

The background of the top section of the page is a photograph of a modern building with a complex, geometric facade. The building features a series of overlapping, angular panels in shades of blue and grey, creating a dynamic, zig-zag pattern. The sky is a clear, light blue.

Keeping backbone of Singapore economy strong

SINGAPORE

This article was written by Jeya Poh Wan Suppiah, Audit Partner, KPMG LLP and Chiu Wu Hong, Executive Director, KPMG Tax Services and appeared in The Business Times on 25 November 2008.

SMEs will need to effectively manage their strengths and vulnerabilities amid the financial turmoil. Here are some ways they can make their organisation leaner and more agile.

SMEs have traditionally been a hotbed of innovation and entrepreneurial activity, adding strength and resilience to Singapore's economy. Such qualities are especially crucial in the current economic turmoil.

According to SPRING Singapore, SMEs make up 95 per cent of the island's enterprises and generate about 45 per cent of gross domestic product. They also employ about 60 per cent of the overall work force. SMEs, therefore, form the backbone of the economy.

There are three main categories of SMEs. The first are those built on experience gained by an entrepreneur while working for a multinational corporation. The entrepreneur identified a functional need in the MNC's value chain and became an external provider.

The second are those built by entrepreneurs who gave up a formal career to pursue an area of interest they believed held economic promise.

Both types of entrepreneur have generally had formal educational training. But most SMEs are in the third

category – built by entrepreneurs who graduated from the school of 'hard knocks'. These people generally have sharp business acumen and a keen nose for opportunities.

Sons and daughters of the soil

Entrepreneurs in all three categories tend to share a common trait - they are usually locally born and bred, with an intimate knowledge of the Singapore market and its conditions, which gives them a "home ground" advantage.

Typically, due to limited funding ability, they operate in non-capital intensive industries with low-cost barriers. The lack of funding options also means they depend on their own savings, often supported at first by seed money from family members and/or friends.

As their business grows, they rope in members of their extended family to inject talent and resources. Further down the road, they begin to realise the need for "outsiders", and eventually hire professionals to manage and run the company in ways that are expected by their more sophisticated business counterparts and associates.

However, at this stage they also face the most enduring challenge that confronts SMEs – attracting and retaining external talent. Many professionals prefer to work for an MNC with a big brand name.

Management style

Many entrepreneurs take a paternalistic approach to their staff, forming personal relationships with them. In a sense, the identity of their staff is intrinsically tied to the company.

While the business may grow significantly, many SME entrepreneurs tend to continue it as if it is a start-up. There is often reluctance to relinquish control to others, especially to those who are regarded as outside the “family” circle.

Many SME entrepreneurs also believe in keeping their earnings in cash, remembering their earlier days of hardship. This is mainly due to difficulties they may have encountered raising funds when they started. Although by this time they may have more financing choices, they tend to believe in cash on hand, kept mainly in fixed deposits to provide for rainy days.

Those with ready cash are well-placed to take advantage of the many cheaper investment and growth opportunities available during economic downturns.

Economic uncertainty

Given the current turmoil, we believe SMEs will need to manage their strengths and vulnerabilities by positioning their business to respond effectively to short-term challenges while planning for long-term growth.

They will need to re-evaluate their cost structure and use cash cautiously. This can include co-sourcing, shared service centres, streamlining infrastructure and business process optimisation.

Ultimately, the goal is to make the organisation leaner and more agile, thereby building a sustainable cost advantage for the longer term. SMEs can also consider the various types of schemes and incentives available from the government.

In our experience, not many SMEs undertake tax planning. They either see no need for it or do not understand or appreciate the benefits. SMEs should give more thought to reducing their tax exposure by way of implementing tax planning.

Another step SMEs can take is to focus on training. In-house training is an inexpensive but effective way to upgrading workers so they can deal with ever-changing market conditions.

Singapore companies tend to pride themselves on product promise and delivery. When it comes to marketing, SMEs often fail to take advantage of the Singapore brand as a trusted label locally and internationally.

Many SMEs have yet to fully use this factor as a selling point. They should give much more thought to showcasing their products as “Made in Singapore”, as this will surely give them a competitive edge in the global marketplace.

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