japanese central government has been conducting nationwide Business Continuity Plan (BCP) surveys since 2008. Divided into three company size groups, Table 1 shows the ratios of companies which have implemented disaster management plans and BCPs. The disaster management plan means plans and procedures made by companies which include pre-disaster measures and emergency responses to disasters. The pre-disaster measures are generally intended to protect people and assets.

Table 1 shows that by 2011, about 80% of the large company group had implemented disaster management plans and that BCP had been introduced by over 70%. On the other hand, only half of the medium and small company groups had implemented disaster management plans and only 30-35% of them had BCP. These BCP implementation ratios are half of those of large company group.

After the Great East Japan Earthquake occurred in 11 March 2011, we did a post-earthquake survey among companies located in the disaster affected areas. As shown in Figure 1, almost half of the small manufacturing group companies said they had done nothing for disaster preparedness. There is a large difference between small company group and medium/ large company groups.

The BCP implementation ratio of small company group shown in Table 1 seems to be higher than what I assume from...
my experience in working with SMEs. This cabinet office survey selected small companies that had a capital amount of over 100 million yen (USD 1.3 million). My personal perception is that BCP implementation ratio among SMEs has not yet come to the level shown in Table 1. SMEs' disaster preparedness levels are quite behind of those of larger companies. I assume that the same trends would probably also be observed in other APEC economies.

2. Tragic Scenarios Forcing Giving up Recovery

Our firm conducted the Japan Earthquake survey on BCP among companies located in the affected regions. This survey revealed that there were a number of companies that (hereafter referred to as "Give-up" companies) had to give up on recovering from the earthquake. On the other hand, there were companies of which BCP had fully functioned (hereafter referred to as "BCP fully worked").

Figure 2 compares the damage levels of key resources between those two groups. 71% of "Give-up" sustained very serious building damages which required over three months to restore. 43% of them had their equipment damaged which required one month or more to repair. If key resources were severely damaged by disasters like these "Give up" companies, the companies would be forced to give up on recoveries. By all means necessary, such a case is one of the tragic scenarios that your company would have to avoid encountering.

"BCP fully worked" group companies were also damaged, but they could trigger BCP and were able to quickly resume business operations. This was because they planned pre-disaster measures to minimize damages to key resources including buildings and equipment.

This is a very important lesson to bear in mind. Your company should not be damaged to the extent that early recovery would become impossible; otherwise your plan for recovery would be over before it even starts.

Figure 2. Comparison of damage to key resource of two group companies
3. Avoid Tragic Scenarios and Survive from Disasters

What circumstances could bring your companies into tragic scenarios? Let me clarify this point with simple traffic accident cases.

(1) Case 1: A worst traffic accident would be a case in which the driver is killed. The driver does not need to be transferred to a hospital for medical case. In a disaster scenario, this would mean your company had sustained severe damages to the vital resources and cannot recover (or if the company goes bankrupt).

(2) Case 2: The next level or severity would be a case in which a driver is severely injured and has sustained permanent disability to the key functions of his/her body. The driver cannot return to their prior normal life due to permanent disability. In a disaster scenario, this would mean that the company has sustained severe damage to key resources which would require a long restoration period. The long restoration period forces the company to lose key clients and the company's business will shrink much below that of its pre-disaster level.

(3) Case 3: The driver is injured by a traffic accident and is hospitalized for a while. Luckily the injury is not severe and the driver could recover within a relatively short period of time. In a disaster scenario, the company has sustained only minor damages and it does not prevent the company from early resumption of business operation. The company could resume operation before losing key customers and business partners.

BCP aims to create the third scenario for companies and the tragic cases 1 and 2 should be avoided by all means. Once your company encounters disasters and are left with tragic circumstances like in case 1 or 2, your company does not need BCP because your company's recovery is over before BCP starts.

Figure 3. Tragic scenarios vs. survival scenario
4. Visualize Tragic Scenarios which Bankrupt your Company.

How tragic scenarios could happen to your company? It is very important to visualize those tragic scenarios and how they might happen to you. There are three questions which will help you to visualize them:

1) How many days of total disruption of your company's operation before your company would go bankrupt?

2) What kind of disasters could cause such tragic scenarios?

3) What kind of resources would give a severe impact when those resources are damaged or not available?

Your answer to question (1) is very important. You should know when would be your deadline for recovery; assuming your answer is one month, you would have to resume your business within one month. The expected damage to your building, equipment and other resources should be contained to the extent that those damages could be restored within one month. This is why it is critical to have pre-disaster mitigation measures.

