

# Three ways to transform SMEs

It's not just about costs. More industry clusters, embracing digitalisation and cutting red tape are the ways forward.

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Singapore's recent economic growth numbers have been encouraging.

Tradable sectors and many parts of the domestic economy have done better than expected.

It is also encouraging that the Government has continued to press on with transforming the economy, with a third of the targeted 23 Industry Transformation Maps (ITMs) rolled out.

However, the ultimate enabling and process of transformation must come from the industries and firms themselves.

Despite the improvements in the economy, a recent survey by the Singapore Business Federation (SBF) showed that SME sentiment remains flat. It also found that more than 80 per cent of small and medium-sized enterprises here have yet to consider transforming themselves, and that cost remains the main concern, though fewer expressed this than in 2016.

What, then, should be the way forward for Singapore's SMEs? How can Singapore best foster a positive environment for them? After all, SMEs contribute nearly half of gross domestic product and employ 70 per cent of the workforce. And are there other more important underlying issues beyond cost?

The Asia Competitiveness Institute, a think-tank at the Lee Kuan Yew School of Public Policy, recently benchmarked Singaporean SMEs to those in leading developed economies. They face three key hurdles: small size, inability to garner sufficient financial resources and a lack of talent.

When these three challenges are grouped with the SBF survey results, what emerges is that SMEs

in many industries lack sufficient scale, given that Singapore is a small and mature economy with only around five million people.

Many brick-and-mortar SMEs, focused solely on Singapore, also face increased competition from both globalised and online companies based elsewhere.

The lack of scale makes it harder for SMEs to achieve low operating costs and attract talent and capital for business expansion, compared with their more globalised competitors. Also, the challenge of staying afloat amid day-to-day operations also makes it hard for many to transform their businesses.

The SBF survey also highlighted an interesting point on cost pressures. As the economy picked up this year, fewer SMEs cited cost as the main issue, compared with a year ago. This could mean that when SMEs operate within a healthy and vibrant growing environment, cost is less of a challenge.

Beyond tackling the usual cost bugbears, here are three ways to reassess growing SMEs:

## HOSTING MORE INDUSTRY CLUSTERS

Singapore can be more aggressive in hosting more industry clusters. In recent years, the Government successfully positioned Singapore in new sectors, such as being a global arbitration hub.

It has also extended existing strengths as a finance and legal hub to become Asia's centre for infrastructure financing and internationalisation of the yuan.

Singapore should also be prepared to target new growth areas such as the highly specific infrastructure development, investment and financing hub that would entail an infrastructure-related business arbitration centre, internationalisation drive for yuan with bond issuance and capital market deepening, not forgetting other potential niches such as

artificial intelligence, digital science, driverless transportation and robotic machines, much as how it grew the pharmaceutical and biomedical sectors earlier. Hosting more industry clusters, which in some years will allow Singapore to exceed the 2 to 3 per cent growth target, will create fertile ground for SMEs to operate in and scale up.

This would also strengthen economic resilience. In this age of disruption, it could take several years to get an industry up and running. Yet, over time, that industry might decline due to unforeseen global and technological factors. So it is important to have economic diversity as Singapore develops a sizeable portfolio of industry clusters.

## TRANSFORMING AND EXPANDING

Second, SMEs must tap bigger markets through digital transformation and by expanding beyond Singapore.

Digitalisation is likely to be a bigger disruptor compared to globalisation. Economies that do not adapt to it might see a rise in social inequality.

At the same time, digitalisation allows SMEs to not just reduce costs, but also find new customers online. The Committee on the Future Economy has identified digitalisation as a main thrust, and the Government has promised much action in this area. This is important as digitalisation is hard for many SMEs to embark on by themselves.

Trade associations and business chambers (TACs) can do more to help companies transform. As the advocate for their industries, TACs have an obligation to put forth clear facts and figures for their members, and state what is at stake if the transformation does not happen.

At the same time, TACs can do more to guide SMEs forward by highlighting positive examples.

Many TACs, such as the Federation of Merchants' Associations that focuses on micro-SMEs in the heartland, and the Singapore Manufacturing Federation, have done so through industry awards and focus group dialogues. But much more can be done.

Also, TACs must do more to collaborate with the Government to develop sector-specific strategies through the ITMs. Coming up with such ITMs is not the sole responsibility of the Government. TACs – the voice of their industries – must step up and own them.

Inevitably, SMEs must be prepared to venture overseas, either within the region or globally.

The recent merger of IE Singapore and Spring Singapore shows the Government's commitment to help SMEs go beyond Singapore. The merger should create synergies that are useful in internationalising SMEs.

What more needs to be done? Well, TACs could be more targeted in specific industries when taking companies overseas, while ensuring that they continue to encourage new SMEs to participate in these overseas business matching trips, and not just large and well-known ones.

## REMOVING POLICY RED TAPE

Third, the Government can be more concerted in its efforts to cut red tape. Regulations are important for keeping a delicate balance between the needs of society and business. But as the world changes, regulations, if not frequently reviewed, can be an impediment to growth.

Some of the savviest business leaders here understand that Singapore is a high-cost business location, and this may not change. But the Government can make a material difference by ensuring that regulations do not unnecessarily hinder commerce or add to business

costs. In many ways, Singapore is already world class in ease of doing business. But many SMEs continue to face excessive regulations in selected areas.

Government rules and regulations should increasingly gear towards ex post outcomes rather than an ex ante rule-based approach, that is, rules should be based on actual practices, not devised in a vacuum based on theory. A few examples are in order here. An emphasis on educational attainment over work skills and experience in recruiting workers, including foreign construction workers, is an example of an ex ante approach to rules.

Or insisting that for work safety, an object of X metres long must be carried by more than one worker even if it is light enough to be carried by one person!

Contractors told us that such prescriptive ex ante rules give rise to situations of low productivity, as those workers with higher education could not take the intense heat of the weather; and workers needed to wait for another

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worker to be around to carry some objects, or risk being fined for work safety offences. Take another example: If, say, the owner of the Singapore Flyer were to propose putting up a clock with seasonal greetings, something that similar operators in other major cities have done to retain mindshare among their city dwellers, how many layers of administrative clearance are required and how fast can such requests be approved?

Other examples of administrative red tape or over-regulated rules we have heard of, which have since been resolved after much effort by a Member of Parliament, include getting a new bus service for Springleaf estate residents.

Current ITMs offer a clear structure to cut through red tape. In the financial ITM, for example, the Monetary Authority of Singapore pushed for regulatory "sandboxes" for new ideas to be test-bedded, and this has generated considerable industry interest.

It would be good if the Government can identify regulatory "sandboxes" in every one of the 23 ITMs.

In addition, because each ITM will be coordinated by a specific government agency, that agency can play the role of ombudsman in maintaining the right regulatory balance. And if there are regulatory impediments that cut across different industries, the Future Economy Council can act on them. SMEs must think differently by looking beyond costs as their main challenge, and by focusing on scaling up and transforming fast, to tap all possible growth, online and beyond Singapore.

Policymakers, as well as TACs, can act differently to facilitate the growth of a sizeable core of Promising Local Enterprises from the base of SMEs, to build a more diverse, fiercely competitive and globally connected Singapore economy.

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