THOUGHT LEADERSHIP
by Irene Chu and Patrick Kirby

Chu, Partner and Head of New Economy and Life Sciences, Hong Kong, and Kirby, Director of Technology, Media, Telecommunications and Innovation, Hong Kong for KPMG China, say Hong Kong has an opportunity to significantly improve its entrepreneurial landscape.

Hong Kong’s entrepreneur ecosystem at a “critical juncture”

A dynamic and vibrant start-up ecosystem in Hong Kong is critical to the city’s future success. In its quest to develop as an international innovation and technology (I&T) hub, the city is actively exploring where its greatest strengths and competitive advantages lie in the context of the new economy, and how it can leverage those strengths to create growth and opportunities.

KPMG China and Alibaba Hong Kong Entrepreneurs Fund recently released the second Transforming Hong Kong Through Entrepreneurship study, following up on last year’s study of entrepreneurs in Hong Kong start-ups and university students enrolled in local degree programmes. The study found that future growth of Hong Kong’s start-up ecosystem may be constrained if support is not better targeted to the needs of start-ups – particularly those that are progressing from early to growth stage.

At this critical juncture, Hong Kong has an opportunity to significantly improve its entrepreneurial landscape by focusing efforts on community support for start-ups, ambition and access to capital, the study suggests.

More education is still needed to improve access to funding

Entrepreneurs surveyed for the KPMG and Alibaba study say they plan to increase their use of formal sources of funding such as venture capital, government funding, bank loans and angel investors in the next three years. Yet, the findings suggest they are still heavily reliant on informal funding, with 70 percent currently using personal savings. Reasons identified for not using formal funding sources include the perception that it was not needed or that they would not qualify.

While it is possible for some start-ups to be internally funded, the high percentage is an indicator that the business model or sales ambition is not sufficient to grow and scale to a level which would attract capital from a competitive global market. Furthermore, it points to a potential mismatch between what types of business models founders and venture capital fund managers consider “innovative” and “highly scalable.”

Additional targeted support for emerging sectors is needed

In 2017, the Hong Kong SAR government announced four priority sectors for I&T investment: artificial intelligence, biotechnology, fintech and smart city. The study found that entrepreneurs were more likely to consider Hong Kong as an innovation hub for the fintech sector compared to the others. Two-thirds of entrepreneurs also agreed Hong Kong is well-positioned as a fintech innovation hub, compared with less than half who agree the same for the other three sectors. This suggests that for the other three strategic sectors, long-term investments and concerted efforts are needed to sustain their development and growth in the city.

Gaps in effectiveness of support services pose a risk to future vibrancy

Overall, entrepreneurs are making better use of support services, such as co-working spaces, pitching competitions and mentoring, compared with a year ago. However, the use and the effectiveness of these services tended to be higher for early stage start-ups as compared to growth stage and mature stage, suggesting a need for differentiated services targeted to post-prototype stage companies.

Next steps

Enabling Hong Kong to continue to improve its entrepreneurial ecosystem will require entrepreneurs, corporates, academics, and the general public to fully embrace change and take stake in the city’s future. Our recommendations include the following:

• Expand public and private support for growth stage and mature stage start-ups.
• Start-ups should prioritize formal funding by elevating their ambition, accelerating global market entry and engaging mentors.
• International private equity and venture capital firms should utilize changes to profit tax exemptions announced for Hong Kong, and the government should continue to promote these exemptions and Hong Kong as a regional fund management centre.
• All stakeholders should further focus on enabling open data, technology transfer and the commercialization of research in priority sectors.
• Hong Kong should better leverage the opportunities in the Greater Bay Area.
• As founders build technology start-ups, they should ensure they are also building a people business that enables growth.
• Government agencies, corporates and other industry players should better educate the wider community on the value of start-ups.

Only through working together to focus on Hong Kong’s long-term development can we make a lasting impact on the economy and society at large.