Asia is a disaster prone region in the globe. Earthquakes, floods, typhoons and other natural disasters had caused huge damages in the history. What natural disaster risks might cause long disruption of above one month? An earthquake may knock down or severely damage your buildings and equipment. In a flood zone, your company might be flooded over 1 meter deep for weeks and damaged buildings and equipment might need months to restore. As shown by Figure 2, earthquakes could severely damage buildings and equipment which cause long term disruption leading to shutting down operations.

Are there any critical resources to your operation? If such resources cannot be used, provided or supplied, your operation would be severely affected. Examples of these key resources include main buildings where your key operations are being done, key equipment which requires more than one year to replace, key materials and supplies which are key component of your products. Energy sources such as electricity, water, and gas are externally vital resources. Tragic scenarios would happen once any of those key resources become unavailable. During normal times, we take it for granted that such supplies are always available. The pre-disaster measures should include preparation and alternative measures to avoid tragic scenarios from happening.

5. Implement both Pre-disaster Measures and BCP

Our firm's survey shows that there were clear differences in implementation levels of pre-disaster measures between "Give-up" companies and "BCP fully worked" companies as shown by Figure 4. In the "Give-up" group, none (0%) of the companies conducted anti-seismic reinforcements on buildings, a measure which the majority (67%) of the "BCP fully worked" group implemented. Over 70% of "BCP fully worked" groups implemented key pre-disaster measures such as crisis management, emergency response plans, and safety confirmation procedures. Only 14% of the "Give up" group did.
Not all pre-disaster measures are always very costly. There are effective measures which do not require hefty costs. Simple measures such as fixing down your equipment to prevent it from falling or moving equipment and IT data to higher floors to prevent submerging under flood water are considered to be pre-disaster measures as well.

6. Conclusion

SMEs’ resources are limited compared to larger companies. Therefore, SMEs have to smartly plan and implement necessary measures that fit your company. But how would you act smartly?

(1) Identify what kind of natural disaster may result in tragic scenarios for your company.

(2) Select and implement your top priority measures amongst those which your company can do.

Do not forget the shortcomings of your company, or where your company is still vulnerable. Those are your future tasks to promote resilience for your company. You should bear in mind John Wooden's words of wisdom “In anything, failure to prepare is preparing to fail.”
Following the launch of the "small plates" market in June 2004, the Growth Enterprise Market (GEM) finally made its grand debut in October 2010 in China's capital market. Compared with the Nasdaq market in the US — which has incubated such technology giants as Microsoft, Dell, Intel, Yahoo, etc. — while the "Chinese Nasdaq," forty years younger, plays the same role of the providers of incubation financing for the emerging SMEs, the GEM is endowed with some color of robustness—never yielding to fate—by the agricultural nature deeply rooted in Chinese people's blood.

For China, now is the time when not only are a variety of problems facing China, including an extreme climate, environmental pollution, population growth, and energy shortage, but the prices of food, oil, commodities and houses are all pushing up the costs of living. The small and medium-sized agricultural enterprises, traditionally non-technological oriented and having to "rely on their fate," now plays an increasingly important role for the whole economy's livelihood and consumption, its social stability, and even its economy.

In 1986, Guangming Fu was merely a chicken-farm owner in a remote col in the Wuyi Mountain Nature Reserve. After twenty years of his whole family's diligent work, the chicken farm expanded larger and larger and Guangming Fu won a reputation of "China's Chicken King."

However, "China's Chicken King," perceived as the leading enterprise, did not hold a share of more than 1% in China's entire poultry market; contrastingly, any leading poultry enterprise in the US could easily hold a market share of 10% to 15% in the economy. Moreover, to view from the whole agricultural industry chain, China's Chicken King was located in the midstream, where the risk was the highest and the profit margins were the thinnest (Figure1), which himself was not aware of.
Upstream of Agricultural Industry Chain: Lower risks, larger margins

- Biotech R&D: seed production
- Poultry, aquatic products, pigs and cattle breeding

Midstream of Agricultural Industry Chain: Highest risks, thinnest margins

- Poultry, aquatic products, animal husbandry, and crop planting
- Fertilizer, feeds, veterinary medicine, and farming by-products

Downstream of Agricultural Industry Chain: Lower risks, largest margins

- Food services, drinks and beverages, and food processing and manufacturing
- Biomedicine, wood industry and papermaking, biofuel, and apparel and textiles

Figure 1. The agricultural industry chain—the distribution of risks and margins of each sub-sector

The traditional agriculture is largely influenced by the natural weather conditions and thus the relatively vulnerable part in SMEs. Since mid-2006, an H1N1 avian influenza plagued the whole economy, confronting China's chicken industry with an unprecedented challenge, including Guangming Fu's Sunner Development Co., Ltd.

