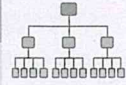


# Chapter 2 Introduction to Management

## Section 3

## Small and Medium Enterprises (SMEs)



1. D    2. C    3. A    4. D    5. C    6. B    7. D    8. A    9. D    10. B  
11. D    12. C    13. C    14. A    15. A    16. C    17. C    18. D    19. A    20. D  
21. B    22. A

1. **D**  
(1) and (3) are correct. Entrepreneurships bring newer and more diversified products to the market. This promotes a keener competition in the market.  
(2) is correct. Entrepreneurs make the best use of resources to lower the production costs and enhance their production efficiency. Thus, the prices of products become lower.
2. **C**  
Entrepreneurs like to bring in innovative products to the market. Without them, the existing companies will lose incentives to create new products to compete with others. Thus, products in the market are less diverse.  
A is incorrect. Without entrepreneurs who lead production activities and respond to market changes, production quality may not meet the demand of the customers.  
B is incorrect. Entrepreneurs are more willing to take risks and bring new ideas into the market. Without intensifying competitions between entrepreneurs, customers may suffer from fewer choices of goods in the market.  
D is incorrect. Without entrepreneurs who are willing to develop new supplies to compete in the market, the sources of supply of products are limited and there is a higher chance for an unstable supply of products.
3. **A**  
(1) is correct. His brother takes part in the management of the business.  
(2) is correct. Daniel's company mainly provides advertisement design services to small companies. This shows that its scale is smaller and focuses on markets in which large companies are not interested.  
(3) is incorrect. The descriptions do not provide any information that shows that the company is innovative, such as introducing new products.
4. **D**  
The role of SMEs to narrow the income gap is insignificant. SMEs only provide employment opportunities to the locals but this doesn't necessarily narrow the income disparity.  
A, B and C are the contributions of SMEs to the local economy. SMEs provide job opportunities to the locals (making up approximately 47% of total employment). They also widen the variety of products by introducing new products and services to the market. Moreover, they provide specialised goods and services to some particular customer groups in narrow markets as well.

5. **C**  
(1) is correct. In reality, some SMEs work with large companies as sub-contractors, providing services like logistics and repairs.  
(2) is correct. SMEs are relatively small in size and owned by individuals. Thus, they have limited sources of capital.  
(3) is incorrect. Both SMEs and large companies can be in the form of sole proprietorships, partnerships and limited companies. SMEs do not necessarily enjoy a lower profits tax rate than large companies.
6. **B**  
Trade and Industry Department defines SMEs as enterprises with less than 100 employees for manufacturing companies and less than 50 employees for non-manufacturing companies. The capital requirement and number of owners are not specified. Thus, only (2) is correct.
7. **D**  
SMEs can operate in the forms of sole proprietorships, partnerships or limited companies as long as they fulfil the requirements of the Trade and Industry Department.
8. **A**  
(1) is correct. SMEs normally have narrow sources of capital.  
(2) is correct. SMEs can operate in the form of partnerships or limited companies in which more than one person owns the businesses.  
(3) is incorrect. It is a characteristic of SMEs. Since SMEs have limited resources, it is common for them to operate their businesses locally.
9. **D**  
(1) is correct. SMEs improve themselves in order to survive in the market. This encourages competition in the economy.  
(2) is correct. Large companies cannot produce all the things needed for their operation. SMEs play a role in providing goods to them. In short, some SMEs are subcontractors of large businesses.  
(3) is correct. SMEs hire employees to operate the business, providing employment opportunities.
10. **B**  
The Trade and Industry Department defines SMEs as enterprises which employ fewer than 50 employees for non-manufacturing companies. As Superdoll Ltd is a non-manufacturing company and it has only 10 employees, it is regarded as a small and medium enterprise.
11. **D**  
(1) is correct. Nicholas introduces the new product PIGPIG to the market in order to compete with other competitors. This shows that entrepreneurship promotes competitions.  
(2) is correct. Nicholas organises the production of products. He makes good use of resources to operate the business.  
(3) is correct. Entrepreneurship enables Nicholas to introduce innovative products to the market.

