

What it takes to be a winning E50 SME

SINGAPORE

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What characteristics define an Enterprise 50 (E50) company as a good example of a winning small and medium enterprise (SME)?

Product innovation, staff empowerment and talent retention are among the common traits of such companies

Strong business fundamentals are crucial. They include having consistent financial results with strong sales, profitable gross and net margins, and the potential for revenue growth. Equally important, though less tangible, are qualities such as resilience and entrepreneurship.

Successful SMEs are resilient. They have typically survived several past crises, such as the Pan Electric debacle of 1985, the Asian financial crisis in 1997 and the market instability stemming from the Sept 11, 2001 attacks in the United States.

From such crises, these companies have emerged stronger than before. Our observation of past participants in the E50 suggests that many of them share common traits. These include:

- Keeping the eye on innovation in products and services
- Empowering professional managers
- Attracting and retaining key talent
- Building sustainable advantages for the long term

Innovative products and services

Winning enterprises often occupy a niche for themselves within the industry they operate in. They adapt with the times and introduce innovations which have enhanced their product or service over time. For instance, they may provide a niche product with qualities that those within their industry know and respect; in the service sector, they are known for their service excellence in the form of quick turnaround and minimal downtime.

Essentially, their product or service speaks volumes for them.

Past downturns have also shown that successful companies continue to spend on innovation, in good times and bad. Others, regrettably, often take a 'wait-and-see' approach to uncertainty.

SMEs should continue to keep a strategic lookout for innovations with the potential to create new markets, dominate existing markets or transform competitive relativities.

Empowering professional managers

While innovation plants the seeds for potential growth in a company, visionary planning and strong corporate governance are essential to guide and drive the execution of innovation.

We have observed that many SME entrepreneurs continue running their enterprise as if they are start-ups, even after their business has grown significantly.

However, a characteristic of a growing SME is that decision making often passes from just one person (the entrepreneur) to more professional managers. These may be specialists in a particular function or role, and consultants are brought in where specialist knowledge is required.

Another key trait is empowering professional executives to make decisions. Winning companies actively move towards establishing a finer balance between owner control and professional management.

This in turn encourages executives to innovate and take a more active role within their organisation, allowing for increased employee engagement levels.

Attracting and retaining talent

Engaged workers are a key resource for companies to tap on during the current economic downturn.

It is normal that in good times a company provides opportunities for their people. However, it is frequently the difficult times that their culture shines as employees band together to overcome adversity.

Top-performing SMEs such as the companies in the E50 are aware of this. They are committed to attracting and retaining the right talent. They keep employees engaged and provide opportunities for professional and personal growth as part of their retention strategy. In return, these employees remain loyal and commit to the shared vision for the company's success.

Building sustainable long-term advantage

Successful SMEs proactively manage their strengths and vulnerabilities by positioning their business to respond effectively to short-term challenges while planning for long-term growth.

They re-evaluate their cost structures and monitor their cash management strategy. They may have embarked on co-sourcing arrangements, shared service centres, programmes to streamline infrastructure or business process optimisation initiatives.

Ultimately, the goal is to make their organisation leaner and more agile, thereby building a sustainable cost advantage for the longer term.

While leading SMEs share commendable strengths which have helped them ride out previous economic storms, they can do more. For example, many SMEs have not fully leveraged the various schemes and incentives made available by the government.

One example is the research and development (R&D) Incentive for Start-Up Enterprise administered by the Inland Revenue Authority of Singapore. This was introduced to encourage the growth of R&D in Singapore, and to build up local R&D capabilities.

Covering a broad range of research and development efforts, this scheme provides cash-flow assistance to loss-making start-ups that engage in qualifying R&D activities; it allows these losses to be converted into cash grants.

Unlike most other tax incentives, there is no need to apply to any government agency for the concession. This also means that there is no requirement to meet local business spending or headcount commitments usually associated with tax incentives. In addition, there is no requirement that a specific R&D department has to be set up to undertake the R&D activities.

Other tax incentive schemes which can benefit SMEs are those related to retaining and retraining workers, such as the Jobs Credit Scheme and the Skills Development Levy.

While the current credit crunch gives businesses a strong wake up call to the importance of having good cash flow, SMEs with the resilience and entrepreneurial edge are likely to be the ones to make well-timed investments and emerge winners in these turbulent times.

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