"We are only a relatively larger farmer acting as an enterprise, without any strategy or tactic. How could we break through industry midstream's impasse, extending to the upstream and downstream?"

Guangming Fu's comprehension and anxiety did not come too late. Having experienced the two inflations caused by agri-food price from 1994 to 1995, and from 2004 to 2005, China's venture capitals already cast their eyes to Sunner Development cooperation before another price fluctuation in 2006, an enterprise equipped with a large-scale production base and a mature automatic production line.

Fortune Venture Capital, under China's Broadcasting Media Group, is among the "angel's capitals" that had the earliest contact with Guangming Fu. In addition to the investment of RMB 78.76 million, the venture capital institutions also devised a series of strategic plans for Sunner Development, such as reinforcing and restructuring of the pre-production base; expanding the industry chain to incorporate feed, breeder-chicken fostering, eggs hatching, chicken breeding, killing and freezing altogether; and, planning for the capital market financing and A-share listing in the late stage.

Traditional agriculture, dependent on the natural conditions, usually sees its average margins around 2% to 8%. The new agribusiness, however, can take advantage of the help of "angel's wings," achieving a large-scaled and process-oriented production, extending to the upstream and downstream of the industry, and thus achieving an easier cost control. Additionally, so far as strategy is concerned, Sunner Development also strengthened its access to the "consumer terminal,"
a part most easily neglected in the past. This step surprisingly enables this enterprise previously dwelling in a remote col to operate well and smoothly in terms of brand reputation and marketing, keeping its annual margins higher than 20%.

Just as the saying goes, "Hunger breeds discontentment." the trifles on the tongue are also a matter of life and death for a company. Sunner Development now, after its structural adjustment of the "trinity" of technological incubation, marketing channels, and product innovation, can easily adapt itself to any condition, including the low point at time of avian influenza early this year, or the spectacle of "rocket eggs" — meaning the eggs' prices were soaring high like rockets—around the time of the Dragon Boat Festival or the Mid-autumn Festival.

Who says that farming SMEs can only rely on primitive crafts? It is now exactly the time when the international capitals pursue new agribusinesses possessing the ideas of "technology and innovation."
Planning for the Worst
The 2012 Business Continuity Management Survey

What is Business Continuity Management?

Managers have a responsibility to ensure the continuation of business operations when an organisation faces potential disruption. Business Continuity Management (BCM) is a framework for identifying potential threats to an organisation and building organisational capability to respond to such threats, in order to safeguard the interests of key stakeholders, reputation, brand and value-adding activities. Organisations use BCM in order to protect their people, assets, reputation and ultimately the bottom line.

The development of BCM has been supported by a British Standard for BCM, BS 25999, which provides a basis for understanding, developing and implementing BCM within an organisation. In the coming year, two new International Standards in business continuity (ISO 22301 and ISO 22313) will further increase the use of international best practice in business continuity.

CMI first surveyed its members on BCM in 1999 and, since 2001, we have published an annual report on the subject. The fieldwork for this, the thirteenth instalment in the series, was conducted in January 2012 in conjunction with Aon, the Business Continuity Institute (BCI), the British Standards Institution (BSI), and the Civil Contingencies Secretariat in the Cabinet Office.

The sample was selected from CMI's membership, with 25,000 individuals sent a self-completion questionnaire, either by email or by post. A total of 1,021 responses were received. As in previous years, the sample group represents general managers across UK organisations, rather than those with specific responsibility for BCM, and as such offers insights on how far BCM has permeated into the mainstream of business operations.

The extent of Business Continuity Management

Each year the survey asks managers whether their organisation has a specific Business Continuity Plan (BCP) covering their critical business activities. Last year's report tentatively concluded that awareness and use of BCM may be growing. This year's data appears to confirm that there is an upward trend in the adoption of BCM.

There are also apparent differences between sectors. Public sector organisations are also more likely to have BCPs. Encouragingly, however, the rise in BCPs in the last year appears to have been led by private and not-for-profit organisations.

