



Transforming Hong Kong Through Entrepreneurship

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Foreword

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Hong Kong is standing at a crossroad. Its economy experienced 4.7% year-on-year growth in 2018, contributed primarily by its four pillars of tourism, professional and producer services, financial services as well as trade and logistics.

Yet in spite of the continued success of its core industries, the city is also actively seeking to 'become an international innovation and technology hub', as shown by Chief Executive Carrie Lam's October 2017 Policy Address. In light of such ambitions, KPMG China is collaborating with Alibaba Hong Kong Entrepreneurs Fund to keep track of the city's entrepreneurial development trajectory and initiate an annual review of the domestic entrepreneurial landscape.

Our inaugural study, Transforming Hong Kong Through entrepreneurship, engaged both existing and aspiring entrepreneurs to gain their views on the sector's potential challenges, opportunities as well as possible solutions to accelerate growth. It also sought the views of key thought leaders in the industry, academic and public services to gain additional insights from a wider perspective.

Having a dynamic entrepreneurial landscape is vital to Hong Kong's long-term development as it can generate significant positive impacts on the economy, the society and improve its overall attractiveness. In addition, Hong Kong start-ups have the potential to benefit from the opportunities arising with China's rise as a technology and innovation powerhouse and strategic policies such as the Belt and Road Initiative and the Greater Bay Area.

We hope that this report provides you with valuable insights on Hong Kong's entrepreneurial landscape and we welcome the opportunity to discuss these findings further.

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1. The Chief Executive's 2017 Policy Address, October 2017, Office of the Chief Executive Hong Kong Special Administrative Region People's Republic of China, <http://www.info.gov.hk/gia/general/201710/11/P2017101100290.htm>

Alibaba Hong Kong Entrepreneurs Fund

Entrepreneurship is one of the core values of Alibaba. We believe that entrepreneurship can be applied not only to one's business ventures, but also to one's life. The boldness to venture out of one's comfort zone and harness creativity is the basic ingredient for Hong Kong's younger generation to keep the city vibrant and competitive.

We support KPMG on this survey of the entrepreneurial landscape in Hong Kong. The findings will help us establish new ways in which we can further promote entrepreneurship through the Alibaba Hong Kong Entrepreneurs Fund. Ultimately, the survey findings allow us to determine the long-term benefits that a thriving culture of entrepreneurship will bring to the city.

We are encouraged to discover from the survey findings that most young entrepreneurs kick start their own ventures not for their own personal benefit, but instead to help those around them—looking to improve society or solve problems. Entrepreneurs in Hong Kong are often driven by purpose and their thinking is uniquely idealistic. To put it simply, they want to make a change. This strong relationship between having a purpose in society and entrepreneurship can significantly impact Hong Kong's forward trajectory.

We hope to see major stakeholders—which include corporations, policy makers and even family members—support this younger generation as they venture out on non-traditional paths. This support is essential in broadening Hong Kong's economy and solving major social and economic challenges that will soon present themselves, such as the city's rapidly aging population.

In our report, we conducted surveys among start-up founders and employees, university students and thought leaders. We believe a well-oiled, deeply rooted culture of entrepreneurship will move Hong Kong's economy and society forward. We hope our findings provide you with valuable insights and we welcome the opportunity to discuss the report further.



Cindy Chow

Executive Director
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Executive summary

Hong Kong's history reveals a strong tradition of entrepreneurship; from a textile, manufacturing and export hub in the 1950s to a services-based economy from the 1970s. This has defined modern Hong Kong, which is supported by the four pillars of tourism, professional and producer services, financial services, as well as trade and logistics. The city is also recognised as the premium gateway to mainland China.

However, the dominance of its core competitive industries is no guarantee of its future success, in particular with the emergence of the New Economy.

> Defining the New Economy

The New Economy refers to high-tech innovative services driven business with the characteristics of:

- Business model that reaches underserved markets
- Capabilities to achieve growth and scale
- Lower capital investment attributed from high technology adoption

Source: KPMG China

To understand the current development of the city's entrepreneurial landscape, KPMG China and Alibaba Hong Kong Entrepreneurs Fund jointly launched *Transforming Hong Kong Through Entrepreneurship*. The study assesses the impact entrepreneurship is having on the economy and society as well as identify the key gaps in the start-up ecosystem in order to drive the ongoing development of Hong Kong's New Economy.

The study was based on the findings of two surveys and a series of interviews with key industry stakeholders in Hong Kong from March to May 2018. It targeted start-up entrepreneurs, Key Opinion Leaders (KOLs) and future business leaders to answer four critical questions:

1	What are the defining factors driving entrepreneurship?
2	What mindset is required for entrepreneurship?
3	How is Hong Kong perceived as a start-up destination?
4	How are Hong Kong entrepreneurs capitalising on the Greater Bay Area?

In addition, a framework, which brings together two critical and complementary dimensions: **Purpose** and **Capability**, was utilised to provide further analysis.

The study reveals that Hong Kong has inspiring entrepreneurs who are fuelled by a strong sense of purpose. They recognise the societal and economic contribution entrepreneurship has to offer – developing new ideas, keeping society dynamic, addressing social issues as well as creating new opportunities. Moreover, their motivations for going into entrepreneurship are often to develop new technologies, reach under-served markets, and advance the development of their communities, with less regard for monetary factors and personal career agendas.

> Entrepreneurs: Key drivers for starting a business



Develop new technologies or products



Advance community development



Proactively change the world



Solve problems for people respondents strong identify with



Solve societal issues

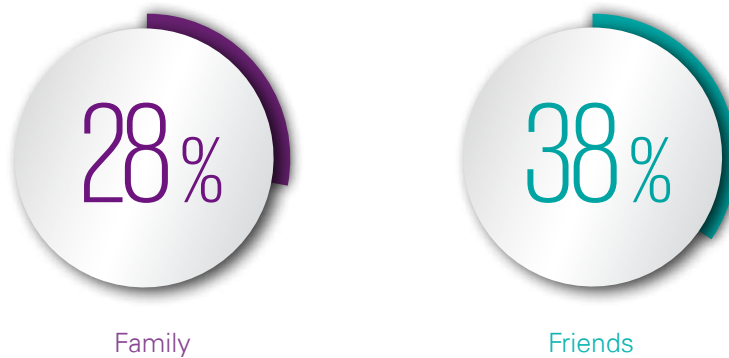


Make money and become rich

**Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*

This desire to drive change, however, is inhibited by a number of challenges. One of the key barriers to participation is the tendency of Hong Kong people to choose careers with more stable income at the expense of personal aspirations. The preference of more traditional career paths is reinforced by societal expectations, as support from family and friends is still low. This is reflected by the survey findings, with only 28% of student respondents believing that their family support an entrepreneurial career.

> Support for students to pursue entrepreneurship



Source: Joint KPMG/AEF Study

The study shows that entrepreneurs were fairly modest in the outlook of their ventures, with 48% expecting to only generate revenues under HKD 10 million by 2020. This has a knock-on effect on start-up investment, as many institutional investors would only invest in businesses that have strong growth potential. It is also part of the reason why start-ups in Hong Kong are having to rely so much on personal as well as family savings for financing. These findings reveal the need for Hong Kong to develop a stronger entrepreneurial mindset. Only 15% of entrepreneur respondents believe the city's entrepreneurial mindset can be considered a competitive edge.

To overcome these barriers and foster the development of the Hong Kong entrepreneurial ecosystem, the government and business sector have introduced multiple reforms, policies and initiatives to further spur innovation, including innovation hubs, co-working spaces and funding options. Hong Kong has attracted a number of world-class research institutes although our study also reveals that entrepreneurs often do not make use of these services and infrastructure, which includes official R&D support and mentoring.

While Hong Kong is currently considered as one of the top locations to launch a start-up, ranking third behind the Greater Bay Area and Singapore by student respondents, more can still be done to strengthen its entrepreneurial ecosystem. The study reveals that Hong Kong is yet to fully capitalise on its role as the gateway into mainland China, with only 31% of entrepreneur respondents indicating that the city's start-ups are collaborating well with their peers in the Greater Bay Area.

