

## **IPS Closed-Door Discussion: Human Capital for SMEs in Singapore**

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Human capital can be either an opportunity or obstacle to business development, and it seems at first glance that the latter applies to most small and medium enterprises (SMEs) in Singapore. In order to form a clearer understanding of the various human capital issues that plague SMEs and to put them within the wider context of nationwide economic restructuring, the Institute of Policy Studies (IPS) organised a closed-door discussion on 30 September 2014 with policy makers, researchers and business leaders.

The session was chaired by IPS Adjunct Senior Research Fellow, Manu Bhaskaran, and featured opening presentations by Victor Mills, Chief Executive of Singapore International Chamber of Commerce and Francis Koh, Managing Director at Capita Staffing & Search.

Mr Mills highlighted in his presentation that the major problem that companies – small or big – face is convincing their brightest local talent to accept overseas postings. This reluctance can be attributed to unclear career paths, comfort zones, family considerations and, to some extent, Singapore's economic success.

To address this problem, employers should practise upfront expectation management and communicate clear career paths to their employees. Part of this includes addressing re-entry concerns, ensuring that employees returning from overseas postings can be suitably integrated back into the company. The state can also help by introducing policies that smooth the process of re-entry (e.g., helping returning Singaporeans' children to re-enter the local education system).

Mr Koh commented that industries at both ends of the skill spectrum face the most acute labour shortage. Skills shortage and wage premium are most severe in high-skilled industries like engineering and information technology. Wage pressure is strong too for low-skilled workers because of tighter foreign labour policy.

While incentives in the form of remuneration and proper career paths are required to attract the younger workforce to join companies, SMEs often do not possess the right tools and corporate culture to provide these incentives.

He said that SMEs need to adopt proper human resource (HR) practices in order to attract and retain talent, especially among the younger workforce. More collaboration between the

government, business associations and SMEs to improve HR practices — such as wage structuring, strong HR policies, succession planning, etc. — will help to push through this transformation.

The highlights from the rest of the discussion are summarised below.

### ***Rethinking the Approach to Foreign Labour Policy***

Most participants agreed that the tightening of foreign labour will not be reversed and is necessary for Singapore's future growth. However, some felt that the policy approach should be reviewed. Measures could be more targeted, for instance at the sectoral level. Depending on the requirements and reform constraints of each sector, different levies and quotas should be applied.

### ***Enlarging the Labour Force by Making Better Use of Available Resources***

A participant suggested that Singapore could consider tackling the problem of manpower shortages by tapping the pool of older workers and through apprenticeships.

However, he noted that most companies are reluctant to pay older workers equitably because of age bias. The benefits of accepting apprentices are also not immediate to companies because apprentices are not able to contribute much in their early stages. In fact, the value of apprenticeship may manifest mostly in the form of positive externality and not felt at the company level.

The participant suggested that the government can catalyse this by subsidising companies that hire older workers as well as apprentices. The public financing of this programme can come from the revenue collected from foreign worker levies, a concept similar to the Certificate of Entitlement system, which exerts the double dividend effect of taxation.

Another suggestion raised in the discussion was to expand the workforce by making use of human resources that are readily available. For example, more direct incentives for mothers returning to the workforce could be introduced. The employment rules for foreigners with dependency passes and foreign students could also be modified to help ease the labour crunch. Part-time labour pooling programmes could be encouraged as an innovative way of tackling the manpower shortage.

### ***Aligning Education, SME and Manpower Policies***

In addition, a participant recommended that the education policy, SME policy and manpower policy be better aligned to achieve some form of complementary synergy. For example, it was reported that the foreign student population growth in Singapore declined recently possibly because of a lack of employment prospects. This dampens Singapore's ambition to be an education hub. At the same time, SMEs are facing human capital shortage. These two problems could be mitigated if foreign students studying in Singapore were better matched to SMEs.

***Promote more Student Internships with SMEs***

The idea of extending internship programmes with SMEs to students of a younger age as a way of improving society's impression of SMEs was proposed. The extent of this internship programme depends on how important the government deems SMEs to be, and could even mirror the structure of National Service in Singapore.

However, many SMEs do not consider HR as part of their growth strategy and do not have proper HR management in place. Unless this is addressed, student internships could have a detrimental effect on SMEs, if students are put off by their internship experience with such SMEs.

***HR Reforms Required to Meet Evolving Needs of Companies***

A participant highlighted that investing in and grooming quality HR talent can have a multiplier effect on the company's performance. Moreover, productivity is a function of both company processes and employee effort. Hence, HR management is very crucial in engaging employees.

As Singapore's demographics change, the workforce becomes more heterogeneous. Increasingly, a one-size-fits-all HR policy is no longer effective. There is a need for more discerning HR management to meet the needs of different profiles of employees.

The government recognises this and is also trying to change the common perception that HR consists of mainly administrative work. It hopes to raise the profile of the HR industry to make people realise the importance of HR as an enabler in company development, and to attract talent to the industry.

However, a participant remarked that good HR practice alone is not sufficient to attract employees to a company. A growing company draws employees to it because of the career prospects it offers. Likewise, employees with great career aspirations would be reluctant to join companies that are not growing. Big companies are able to attract talent precisely because they are constantly looking out for expansion opportunities, he added.

***Employee Expectations and Perceptions that Affect SMEs***

A participant felt that people tend to be overly anchored in the present, and fail to consider the long-term prospects of a job; they do not recognise that building a career requires a long-term effort, and starting salaries should not be the only consideration for a job. In addition, the media, by highlighting top fresh graduates' starting pay, raises the wage expectations of other fresh graduates. This also increases employee turnover rates. All these factors have a compounded effect on the human capital issues SMEs face.

***Too Much Fragmentation in Certain Industries***

There is a general consensus that SMEs are disadvantaged because they lack scale. Certain business operation systems and processes (e.g., HR management) are only feasible when a company reaches a minimum level of scale. Hence, consolidation in fragmented industries where there is an excessive number of companies could grant SMEs economies

of scale. This could come in the form of merger and acquisition or collaboration between companies. In addition, people are keener to join companies that are growing because they present better career prospects.

### **Conclusion**

While defining the problems and challenges that SMEs face in the space of human capital, it is evident that the challenges go beyond just the difficulties posed by changes in manpower policy. There are complex factors at play that must be properly grasped in order to overcome the human capital issues. For example, industry fragmentation limits the capacity to exploit scale and so reduces competitiveness and the industry's ability to invest in human capital, grow productivity and raise wages. One implication is that policies in the SME sphere should encourage consolidation in some industries.

Second, policies must be calibrated and targeted according to the different profiles of SMEs. This calls for a deep consideration of a new type of classification that goes beyond the parameters of industry, size and growth because they do not adequately capture the nuances of the varying predicaments of SMEs.

Third, more innovative ways should be explored to enlarge the labour force pool. For example, the proposal for an expanded system of apprenticeships subsidised by the government merits further consideration.

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