Institute of Policy Studies

Tightening Labour Market and SMEs

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The Singapore economy is into its fourth year of restructuring, and small and medium enterprises (SMEs) in particular are feeling the brunt of government policy on tightening the inflow of foreign labour. SMEs have been struggling not only to attract human capital but to retain them as well. What are the strategies in place to assist SMEs to cope with a tight labour market?

To recruit successfully, there is a need to engage candidates and convey the company's needs and expectations. Role clarity is an essential ingredient of successful recruitment and it is the responsibility of Human Resource (HR) to show candidates what they can achieve with the company as well as inform them of the required work, method of execution and procedures.

Post recruitment challenges in the form of retaining and developing human capital is an ongoing task that weighs heavily on SMEs. There is no standard approach to develop, execute and manage a diverse workforce, as companies have to determine the skills gap and their employees' needs in terms of their respective companies. At the same time, there is a critical need for a system of knowledge retention and transfer, particularly when employees leave the company (Doan *et al*., 2011). This would help to facilitate the briefing and training of new employees to bring them up to speed.

In Singapore, SMEs that want to expand and grow their respective businesses invariably need to venture overseas. In general, companies could choose to internationalise by following an accelerated internationalisation or "sprinkler strategy", in which they target multiple countries at once, or a "waterfall strategy" in that companies internationalise more slowly and target one market at a time (Onkelinx *et al*., 2012). In Singapore's context, the small domestic market imposes constraints on the ability of SMEs to grow before they expand overseas. Therefore, Singapore companies could strategise to be "born-global", although this would require employees who are equipped with the right set of managerial skills and business knowledge. While there has been an increase in the number of tertiary institutions, such as the establishment of the Singapore University for Technology and Design (SUTD) and the expansion of the Singapore Institute of Management (SIM), the competition for talent is still expected to intensify (Singh, 2012). In addition, there is a need for greater understanding of employee relationships in a smaller setting, and differences in managerial strategies between small and large companies. What are the policy options available to assist SMEs with their human capital needs amidst economic restructuring?

One measure to help SMEs develop the necessary skill sets and capabilities to be competitive is the Enhanced Training Support Scheme for SMEs, which provides course fee funding and cash awards – not just to rank-and-file workers, but also to PMEs (professionals, managers and executives) to upgrade their skills and hone their expertise. Another government assistance is the Wage Credit Scheme (WCS) that helps SMEs towards retaining and motivating staff through higher wages. The government will co-fund 40% of wage increases for Singaporean employees earning up to a gross monthly income of S$4,000 over three years, from 2013 to 2015. SPRING Singapore has also launched the SME Talent Programme to help SMEs attract and recruit Institute of Technical Education (ITE), polytechnic and university students through study awards.

The above government programmes all help to some extent to alleviate the human capital pressures that SMEs currently face. The Enhanced Training Support Scheme is especially useful because it encourages both companies and employees to develop a life-long learning mindset, which is necessary in a highly connected world alongside rapid global developments. On the other hand, the benefits of the WCS and SME Talent Programme to SMEs are less obvious.

The WCS is scheduled to end in 2015, after which companies are expected to shoulder the portion of the remuneration that was subsidised. The intention was to give companies time to improve labour productivity, which would then pay for the wage increase. However, rising productivity is not the only consideration in wage determination. Cyclical factors emanating from demand also act as a constraint on how much companies can realistically pay their employees. Hence, while the efforts of WCS are commendable, there is concern if companies that have used the schemes can manage the spike in expected labour business costs when the scheme is rolled back.

With regard to the SME Talent Programme, while it has helped to match SME employers with prospective young employees, it cannot by itself resolve the perception problem that plagues the SME community. Singaporeans, especially the younger generation and those with higher education qualifications, are not keen to work for SMEs because they perceive a lack of career progression and poorer work-life satisfaction. Hence, what is needed is a cultural shift in the way Singaporeans perceive working for SMEs, and how SMEs view their employees' needs. Overcoming this challenge requires a much bigger national effort.

"Leasing" of Human Capital

The linkages between large companies and SMEs are critical with regard to human capital. In Japan, during tough economic conditions, bigger Japanese companies often resort to the practice of "leasing" out workers (*shukko*). This practice enables SMEs to have opportunities to gain access to the kind of human capital that is otherwise difficult to attract, with the added bonus that SMEs only pay a fraction of the leased worker's pay with the rest paid for by the parent company (Economist Intelligence Unit, 2010). In Japan, the manufacturing of large precision components by skilled craftsmanship through the artisanship system has been marginalised because of automated precision engineering tools. However, to maintain a high level of craftsmanship among its skilled workforce, Japanese companies such as Kimijima employ a flexible human capital approach; they attract young interns, invest heavily in the training of existing workers and source for non-manual senior workers through “leasing” arrangements from larger companies.

There is a critical need to examine ways to attract and retain skilled human capital for SMEs in Singapore, especially during the process of economic restructuring. Would the *shukko* leasing system be applicable here? An adaptation of this leasing system in Singapore could be feasible through the WCS programme with the government subsiding the leasing of specialist skilled human capital from large firms to SMEs. But why would large companies subscribe to leasing their employees to SMEs? One rationale is that SMEs could be part of the supply chain for large companies, and therefore increases in their competency and skill levels would be beneficial for large companies.

The government could couple the WCS with incentives and embed it with the caveat that it would subsidise the “lease” of human capital from bigger companies as long as the “lease” of this human capital is proven to help nurture and expand SMEs’ business activities. Monitoring the performance of the selected SMEs and reviewing the contributions of the leased human capital is one way to ensure the integrity of this system. The adaptation of the *shukko* system in Singapore will enhance the supply chain link between SMEs and bigger firms or multinational corporations. The potential of leveraging on a common pool of experienced skilled workers through the leasing system could have other positive spillover effects. For example, the leasing of skilled workers could assist SMEs in looking for alliances and cooperating with other SMEs even those considered as rivals in a variety of capacities.

Consortiums and Forming Alliances

Forming alliances through consortiums is another key way to leverage when facing shortages in human capital. For example, in specialised sectors such as the aerospace industry, a consortium of businesses of different engineering expertise could combine to provide an integrated platform for manufacturing solutions and services especially for overseas markets. Through the use of consortiums and alliances, the hope is to enable SME talent to flourish in more entrepreneurial ways and become more creative to spur innovation and increase efficiency. The announcement of JTC Launchpad @ one-north, a new cluster for start-ups, is an example of the government working to foster stronger alliances and sharing of resources amongst companies. The A*STAR Aerospace Programme is also an attempt to get players in the aviation industry to collaborate more by undertaking pre-competitive research work together. However, one area of consortium action that is still very lacking is the undertaking of major overseas projects together. While the level of collaboration is high within Singapore, this intensity has not flowed into the realm of overseas business ventures. Big companies are often the crucial cog in any overseas project. Hence, for overseas project consortiums to work, the buy-in from big companies is necessary. They would act as the anchor companies to which SMEs would provide their services, and part of a consortium that submits their bids for major business projects.

The lessons to be learnt from Japanese SMEs are especially relevant because they too have looked for new markets overseas whilst facing an ageing and shrinking population base. The shortage of human capital is a challenge to SMEs but it could also be an opportunity to reassess and reinvent their respective business models to be more sustainable for future growth.

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