> **Entrepreneurs: Hong Kong start-ups are well connected with businesses in the Greater Bay Area**



Agree



Disagree



Neutral

> **Entrepreneurs: Hong Kong start-ups are making a difference to China's economy**



Agree



Disagree



Neutral

Source: Joint KPMG/AEF Study

The unique strategic position Hong Kong's core traditional industries enjoy is becoming less relevant in a digitised world. The shift from the physical transfer of products to the digital transfer of information has altered the market dynamic, with geographical location and language playing less important roles.

In order to better prepare Hong Kong for the disruptions of digitisation and the rise of the New Economy, our recommendations are structured to instil a greater sense of entrepreneurial purpose and improve Hong Kong's innovation capabilities. This includes:

- ★ **Facilitate the free flow of academics, research and development and business knowledge**
- ★ **Strengthen, expand and interconnect the network of experts across the Greater Bay Area and internationally**
- ★ **Improve capability, expand access to capital and financial services**
- ★ **Promote and simplify access to support services**
- ★ **Increase awareness of entrepreneurship through community engagement and participation**
- ★ **Enhance the development of the entrepreneurial mindset to support jobs of the future**

About the study

KPMG China and Alibaba Hong Kong Entrepreneurs Fund launched Transforming Hong Kong Through Entrepreneurship to analyse the development of the city's entrepreneurial landscape. This is the first of a multi-year study examining how Hong Kong develops the enablers for a vibrant entrepreneurial ecosystem, namely Purpose and Capability.

In addition, the study assesses the intended and actual impact entrepreneurship is having and identifies key gaps that need to be addressed to drive Hong Kong's New Economy.

To achieve these objectives, KPMG China and Alibaba Hong Kong Entrepreneurs Fund jointly engaged the market through multiple channels, including market analysis, online surveys and face-to-face interviews of seven start-up founders, government agencies, academics and other KOLs. Research was conducted in Hong Kong from March to May 2018.

Two online surveys were conducted, with all responses anonymised. In both surveys, we collected the respondents' views on the defining factors to drive entrepreneurship, the mindset required for entrepreneurship, the perception of Hong Kong as a start-up destination, and the potential impact of the Greater Bay Area initiative.

The first survey obtained responses from 100 business founders and entrepreneurs, while the second survey targeted Hong Kong's future leaders – over 300 university students interested in entrepreneurship. The respondents provided feedback on their personal aspirations, priorities and Hong Kong's readiness to adopt innovation and change.



Hong Kong's technology and innovation challenge



Hong Kong has a strong tradition of entrepreneurship

Hong Kong first emerged as a textile, manufacturing and export hub in the 1950s when entrepreneurs successfully capitalised on Hong Kong's unique geographic location within Asia. But by the 1970s, the city had already undergone another transformation as it became a services-based economy thanks to an ever-changing business environment, social dynamics and technological developments.

The modern Hong Kong economy is defined by its four pillars of - tourism, professional and producer services, financial services, as well as trade and logistics. The city is also recognised as the gateway to mainland China as Hong Kong possesses many of the infrastructure elements to sustain a vibrant economy.

In 2017, Hong Kong was ranked 6th in the World Economic Forum's Global Competitive Index². The index assesses the legal and administrative frameworks, infrastructure efficiency, health and education, technological development, innovation, market size, quality of businesses, the macroeconomic environment, and labour, financial and goods market efficiency.



Innovation key to Hong Kong's long-term competitiveness

Given the rapid emergence of artificial intelligence, big data, FinTech and new digital platforms globally, there is a wider acknowledgment that Hong Kong needs to promote innovation and diversify its economy in order to maintain its long-term competitiveness.

A new generation of start-ups and companies are appearing, many of which are less dependent on traditional competitive differentiators. These newer firms are disrupting legacy businesses; bypassing barriers of entry through new digital technology and profoundly changing existing business models.

Importantly, these businesses are also helping to drive the transformation of traditional businesses. Innovative start-ups have the potential to support existing businesses grow, accelerate efficiencies and effectiveness, and improve financial performance with less capital intensive requirements.

The key questions now are whether Hong Kong's historic strengths are enough to sustain competitive leadership in the New Economy and how the society will respond, adapt and remain relevant to these changes.

2. The Global Competitiveness Report 2017-2018, September 2017, World Economic Forum, <http://reports.weforum.org/global-competitiveness-index-2017-2018/competitiveness-rankings/>

Purpose and Capability: Assessing entrepreneurial factors



A strong sense of Purpose and supporting Capability are both required to drive entrepreneurship

Fostering a robust and sustainable innovation ecosystem requires a great deal of effort to determine where to start, what is important, and how to focus on activities that would develop measurable outcomes. The KPMG Entrepreneur Efficacy Framework breaks this complexity down by assessing the ecosystem via two dimensions:

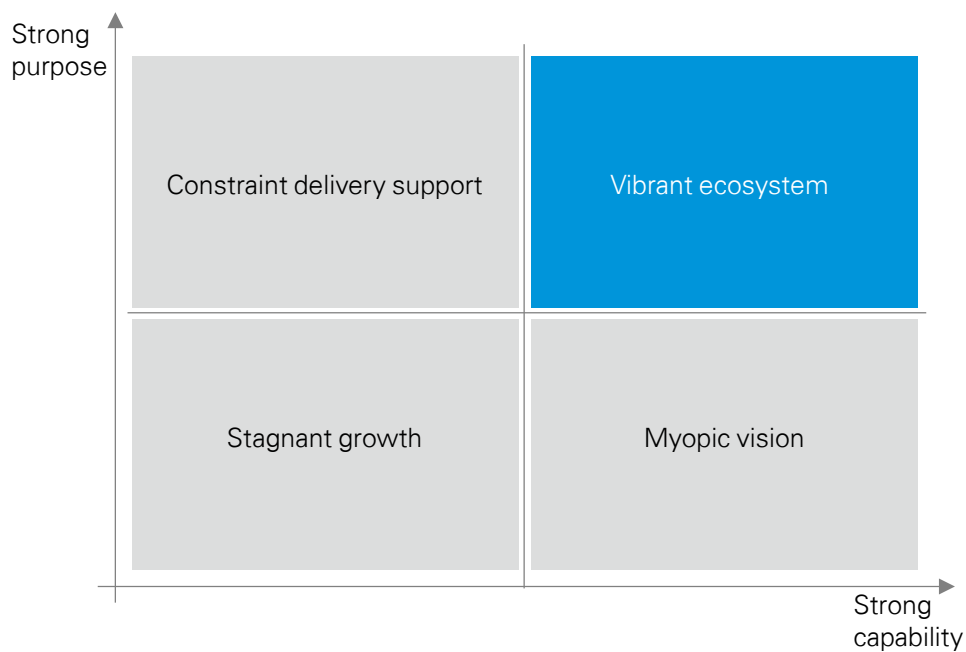
- **Purpose:** The existence of entrepreneurs with a vision, ambition and mindset to drive innovation. Entrepreneurs with a strong sense of purpose question the way things operate in the existing environment, identify issues that need addressing and come with innovative new solutions without waiting for others to supply answers.
- **Capability:** The existence of effective, relevant and enabling support structures which empower entrepreneurs to realise their vision. They include good infrastructure, readily accessible capital and staff with the appropriate technical skills.

A vibrant entrepreneurial ecosystem calls for a balance between purpose and capability. Innovative ideas can only be commercialised under the right environment and with the necessary support, while an ecosystem with strong capabilities, but lack purpose, will struggle to sustain innovation and drive the economy forward.

Many of Hong Kong's current investment, infrastructure and policies cover elements of capabilities, yet fostering a strong sense of purpose and entrepreneurial spirit is equally important to create an international innovation and technology hub.