12. **C**  
(1) is incorrect. An SME in manufacturing industry can employ a maximum of 100 persons instead of 50.  
(2) is correct. SMEs have a flat-type organisational structure which enables fast decision-making. In contrast, large companies have a tall organisational structure which hinders decision-making. Thus, SMEs have greater management flexibility than large companies.  
(3) is correct. SMEs can be in the form of sole proprietorships, partnerships and limited companies. Thus, it is possible that SMEs are owned by more than one person.
13. **C**  
Small businesses do not have sufficient capital to import the latest technology and advanced machinery. These are usually imported by large companies.
14. **A**  
(1) is correct. Support from small companies is required by large companies because large companies cannot produce everything they need for their operation.  
(2) is correct. Some market segments are insignificant that it is not profitable for large companies to take part in while small businesses can focus on these markets.  
(3) is incorrect. The capital of small businesses is usually limited. Small businesses lack capital to invest in research and development.
15. **A**  
(1) is correct. SMEs mainly rely on owners' personal savings or bank loans to finance the daily operation, so they have limited sources of capital.  
(2) is correct. SMEs usually have a simple organisational structure, and they have a high flexibility to make decisions to respond to market changes.  
(3) is incorrect. Operating costs of SMEs are not necessarily high.
16. **C**  
SMEs usually are businesses that do not have dominating power; thus, a chain store is the least likely to be an SME.
17. **C**  
(2) and (3) are correct. The market share of SMEs is not large enough to have any influence over the entire market. In addition, they have few staff members. Employees have to perform multiple tasks, so it is difficult to practice division of labour.  
(1) is incorrect. SMEs can be partnerships or small private limited companies which are owned by a small group of owners. Also, owners and their family members may take part in running the business.
18. **D**  
SMEs' owners can give customers and employees personal attention due to their small scale of operation, so they are able to build close relationship with customers and employees.

19. **A**
- (1) is correct. In reality, SMEs do provide a majority of employment opportunities in Hong Kong.
  - (2) is incorrect. The operations of SMEs are NOT capital-intensive but mostly labour-intensive.
  - (3) is incorrect. According to the definition, SMEs in the manufacturing sector can employ more than 50 employees (as long as the total number of employees does not exceed 100).
20. **D**
- Small and medium enterprises supply goods and services effectively and efficiently to large corporations and facilitate their operations.
- A is incorrect. Small and medium enterprises in Hong Kong do not have significant impact on the world market. The impact on the world is not a contribution to local economy as well.
- B is incorrect. Even small and medium enterprises pay profits tax, their payment is not as large as the amount paid by large corporations. The principal sources should be profits tax and salaries tax paid by large corporations.
- C is incorrect. It is multinational corporations that employ staff members with different cultural backgrounds from different countries. In fact, small and medium enterprises employ mainly local people, who constitute almost half of the total employment in Hong Kong.
21. **B**
- (1) is incorrect. Small and medium enterprises have limited sources of capital. Their capital is mainly supplied by owners. Their small sizes do not enable them to be listed.
  - (2) is correct. Small and medium enterprises can take different forms of ownership.
  - (3) is incorrect. There are no tax concessions particularly for small and medium enterprises. Their profits tax rate is the same as other firms and only varies among types of ownership. (In Hong Kong, 15% for sole proprietorships and partnerships and 16.5% for limited companies)
22. **A**
- (1) is incorrect. A cosmetic retailer is a non-manufacturing business. To be a small and medium enterprise, the number of employees should be smaller than 50.
  - (2) is correct. A garment manufacturer is a manufacturing business. To be a small and medium enterprise, the number of employees should be smaller than 100.
  - (3) is incorrect. A department is only a part of a corporation and cannot be a small and medium enterprise. Whether the holding company is an SME cannot be determined without the total number of employees from all departments of the company.