There are also extensive differences by industry sector. Top of the list of industry sectors with BCM are local government (92%), and telecommunications and post (89 %). At the bottom are sales, marketing and advertising (16%, construction (30%).

The survey asks all respondents how important BCM is considered to be by their organisation's
senior management team. 80% of respondents report that BCM is regarded as "quite important" or "very important", and only 3% claiming it is "not very important at all". However, there remains a substantial gap between those describing BCM as important and its actual implementation, despite the increase in recent years.

Understanding Risks and Potential Disruption

In keeping with the previous two years’ results, winter weather caused most disruption. 82% of managers report some disruption, with almost a third being severely affected. (This survey was carried out before the snow that fell across the UK in late January and early February 2012).

The importance of smartphones and mobile technology to modern work patterns is highlighted by the finding that nearly four in 10 respondents report that their organisation was disrupted by the BlackBerry outage in October 2011. The public sector strikes during 2011 affected over half of managers surveyed. Unsurprisingly, those affected were predominantly from the public sector with 82% reporting minor or major disruption compared with 62% in the not-for-profit sector and 35% in the private sector. Besides, the number affected by the 2011 summer riots is higher in regions where the riots occurred. The impact of overseas natural disasters such as the Japanese earthquake and tsunami was predominantly felt by private sector organisations.

When asked which disruptions would have a major impact on the costs and revenues of their organisation, managers have consistently highlighted loss of IT as their top concern. In addition, loss of telecommunications and loss of access to site are also major concerns.

Developing the Business Case for BCM

Benefits of having a BCP

The central purpose of BCM is to support organisations to continue to deliver critical products and services while coping with disruption. A Business Continuity Plan is a central element of an organisation's BCM practice. The survey canvassed managers’ views on the general benefits of a BCP. And the managers report the following benefits:
improving business resilience (77%)

- reputation protection (72%)
- meeting customer requirements (69%)
- fulfilling statutory/regulatory requirements (65%)
- improving understanding of risk to organisation (63%).

42% of private sector managers also say that having a BCP provides competitive advantage.

The effectiveness of BCPs

Of those organisations who activated their BCP in the past 12 months, 81% of managers agree that it effectively reduced the impact of the disruption. Only 5% disagree. There is also a high level of agreement that their BCP helped speed up the return to normal operations. Critically, 81% agree that the cost of developing a BCP is outweighed by the benefits it brings. Neither organisation size nor sector was a factor – 81% of managers from micro businesses are in agreement, as are 79% of managers from the largest organisations.

![Figure 1. Managers' views on the effectiveness of BCM](image)

**Positive %**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Agree</th>
<th>Neither agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>It enabled my organisation to return to normal operations more quickly than otherwise would have been possible</td>
<td>82</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>The cost of developing a BCP is justified by the benefit it brings my organisation</td>
<td>81</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>It effectively reduced the impact of the disruption</td>
<td>81</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>It enabled continued delivery of key products and services without interruption to customers</td>
<td>79</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>It helped to cope with the immediate effects of an incident on employees</td>
<td>74</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>It supported employees after recovery</td>
<td>45</td>
<td>45</td>
<td>4</td>
</tr>
<tr>
<td>It catered for the personal/family resilience of employees (i.e. knowing that partners and/or children are safe)</td>
<td>42</td>
<td>45</td>
<td>13</td>
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</tbody>
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Reasons for not having a BCP

Despite these reported advantages, 15% of managers from organisations without a BCP cite a lack of perceived business benefits as a reason. More frequently, however, managers say BCM has not been implemented because their organisation rarely suffers from disruptive events (54%) and that they deal with disruption as and when it occurs (46%).

External drivers of BCM

As well as the evident business benefits, many external drivers can influence an organisation's decision to implement BCM.
Corporate governance remains the biggest driver of BCM. Potential or existing customers are the second biggest driver followed by legislation and regulation, as shown in the Figure below.

Drivers of BCM vary depending on sector. Central government is a driver for 50% of public sector managers, but only 14% of not-for-profit sector and 10% of private sector managers.

External drivers also vary depending on size. The table below shows how customers are the primary driver for smaller organisations, whereas corporate governance and regulation are more important the larger an organisation becomes.

Supply chain issues

The supply chain is an important yet often overlooked part of BCM. 26% of managers report that their organisation does not require its suppliers or outsource partners to have a BCP. Only one fifth report that their organization expects their business critical suppliers to have a BCP and only 7% expect it of all suppliers. There is little to suggest that these figures will improve in future years. The survey also considers the issue of how effectively BCM is driven through the supply chain.