> The Purpose vs. Capability Matrix



In the following sections, we will examine the Hong Kong entrepreneur landscape through the lens of our Entrepreneur Efficacy Framework.

Purpose: Combining personal values with commercial ambition



Tony Wong

Co-founder of
Shopline

“Being an entrepreneur is about finding a problem that concerns you passionately, then being resourceful in finding a way to solve it. It is all about being a problem solver.”

Purpose is defined as the degree to which an innovation or technology hub has entrepreneurs with a vision, ambition and mindset to drive innovation. Entrepreneurs with a strong sense of purpose question the way things operate in the existing environment, identify issues that need addressing and come with innovative new solutions without waiting for others to supply answers.



Aspiring Hong Kong entrepreneurs are hungry to make a societal difference and believe entrepreneurship benefits the society

Our study shows aspiring Hong Kong entrepreneurs are driven by a desire to contribute and make Hong Kong a better place. They identified the development of new ideas, addressing social problems, keeping society dynamic and ready for the future as the greatest contributions of entrepreneurship.

This sense of purpose is also apparent in entrepreneurs as advancing the development of the community (87%), playing a proactive role in changing the world (82%) and solving problems for people they strongly identified with (81%) were among the top reasons why they decided to start their own ventures.

The findings show there is a positive correlation between having a strong sense of purpose and becoming an entrepreneur. As a result, fostering a greater sense of purpose in our youth is critical to establishing a thriving innovation and entrepreneurial ecosystem in Hong Kong.

> Entrepreneurs: Main reasons for starting their own business



Develop new technologies or products



Advance community development



Proactively change the world



Solve problems for people respondents strong identify with



Solve societal issues



Make money and become rich

**Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*

> Students: Contribution of entrepreneurship to society



Develop new ideas



Solve social issues



Keep society dynamic and ready for the future



Create opportunities for youth

**Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*



Entrepreneurs must change their mindset to overcome the high cost of doing business in Hong Kong

Whilst there is a desire to drive change, there are hurdles inhibiting the growth of entrepreneurship in Hong Kong.

The top challenge for starting a business in Hong Kong identified by survey respondents is the high cost of operating a business in the city. This, however, should not be viewed as a game breaker. While Hong Kong is an expensive city to live or operate in, so are other technology and innovation hubs globally such as San Francisco, Beijing and London. These cities face many similar issues such as high property prices, rental rates, wages and cost of living, yet are still able to develop vibrant entrepreneurial ecosystems.

The key differentiator is how founders are able to address such obstacles – whether that be increased adoption of technology, utilising skilled resources in other adjacent cities and using the high cost as impetus to consider how they can develop solutions for consumers and corporates.

> Key challenges of entrepreneurship in Hong Kong

Entrepreneurs



Cost of doing business



Access to talent



Risk taking

Students



Cost of doing business



Global competition



Digital disruption

**Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*



Societal expectations are hindering entrepreneurship

Another major barrier to becoming an entrepreneur is the tendency to choose careers with more stable income at the expense of personal aspirations.

In particular, the prestige of working in the financial services sector overshadows careers in STEAM (Science, Technology, Engineering, Arts and Mathematics) or entrepreneurship. The direct consequence of this is the lack of talent required to support innovation or new ventures.

Such societal expectations are reflected by the low level of support from family and friends to pursue entrepreneurship. Even though approximately 40% of student respondents came from families with their own businesses, only 28% believed their family would support an entrepreneurial career.

The long-term growth of entrepreneurship in Hong Kong therefore hinges on how the city embraces entrepreneurial culture and encourages more people to take bolder actions.

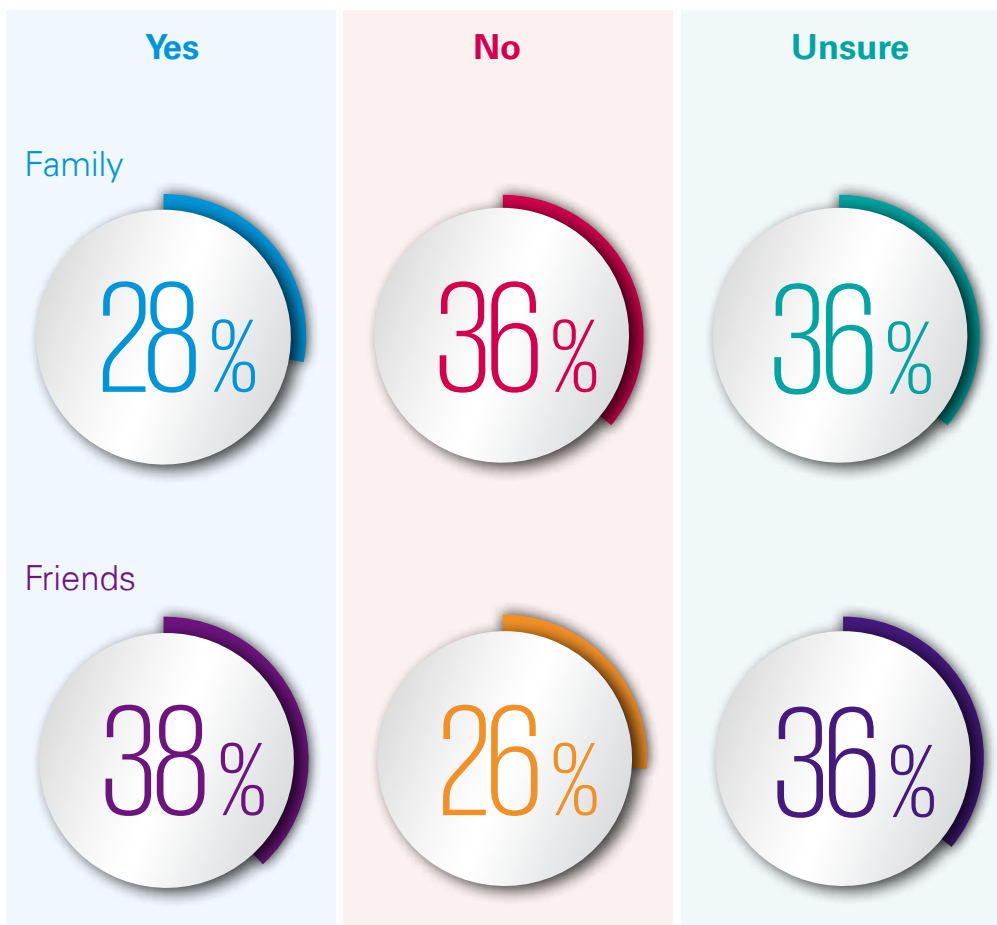


Steven Lam

Founder,
GoGoVan

“Investors in Hong Kong are less attracted by the higher risk profiles of start-ups. They would rather gain more stable returns from the securities and property markets.”

> Students: Support from family and friends to pursue entrepreneurship



*Respondents were asked to select multiple options

Source: Joint KPMG/AEF Study



Entrepreneurs must start tapping into new sources of capital

Many Hong Kong small-medium businesses at the early stage have traditionally utilised personal savings to finance their operations and entrepreneurs are still getting accustomed to securing new forms of capital. Encouraging early stage businesses to diversify their sources of capital will be key to the long-term development of entrepreneurship, as it would propel start-ups to grow faster and bigger.

> Entrepreneurs: Primary sources of start-up capital



Personal savings



Family savings



Re-investment



Government funds



Business angels



Friends



Venture capital funds

**Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*



Hong Kong must continue to adopt an entrepreneurial mindset to maintain its competitive edge

Hong Kong is seen as having a number of competitive advantages, including the ease of doing business (53% agree), geographic location (43%) and tax or other incentives (32%). For all of these advantages, however, there are a number of characteristics that need to be addressed for Hong Kong to remain competitive.

Based on our study, only 15% of entrepreneur respondents believe the city's entrepreneurial mindset is a key competitive edge, which reveals the need for Hong Kong to develop a stronger entrepreneurial mindset.

