Shrinking the talent gap in SMEs

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SINGAPORE'S small and medium enterprises (SMEs) have been hit by recent government moves to tighten the inflow of cheap foreign labour. But they also face the challenge of attracting human capital and retaining managers who can help the company grow.

In successful recruiting, the employer needs to engage potential employees, convey the company's needs and expectations and demonstrate how employees can go far if they do well. SMEs are "lean and mean" in their cost structure.

Beyond fulfilling obvious manpower needs, there is no standard approach for them to develop and manage their workforce. They find it challenging to install a system of knowledge retention and transfer by capturing and sharing applications for creative purposes before employees leave the company. Such a system, however, is crucial in training new employees and getting them up to speed quickly.

For Singapore SMEs to expand and grow, they have to venture overseas. Employees equipped with the right set of managerial skills and business knowledge can help this to happen. What policies can assist SMEs with their human capital needs as Singapore continues with economic restructuring?

There are three schemes that SMEs can now tap on for talent development. The Enhanced Training Support Scheme for SMEs 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. The Wage Credit Scheme (WCS) helps SMEs retain and motivate staff through higher wages.

The government will co-fund 40 per cent of wage increases for Singaporean employees earning up to a gross monthly income of S$4,000 over the three years 2013 to 2015. Spring Singapore has also launched the SME Talent Programme to help SMEs attract and recruit Institute of Technical Education (ITE) and polytechnic students through study awards.

The Enhanced Training Support Scheme is especially useful because it encourages both companies and employees to embrace life-long learning, which is necessary in a fast-changing economic landscape. But the benefits of the WCS and SME Talent Programme 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, higher productivity is not the only factor in wage determination. Cyclical factors emanating from demand constrain how much companies can realistically pay their employees. Hence SMEs are understandably worried about having to stomach the spike in expected labour costs when the scheme is rolled back.

The SME Talent Programme has helped to match SMEs with prospective young employees, but on its own, it cannot address the "image problem" that plagues the SME industry. Singaporeans, especially those who are younger and better educated, are not keen to work for SMEs. They believe that a smaller firm cannot guarantee satisfactory career progression and work-life balance.

Learning from Japan

As the government encourages Singaporeans to appreciate different educational paths to success, a similar mindset change is needed, so that SME jobs are not viewed as the poorer cousins of multinational corporation or government jobs.

Many SMEs have close links with larger firms. These ties can be leveraged to develop human capital. Japan is a case in point. There, during tough economic conditions, bigger Japanese companies often "lease out" workers in a practice known there as Shukko.

Shukko gives smaller Japanese firms access to talent who may bypass them for bigger firms. They pay only a fraction of the leased workers' salary with the rest paid for by the bigger company. In Japan, the manufacturing of large precision components by skilled craftsmen through the artisanship system has been marginalised because of automated precision engineering tools.

To maintain a high level of craftsmanship among its skilled work force, a Japanese company such as Kimijima Heat Treatment, a metal processing company, does the following: it attracts young interns, invests heavily in the training of existing workers and sources for non-manual senior workers through "leasing" arrangements from larger companies.

An adapted version of Shukko could boost human capital development in Singapore's SMEs. It could be part of the Wage Credit Scheme (WCS) programme, with the government incentivising SMEs to "lease" specialist skilled human capital from large firms and subsidising the cost of hiring such individuals. For large firms, "leasing out" their staff could ensure better skills and competency in SME workers, which will make the supply chain more robust.

SMEs which benefit from government funds will have to demonstrate that the scheme is helping to nurture and expand their business. In tapping a common pool of experienced skilled workers through the leasing system, SMEs could also discover new alliances and possible cooperation with other SMEs.

Encouraging alliances and consortiums between SMEs will allow them to pool talent and achieve more. For example, in specialised sectors such as the aerospace industry, a consortium of businesses of different engineering expertise could offer integrated manufacturing solutions and services, especially in overseas markets.

Combining forces could encourage SME staff to be more entrepreneurial, creative and efficient. Recent government efforts to encourage this include JTC Launchpad @ one-north, a new cluster for start-ups, and the A*Star Aerospace Programme, which is an attempt to get players in the aviation industry to take on pre-competitive research work together.

However, while the level of collaboration for Singapore projects is high, Singapore consortiums have not displayed the same intensity in venturing into the realm of overseas business projects. Here is where larger firms can help. They can be the crucial cog in a consortium submitting its bid for major overseas projects, acting as the anchor companies to which SMEs will provide their services.

The lessons to be learnt from Japanese SMEs are especially relevant because they too have had to look for new markets overseas while grappling with an ageing workforce and shrinking domestic demand. In tackling the human capital challenge, SMEs can also take the opportunity to reassess their aims and reinvent themselves to be more sustainable for the long term.

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