Building Resilience

Responsibility for BCM

Throughout the research series, CMI has stressed the importance of senior management taking ultimate responsibility for BCM, in line with good practice. This year the survey asked who, in the organisation’s senior management team, was the sponsor of BCM. 44% of managers report the Managing Director or CEO to be the sponsor, while 19% say it resides with the chief operating officer. Although one in 10 managers did not know who the sponsor was, just 2% indicated that there was no top management sponsor. There was also a wide variety of open-ended answers
supplied including BCM specialists, operations directors, quality managers, and roles unique to certain sectors.

The functions involved in BCM are varied, reflecting its cross-functional nature. The top three functions last year, IT, Human Resources and Facilities Management, also featured in this year's top four.

Good practice recommendations for developing BCM highlight the importance of conducting a business impact analysis. This enables organisations to identify their key products and services, critical activities and the likely impacts that a disruption might have on them. By starting with the organisation's needs, this process is preferable to a risk analysis which would involve identifying every possible risk, regardless of whether it would affect the critical running of the business.

A Business Continuity Plan should provide a framework that builds organisational capability to respond to threats and safeguards the interests of key stakeholders, reputation, brand and value-adding activities. It may contain numerous elements, the most common being strategies for maintaining and/or recovering all activities which enable key products and services

**BCM training**

Training employees to cope with disruption helps build an organisation's resilience. The survey revealed that only 41% of managers report that their organisation trains staff with BCM roles. Just one fifth of managers report that their organisation includes BCM training as part of the induction or at regular intervals. 14% of managers report that their organisation does not provide BCM training or awareness at all.

In the event of a disruption, 58% of managers feel they would be fully aware of their role, responsibilities and the actions they should take. However, a significant minority (39%) say they have some awareness but would "need to look it up", suggesting further training/awareness provision would be of benefit. Just 3% would be entirely unaware of their role and responsibilities.

Good BCM practice involves regularly exercising or rehearsing the BCP. This enables plans to be revised, refined and updated before weaknesses are exposed by a real disruption. Around half of those organisations with a BCP have exercised their plan in the last year. However, 17% say their BCP has never been exercised.

The most common method used when exercising a BCP is the desktop exercise, followed by IT back up exercises and tests of remote working facilities. Only 22% conduct a full emergency scenario when exercising their plans. 18% of managers do not know how their organisation exercises its BCP

**Recommendations**

It is strongly recommended that organisations develop BCM that is robust and proportionate to their needs. The effective BCM should include:

- Disruption can be caused by a wide range of factors but whatever its source, organisations need to understand what they need to do to maintain the delivery of critical services or products. When developing BCM, a business impact analysis should take precedence over a risk assessment.
Organisations can change rapidly so review your BCM regularly, checking that it remains relevant to the organisation's current operations. Guard against it becoming outdated and test its effectiveness through regular exercises. Use these opportunities to support better understanding of the organisation as a whole.

Review which suppliers are critical to your operations and examine whether they have BCM. If not, you may want to find out why not – and assess what vulnerabilities this may create for your organisation.

Use BCM based on a common framework, such as BS 25999 or the forthcoming International Standard, ISO 22301, and follow recognised best practice. This not only improves understanding of and resilience against business risks, but helps to meet customers’ needs and can give an organisation competitive advantage. Maximise these benefits by promoting them to internal and external stakeholders.

Senior managers must take ultimate responsibility for the quality and robustness of their organisation's BCM. Managers throughout organisations need to be fully competent and confident in understanding their role in BCM. In the event of a major disruption, there may not be an opportunity to look up the relevant information, so managers should be supported by appropriate training and awareness-raising activities or briefings. Individual managers also need to take responsibility for understanding their role.

A number of organisations have formalised their plans for dealing with bad weather as a result of their experiences in recent years. This is to be welcomed. Organisations should ensure that such plans are integrated with the overall BCM arrangements – and those that do not yet have BCM should examine how it could support their preparedness for threats other than bad weather.

More SMEs need to examine how they could use BCM. While some SME managers may argue that their size and agility may reduce exposure to disruption, a lack of resources also creates vulnerability in the event of a disruption. However, managers are able to draw on ever more easily-available resources from professional bodies and others, who have a key role to play in promoting good practice guidance.

Insurers should do more to promote BCM to their clients. Their influence could be critical in improving the uptake of BCM, yet currently insurers are low on the list of drivers of BCM.