> Entrepreneurs: Hong Kong's key competitive edge

Top 3



Ease of doing business



Geographical location



Tax or other government incentives

Bottom 3



Entrepreneurial mindset



Regulatory landscape



Access to suppliers

** Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*

Additionally, given Hong Kong's status as a regional trading and logistics hub, it is surprising to find that so few entrepreneurs surveyed find the city's access to suppliers to be a competitive advantage. This highlights a gap in supplier availability, which business founders can overcome by leveraging capabilities not only in Hong Kong, but across the region.



Think like a Unicorn

A unicorn is a privately held start-up company valued at over USD 1 billion. The term was first coined in 2013 to represent the rarity of such successful ventures.

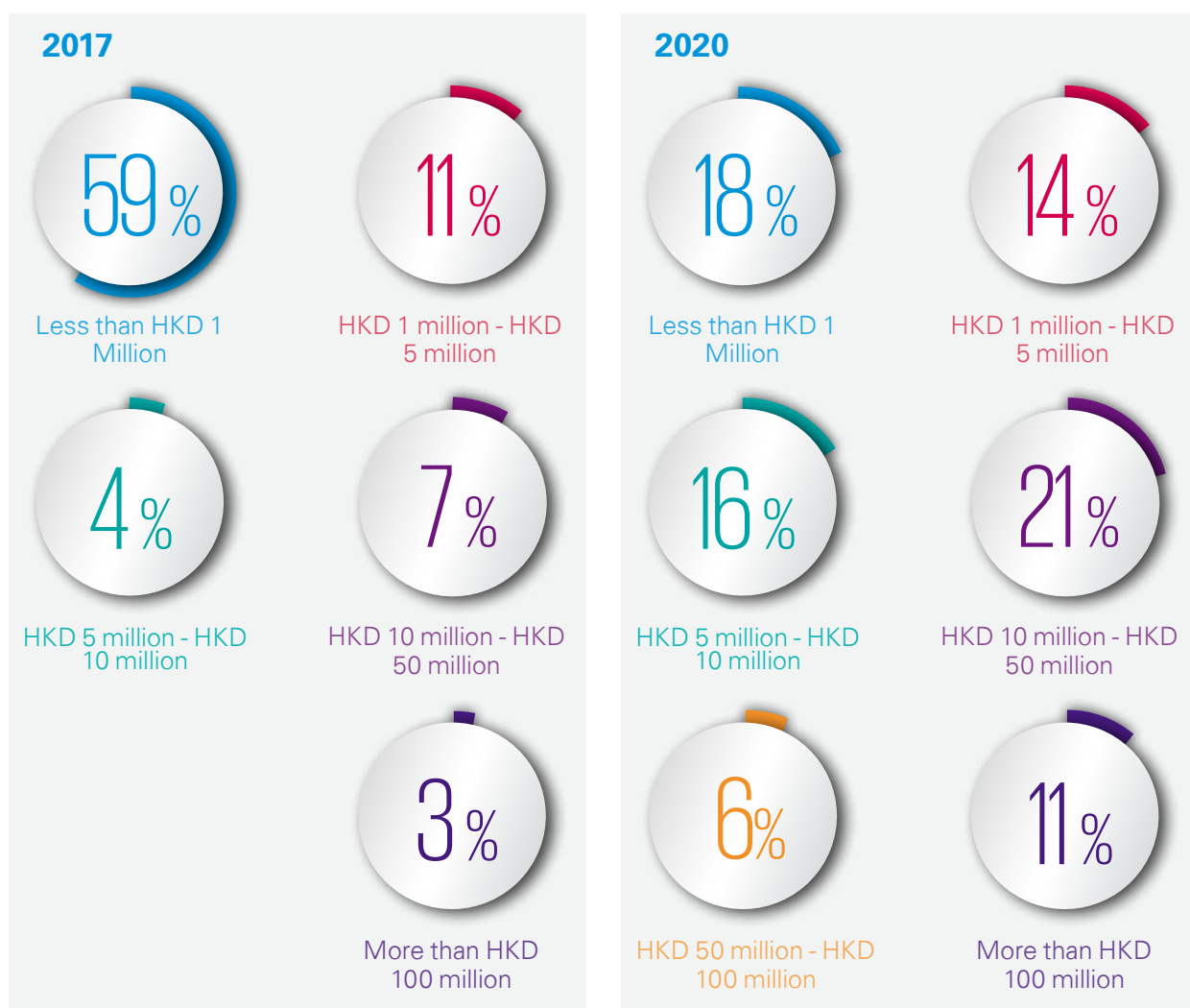
The study findings reveal that entrepreneurs in Hong Kong are not offering a compelling business case to attract investors.

Entrepreneurs were only moderately optimistic of the business outlook of their ventures, with 48% expecting to generate revenues under HKD 10 million by 2020.

It is important entrepreneurs reassess whether they are ambitious enough to attract funding from institutional funds. This is an issue Hong Kong needs to address in order to produce a next generation of Unicorns rather than SMEs.

To grow their businesses, Hong Kong entrepreneurs need to look beyond the confines of the domestic market, and start exploring opportunities arising in the mainland, regionally and globally.

> Entrepreneurs: Business performance and forecast



Source: Joint KPMG/AEF Study

Capabilities: Understanding Hong Kong's unique entrepreneurial potential

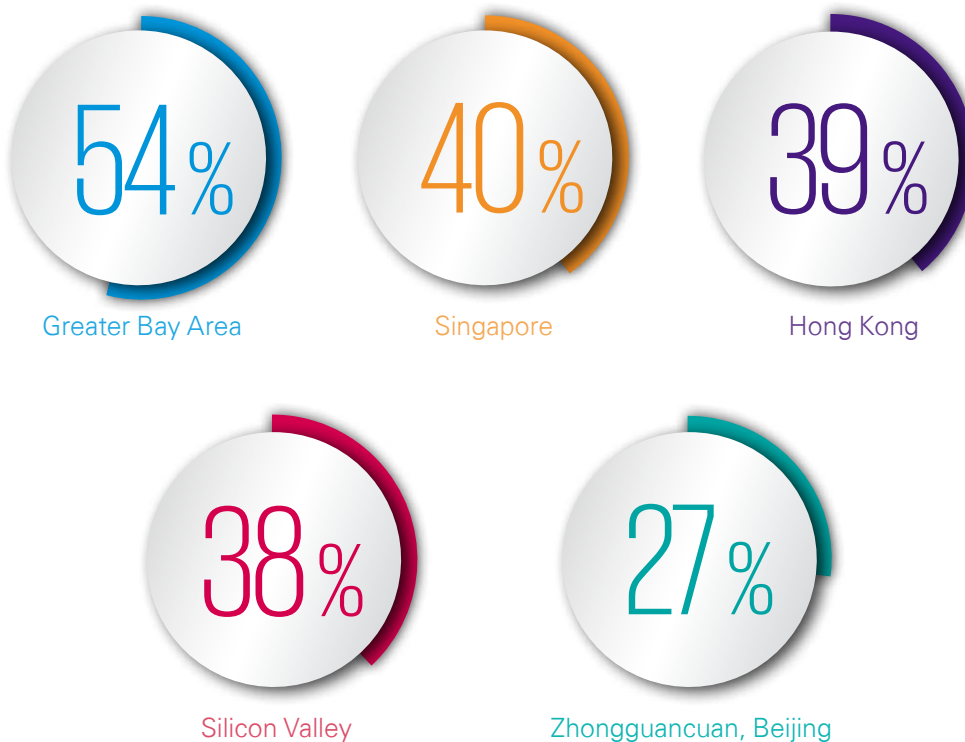
Capability is defined as the existence of effective, relevant enabling support structures which empower entrepreneurs realise their vision. They include good infrastructure, readily accessible capital and people with the appropriate technical skills.



Hong Kong is a good place to become an entrepreneur and start a business

Our study shows that student respondents see Hong Kong as a leading start-up hub, with the city ranked as the third best place to become an entrepreneur and start a business. Significantly, the Greater Bay Area came first in the rankings, as respondents felt the business environment and potential opportunities were stronger than Silicon Valley, Singapore and other global innovation hubs.

> Students: The best locations to start a business



**Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*



Jack Ma

Co-founder and Executive Chairman, Alibaba Group

"Don't wait for the environment to be ready.

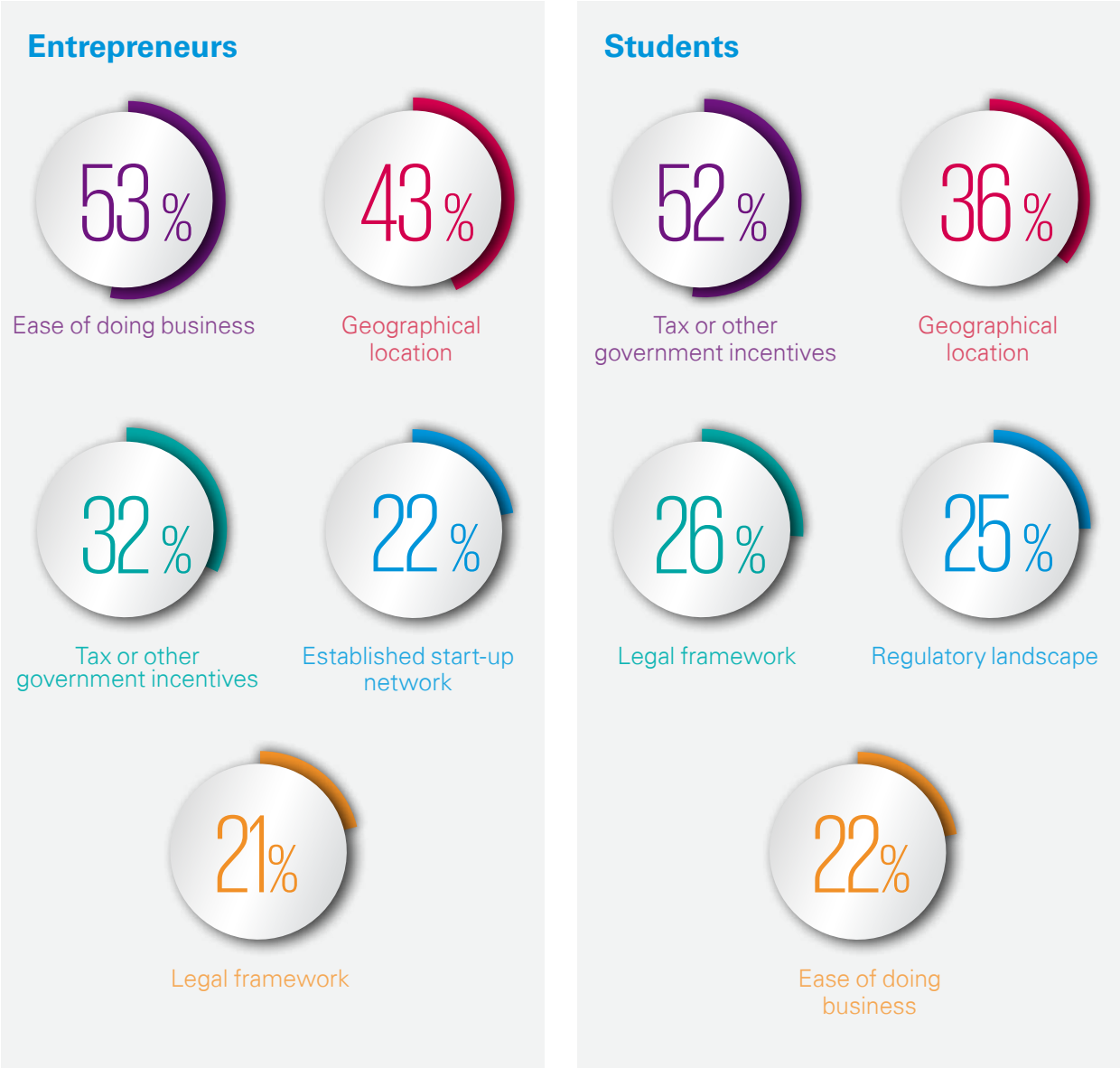
Don't wait for government policies to be ready.

When everything is ready, there are very little opportunities left."



This positivity is driven by the city’s favourable tax regime, prime geographical location and strong institutional frameworks such as its legal regime and regulatory landscape – the top advantages to start a business in Hong Kong as highlighted by both entrepreneur and student respondents.

> Hong Kong’s main advantages as a start-up hub



**Respondents were asked to select multiple options*
Source: Joint KPMG/AEF Study



More can be done to strengthen Hong Kong's capabilities

In recent years, Hong Kong has focused on delivering the capabilities to transform the city into a regional technology, innovation and entrepreneurial hub. There has been an increased focus on innovation among the private sector. Co-working spaces, incubators, accelerators and innovation labs, providing entrepreneurs with the space, resources and support to grow their ventures have sprung up throughout Hong Kong. Other recent changes helping support capability include:

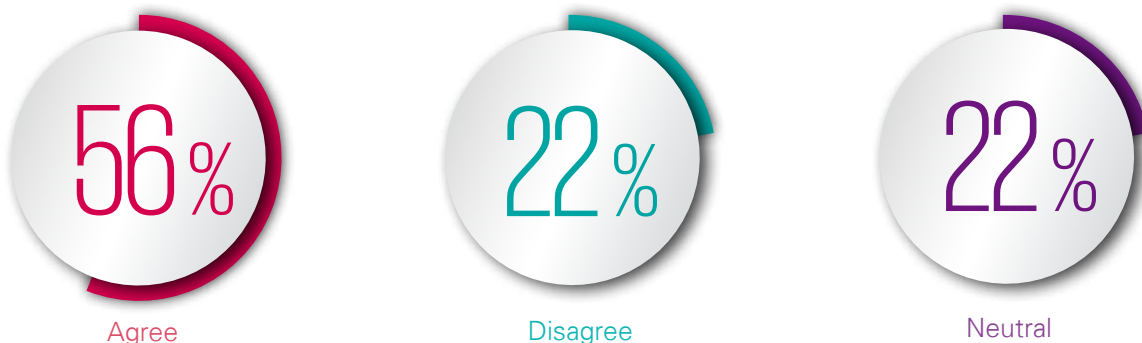
- ★ A significant increase in government grant support for research and development, with Chief Executive Carrie Lam pledging to double the city's R&D spending from 0.73% to 1.5% of GDP within her first term of office³.
- ★ Beijing has announced that it would boost funding access and support to Hong Kong scientists, enabling Hong Kong-based scientists to use central government grants⁴.
- ★ Technology Talent Admission Scheme, which offers fast-track arrangements to technology companies in the Hong Kong Science and Technology Park and Cyberport to bring skilled staff from the mainland and abroad.

Hong Kong's status as the 'super-connector' between China and the rest of the world is likely to be further boosted by the Greater Bay Area initiative as well as the Lok Ma Chau Loop Innovation and Technology Park – a proposed hi-tech development located at the border between Hong Kong and Shenzhen.

In addition, recent listing reforms introduced by the Hong Kong Stock Exchange, will facilitate listings of new economy businesses. This provides companies from emerging and innovative industries an extra funding avenue, which in turn can breed competition and innovation.

The combination of these initiatives and other support policies meant more than half of the entrepreneurs and students surveyed felt Hong Kong's start-up ecosystem is dynamic and vibrant.

➤ Entrepreneurs: Hong Kong has a vibrant start-up landscape



Source: Joint KPMG/AEF Study

3/5. The Chief Executive's 2017 Policy Address, October 2017, Office of the Chief Executive Hong Kong Special Administrative Region People's Republic of China, <http://www.info.gov.hk/gia/general/201710/11/P2017101100290.htm>

4. Forum on Mainland-HK Cooperation in I&T explores new co-operation opportunities, May 2018, Forum on Mainland-HK Cooperation in I&T, <http://www.info.gov.hk/gia/general/201805/15/P2018051500680.htm>



Hong Kong needs to maximise its role as the gateway into mainland China



Norma Chu

Founder and CEO
Daydaycook

“Hong Kong brands benefit from a perception of quality in mainland China.

Other than that, the geographical advantage Hong Kong has when it comes to targeting the Chinese market does not always exist or not as much as it could”

While Hong Kong does possess a number of strong capabilities, the city is yet to maximise its potential as a business or entrepreneurial hub. For example, even though ‘geographical location’ was highlighted as Hong Kong’s second most important competitive edge by respondents, several interviewees indicated that the city does not enjoy a significant advantage over other innovation and technology hubs in terms of penetrating the mainland China market. This is in spite of its market positioning as the premium gateway into mainland China.

One reason for that is because the unique advantage Hong Kong’s core traditional industries enjoy is becoming less relevant in a digitised world. The shift from the physical transfer of products to the digital transfer of information has altered the market dynamic, with geographical location and language playing less important roles.

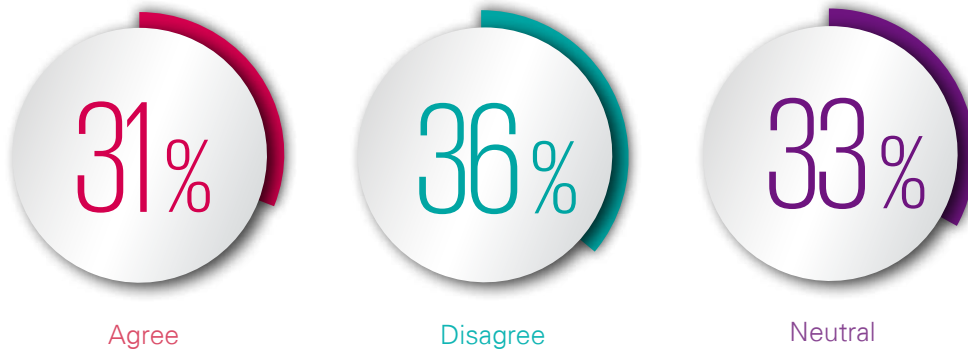
The Greater Bay Area initiative presents a great opportunity for Hong Kong to strengthen its linkage with the mainland China market. But with just 31% of entrepreneur respondents highlighting that Hong Kong start-ups are well-connected with businesses in the Greater Bay Area, it is imperative for all relevant stakeholders to collaborate and conjure effective solutions to turn the initiative into a success. Creating an interlinked city cluster in southern China would not only open new markets, but also address gaps in talent and suppliers for Hong Kong start-ups.

Professor Wei Shyy of the Hong Kong University of Science and Technology noted that “the greater collaboration with the mainland can encourage a more expansive vision for start-ups and the population in general. Hong Kong’s strategic location, especially its complementarity with Shenzhen, its role in the Greater Bay Area and the Belt and Road Initiative, offer the potential for the city to look beyond its domestic market of 7.4 million individuals.”

By focusing on this ‘complementarity’, Hong Kong start-ups can play a special role in China’s ongoing economic development and drive a real difference.

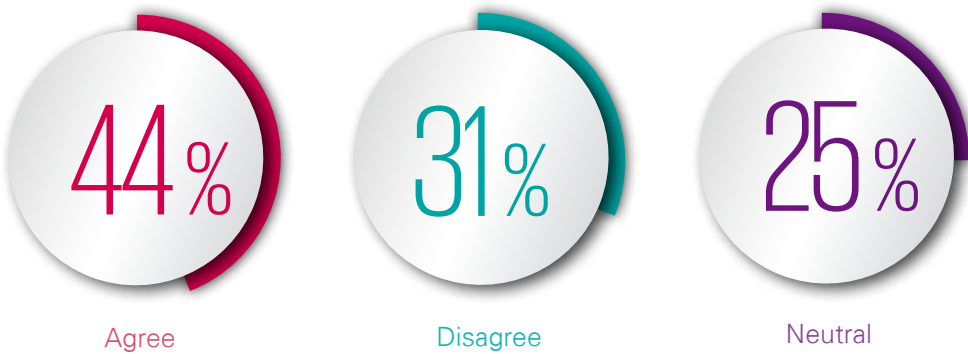
6. Hong Kong’s listing regime enters new era, featuring emerging and innovative firms, April 2018, HKEX, https://www.hkex.com.hk/News/News-Release/2018/180424news?sc_lang=en

> **Entrepreneurs: Hong Kong start-ups are well connected with businesses in the Greater Bay Area**



Source: Joint KPMG/AEF Study

> **Entrepreneurs: Hong Kong start-ups are making a difference to China's economy**



Source: Joint KPMG/AEF Study



Entrepreneurs are not leveraging mentoring or other success enablers

Our study reveals that entrepreneurs are not fully capitalising on the range of support services provided by public or private entities. When asked about the type of start-up support they often employ, none of the options provided were selected by more than a third of entrepreneur respondents. Mentoring, in particular, is regarded in other innovation hubs as a key growth driver, but with only 10% of founders using mentors regularly, there is a risk that many entrepreneurs in Hong Kong are foregoing an important source of ideas that could help accelerate the growth and scale of their businesses.

> Entrepreneurs: Use of start-up ecosystem support



Mentoring



R&D support



Legal support



Pitching competitions



Accelerators/Incubators



Conferences



Co-working spaces

** Respondents were asked to select multiple options
Source: Joint KPMG/AEF Study*

Suggestions to further enhance entrepreneurship in Hong Kong

To instil a strong sense of purpose and improve Hong Kong's innovation capabilities and entrepreneurial ecosystem, we have the following recommendations:



- ★ **Facilitate the free flow of academics, research and development and business knowledge**
- ★ **Strengthen, expand and interconnect the network of experts across the Greater Bay Area and internationally**
- ★ **Improve capability, expand access to capital and financial services**
- ★ **Promote and simplify access to support services**
- ★ **Increase awareness of entrepreneurship through community engagement and participation**
- ★ **Enhance the development of the entrepreneurial mindset to support jobs of the future**



Facilitate the free flow of academics, research and development and business knowledge



Irene Chu

Partner, Head of New Economy and Life Sciences, Hong Kong, KPMG China

“Access to high quality mentoring, whether that be external advisors or successful founders, is critical to accelerating the Hong Kong entrepreneurial landscape and the development of world-class innovative products and services.”

A missing piece observed in the Hong Kong entrepreneurial ecosystem is the limited use of R&D and academic facilities as resource for R&D activities. Improving this usage of these resources could help resolve talent shortage and improve commercialisation ideas and overturn the perceived low effectiveness of R&D resources in Hong Kong. Achieving the free flow of academics and R&D requires:

1. Innovation hubs (both government and private), local universities and the public sector to promote **greater collaboration** between universities across the Greater Bay Area, while increasing the incentives to enhance the flow of knowledge.
2. Support the recruitment of more mainland Chinese and foreign researchers into Hong Kong. This would enable Hong Kong to build on a much broader knowledge and research base, increasing not only the volume of R&D, but also its quality and forming a sustainable network.
3. Government to refine the **Double Tax Agreement** (DTA) between Hong Kong and mainland China. This would enable researchers, teachers and other professionals to pay home taxes for a period of three years without the risk of double taxation.





Strengthen, expand and interconnect the network of experts across the Greater Bay Area and internationally

The low perceived value of mentors in Hong Kong is troubling. Without a large array of high-quality external experts and other early stage start-up support, the probability of the Hong Kong technology hub gaining critical mass and shared learned expertise will remain low.

Based on our experience, enabling greater access to experts with hands-on industry and entrepreneurship experience can help to de-risk the negative effects of rapid commercialisation and increasing ambition. External advisors should not be confined to successful entrepreneurs, but should also consist of subject experts. Advisors can either join the platform on a voluntary basis or are incentivised to provide insights in exchange of monetary benefits or an equity stake in the venture they are helping.

This would improve the quality of local start-ups, providing them with valuable experience and insights on how to properly manage and grow their business ventures. Moreover, enlisting the help of overseas experts would also expand the horizons of Hong Kong entrepreneurs, encouraging them to look beyond the city's borders and into larger regional or even global markets.

Recognising that the adoption and perceived effectiveness of many existing mentoring programmes are low. We propose to:

1. Further open and simplify **visa application** processes to allow businesses outside of Hong Kong Science and Technology Park and Cyberport to bring in technology and research talents and experts from mainland China and abroad.
2. **Create a network of associations, industrialists and family businesses** that can be utilised by start-up founders to create mutually beneficial outcomes. In addition to bringing technical and financial knowledge, they can leverage their supply chain connections and capabilities to benefit entrepreneurs in Hong Kong and the mainland. Conversely, traditional Hong Kong businesses can also gain from this development by increasing their exposure to innovative business models and technologies.
3. **Encourage private and public sectors to contribute to an effective mentoring networks and platforms.** Good and effective mentoring for start-up founders not only improves the performance of their businesses, but also contributes to a strong mentoring culture in the society. Hong Kong can consider establishing honorary mentors in residence positions within certain public and corporate innovation programs. This would facilitate international experts to physically bring their expertise and insight to Hong Kong.
4. **With the opening up of Hong Kong-Zhuhai-Macau bridge and the Guangzhou-Hong Kong Special Rail Link, it would be beneficial to establish a more open and active mentor platform** that connects experts, seasonal entrepreneurs and investors in Hong Kong and the rest of the Greater Bay Area to facilitate better understanding and exchange of business knowledge and expertise.



Improve capability, expand access to capital and financial services

Hong Kong is a leading financial services centre and asset management hub in Asia. The number of VC funds that have set up in Hong Kong to meet the demand for capital by start-ups and innovators continues to grow.

Recently, Hong Kong has been reviewing its existing tax rules and incentives to ensure the city remains competitive as a place for VC funds to set up operations. The Government's new Innovation Fund, designed to allocate capital alongside VC funds into entrepreneurial and start-up investments in Hong Kong, is one such initiative to promote the sector.

However, there remains a sense by entrepreneurs that capital remains difficult to access and as such, they continue to rely heavily on personal savings to accelerate speed to market. More needs to be done to make available the capital start-ups and innovators require. The ability to access capital from traditional funding sources – such as banks – is elusive for many start-ups. Consequently, VC is fast becoming an alternative for start-ups.

Apart from access to capital, access to financial services can be onerous for start-ups and emerging businesses, disrupting their day-to-day business activities.

To attract international start-ups and encourage local talent participation, funding and capital along with access to financial services improvements should include:

1. **Make Hong Kong attractive for international and cross-border VC flows.** As the Hong Kong entrepreneurial landscape continues to develop, the demand for VC will increase. The near and medium term policies and incentives should focus on attracting more international VC investment funds and cross-border VC activities. Further, the tax regime that applies to alternative investment funds must ensure that VC funds are not restricted from investing into Hong Kong start-ups. Hong Kong entrepreneurs and innovators need access to such capital so it is fundamentally important that VC funds are able to invest directly into Hong Kong businesses without contravening tax exemption rules.
2. **Increase visibility and access to debt financing.** In recent years, private debt and credit funds have been growing rapidly to provide the necessary funding to business in Hong Kong. Their need is evident as the available credit from traditional funding providers has been harder to access for early stage businesses. The government needs to ensure that its range of debt financing services is broad enough to provide start-ups and early stage businesses the required funding.
3. **Continue capital markets reform for New Economy businesses.** The Hong Kong Stock Exchange has recently allowed the listings of pre-revenue biotech companies and New Economy companies with weighted-voting right structures. This is a landmark development for Hong Kong's entrepreneurial ecosystem as it provides many start-ups a new channel to access capital. Further reforms will encourage the growth of the city's start-up community and reinforce its ambition to become a financing hub for New Economy companies.

4. **Encourage innovation in financial services provided to start-ups and promote greater financial inclusion by making it easier for start-ups to access financial services.** The HKMA has launched an initiative to promote the establishment in Hong Kong of Virtual Banks which promote the application of financial technology and innovation in Hong Kong. The successful establishment in Hong Kong of a number of these Virtual Banks can improve the access which SMEs have to financial services through innovations such as electronic account opening and the application of new credit risk management technologies to facilitate greater access for SMEs to debt financing. Electronic account opening in particular can help to address the widely publicised difficulties experienced by SMEs and start-ups in opening bank accounts in Hong Kong.

While business fundamentals and growth opportunities will always be the key to raising capital and financial services, continued reform of its capital markets is a step in the right direction. Further enabling and facilitating access to capital and financial services for New Economy companies in different sectors will be beneficial to the long-term development of the entrepreneurial ecosystem.



Promote and simplify access to support services

Hong Kong has many tax and government incentives in place, including recent developments such as the 200% tax write off to encourage enterprises to invest in R&D⁷ and the Innovation and Technology fund⁸. Its favourable tax and regulatory regime is seen as its key strengths by the entrepreneurs surveyed. In spite of the many support services and incentives, it can be a challenge for start-ups to figure out just what help is available, which is most applicable, and how to apply.

1. **Streamline and digitise the application journey**

We propose an overhaul of the existing application procedures by:

- ★ **Being more proactive in raising public awareness of government incentive programs and reaching out to the community to explain and provide updates;**
- ★ **Consolidate, streamline and digitise the application process for all government incentives and grants towards entrepreneurs and small businesses. Promote the use of a single, digitised application template for all government-related incentive programs**
- ★ **Apply advanced analytics to track applicants' decision journey; from discovering to applying the right programs.**

2. While larger corporates are able to recruit talent from outside of Hong Kong, smaller companies with fewer resources and knowledge of Hong Kong employment regulations may find it difficult to do the same. We propose an incentive to bring in mainland Chinese or other international talent with **designated technical or New Economy skills** and accelerated **pathway for visa approval**.

7. New tax plan announced, October 2017, Hong Kong's Information Services Department, http://www.news.gov.hk/en/categories/finance/html/2017/10/20171011_101341.shtml

8. Innovation and Technology Fund, <https://www.itf.gov.hk/>



Increase community engagement and participation

Digitisation and the emergence of the New Economy has led to plenty of disruptions to traditional companies, industries, mindset and ways of doing business. With so many aspects being challenged, it is important to bring all facets of Hong Kong along for the journey. Our experiences show that the relationship between the government, regulators, corporates, investors and start-ups can be strengthened through improved dialogue and interaction.

1. Launch a government-led programme to actively **engage and address public concerns** over the pace of technological adoption.
2. **Focus on Hong Kong's strengths**, rather than its weaknesses. The city should be proud of its global standing, with Hong Kong already ranked 11th, alongside France, the US and Israel for technology readiness by The Economist⁹. Emphasising on Hong Kong's success and progress will help motivate and encourage more innovation as well as capability.
3. This should culminate with a city-wide initiative that **brings all sections of the entrepreneurial ecosystem together** through a series of public exhibitions, conventions, forums, and ideation campaigns to foster stronger societal involvement.

9. Preparing for disruption Technological Readiness Ranking. A report by The Economist Intelligence Unit. June 2018





Enhance the development of the entrepreneurial mindset to support jobs of the future

The development of New Economies in Hong Kong is not solely dependent on the emergence of entrepreneurs. Given the pace and scale of disruption caused by technological advancement, Hong Kong will require a workforce that is capable to support such advancement. Hong Kong's education system, however, is not geared to prepare future generations for jobs of the future

Many Hong Kong universities encourage internships to foster a deeper understanding of how different businesses operate. However, a large portion of students in Hong Kong would only choose to have their internships at large, established firms as they see it an opportunity to get an early start in the corporate world.

To foster entrepreneurship and the required mindset at the grassroots level, we propose the following:

1. **Continue education reforms to build a relevant workforce.** According to the World Economic Forum¹⁰, 65% of children entering primary schools will end up working in jobs that have yet to exist today. Although being an entrepreneur is not fit for everyone, there is a need to recognise that developing an entrepreneurial mindset is important to create a workforce that is resourceful and adaptable. Education reforms should aim to prepare future generations on how they can contribute and remain relevant in times of technological advancement.
2. **Support smaller companies and family businesses** to tap into a larger and more consistent pool of interns with STEAM skills. As most start-ups operate under tight budget constraints, they will benefit from the additional human capital. In return, interns are able to gain first-hand experience of the Hong Kong start-up community.
3. Include entrepreneur-related lessons into the secondary **school curriculum** or as an extracurricular activity. This would provide the younger generation the experience to start and run a business, which could potentially invoke their passion for entrepreneurship.
4. **Celebrate 'learned wisdom' rather than 'fearing failure'.** The entrepreneurial mindset often obsesses on the principle of 'failing fast'. While this principle may work well in Agile development where the cost and effort is contained, 'failing fast' can be scary when it comes to personal fortune and reputation. Given that Hong Kong is traditionally quite risk adverse, we recommend corporates and business groups to advocate the concept of 'learned wisdom' – the process of gaining knowledge through experience and to persist to success. 'Learned wisdom' is essentially about making correction and learning from mistakes.

For example, India's Tata Group, has been giving out a 'Dare to try' award to employees in recognition of their failed attempts at innovation. The idea is to encourage and promote the 'risk-taking' capability that is necessary for innovation¹¹.

10. World Economic Forum, The Future of Jobs, <http://reports.weforum.org/future-of-jobs-2016/chapter-1-the-future-of-jobs-and-skills/>

11. Tata Group's Innovista per Tata Group's website <http://www.tata.com/article/inside/xqkFEPuQpBE=/TLYr3YPkMU=>

Insights: Antony Leung

Group Chairman and CEO, Nan Fung Group

Group Chairman and CEO, New Frontier Group



Innovation is becoming more and more important globally as developments in new technologies are disrupting traditional businesses and practices every day. Hong Kong needs to be well prepared and embrace such global disruptive trends in order to maintain our competitiveness in this increasingly VUCA world (Volatile, Uncertain, Complex and Ambiguous) according to Antony Leung, Chairman of Nan Fung Group who is also a Co-Founder and Chairman of New Frontier Group.

Leung, who was the former Financial Secretary of Hong Kong and is also the Steering Committee Convenor of Education 2.1, a group dedicated to enhance Hong Kong's education, thinks the key lies in our education. "Hong Kong should improve our education in STEAM as well as providing other learning experience to equip our younger generation with the necessary attributes including creativity, teamwork, leadership skill, grit, self-control, self-confidence and entrepreneurship, and positive values for them," Leung adds. "Our economy is at a point of transformation with a lot of opportunities presented by the "Belt & Road" and "Greater Bay Area" initiatives. In order to capture such possibilities, Hong Kong people will need to be well prepared. The university admission requirement should pay more attention to the achievements in STEAM, attributes and values that we talked about." Leung comments.

"When we think of innovation, we also have to broaden our mindset as innovation can take many other forms, not just in the form of technology," Leung explains, "Innovation also encompasses business process innovations." Regardless of which type of innovations one is pursuing, Leung thinks one thing remains critical which is the promotion of creativity. "We think Hong Kong has very good potential to develop into a global platform for I.C.E., which stands for Innovation, Creativity and Entrepreneurship"

Hong Kong has traditional strengths in many aspects, in particular related to talent attraction. "For a place to successfully develop its I.C.E., talent is the most critical resource. Hong Kong is very lucky to have a head-start already: we have four globally-top100-ranked universities in this city, and we have a lot of advantages including good security, a legal system based on common law regime and a sophisticated lifestyle. All these will appeal to talents, but we should not stop here. Government can consider more proactive policies to attract global talents and promote Hong Kong as a talent hub. We should take advantage of the xenophobia bias in parts the west, to attract and develop global talents."

Leung also encourages youngsters to widen their horizon and seize the opportunities presented by the Greater Bay Area. "Hong Kong market is too small compared to the

markets in the mainland and globally,” Leung notes, “but we have good foundations including world-renowned scientific research institutes and talent pools.”

One good example that Leung mentioned was the Lok Ma Chau Loop Innovation and Technology Park, which will be built on a stretch of land at the border between Hong Kong and Shenzhen. He believes the project can be a good example of how the life science industry will be able to benefit from the closer cooperation of the two sides. “This is a good start but more can be done. For example, scientists in the Park can be granted access to the vast market for clinical trials in the mainland, and human tissues and animals moving to and from this Park easily for research purpose should also be allowed. A more hassle-free cross border channel for targeted talents, and the relaxation of the 183-day rule of mainland taxation could also be considered for HK talents who need to commute to the mainland for work.”

Insights: Professor Wei Shyy

Acting President, Hong Kong University of Science and Technology



Hong Kong's entrepreneurial landscape has many strengths, but there are areas of improvements to be made before it can be considered a complete ecosystem, says Professor Wei Shyy, Acting President of Hong Kong University of Science and Technology.

The city's growing entrepreneurial scene is driven by interest and support for new technologies such as artificial intelligence. "We have a new Master's degree program on big data and technology, admitting 100 places a year, with 1,500 applicants trying to get in," he explains.

Wei notes that an increasing number of companies are approaching HKUST to collaborate in the development and application of new products and processes. The growing number of business incubators in the city also points to an increased appetite for launching potentially high-growth firms.

Moreover, the city has plenty of opportunities to tap into, especially in the development of the Greater Bay Area. Wei sees the landmark initiative as having the potential to evolve into a single business system linking Hong Kong and Macau with the nine cities of Guangdong. Companies that can therefore take advantage of Hong Kong's established methods and the ambition as well as financial prowess of the mainland will be the most likely candidates to succeed.

"Hong Kong should look at how it can align its strengths with those of Shenzhen, the Greater Bay Area and the rest of mainland China," says Wei. "Hong Kong's core strengths have always been its rule of law and focus on efficiency. These are characteristics that can contribute to improving China's overall competitiveness."

But other issues need addressing. In his eyes, Hong Kong businesses are becoming too conservative and risk-averse, which is in contrast to the more aggressive and ambitious nature of companies in Shenzhen and the rest of mainland China.

While universities can play a role in altering the conservative nature of the people such as promoting greater levels of self-belief and confidence, Wei says other sectors must also play their part.

The Hong Kong investment community, for example, tends to have a fairly low risk appetite and are generally unwilling to invest more into start-ups.

In addition, R&D in Hong Kong remains under-supported. "Many of the world's leading technology companies have operations in Hong Kong, but mostly as a centre for their sales and marketing activities," Wei explains. "Hong Kong needs to make a bigger push to persuade them to bring their core activities here in order to build a stronger research base."

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The Alibaba Hong Kong Entrepreneurs Fund is a not-for-profit initiative launched by the Alibaba Group in 2015. The Fund invests in startup companies with a Hong Kong nexus by encouraging innovation and entrepreneurship among the city's young. We also support the application of both research and innovation for the betterment of the city's community. As part of our investment program, we provide Hong Kong-based entrepreneurs with investment capital and strategic guidance to help them grow their businesses and penetrate global markets, by utilizing Alibaba's vast ecosystem. We also nurture Hong Kong's younger generation by running an internship program of our own. This program offers Hong Kong's graduates and students at tertiary institutions a chance to learn with us by providing valuable internship opportunities at Alibaba Group and our affiliate companies. We further support other organizations that share our mission of instilling entrepreneurship and creativity. For more information, please visit: <https://ent-fund.org>

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