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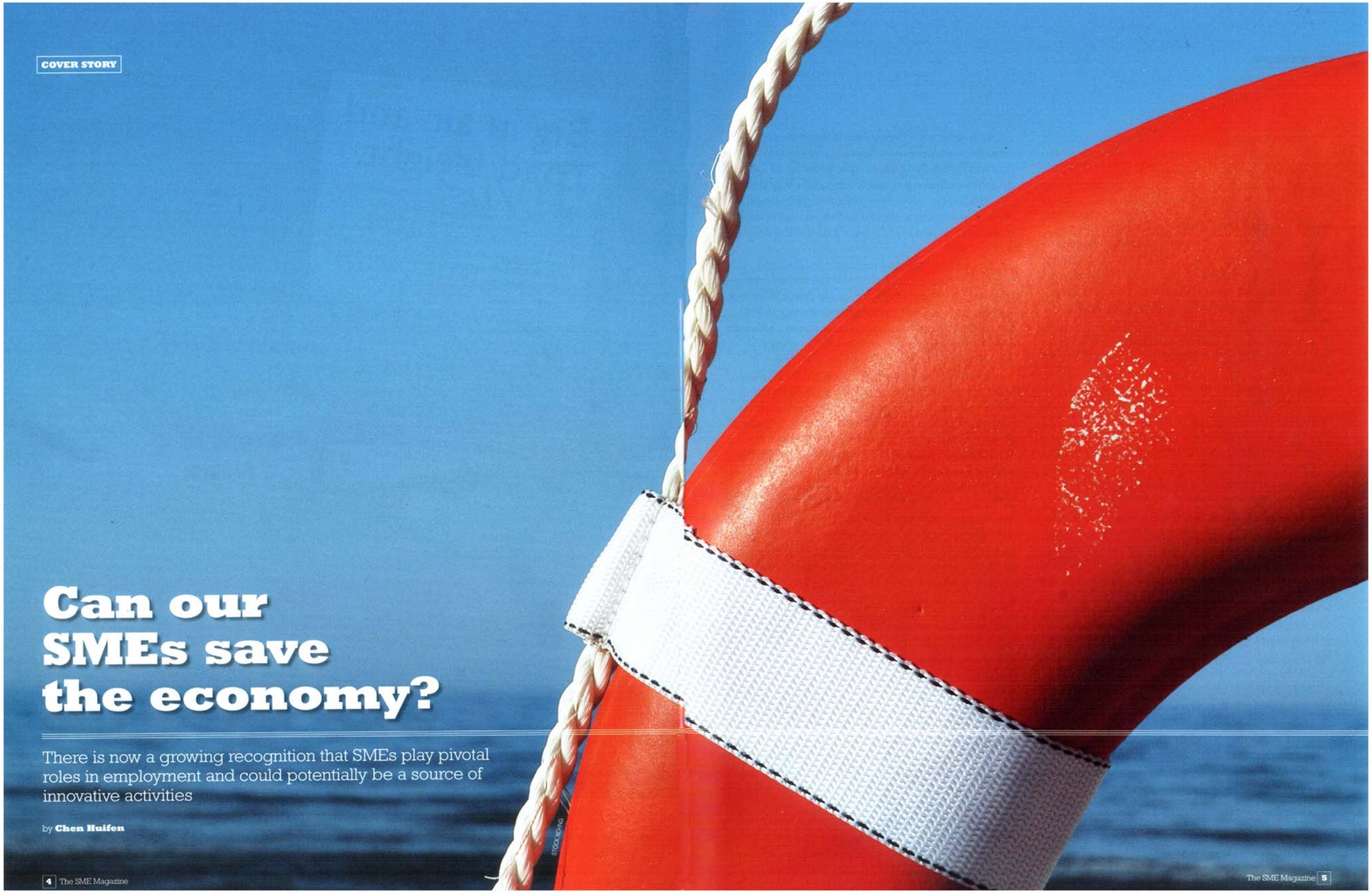

COVER STORY

Can our SMEs save the economy?

There is now a growing recognition that SMEs play pivotal roles in employment and could potentially be a source of innovative activities

by **Chen Huifen**

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IN THE RECENT Apec SME Summit held in Singapore, Chinese entrepreneur Jack Ma of *Alibaba.com* spoke about how the 21st century will be one that belongs to small and medium-sized enterprises. The founder of one of the world's largest e-commerce companies argued that SMEs are the future of the world, because they are nimbler, more flexible to market changes and hold big dreams of their entrepreneurs and employees to grow bigger.

He is not alone in that view.

"From the macroeconomic perspective, the global economic meltdown downplayed the role of foreign direct investments (from MNCs) as an engine of growth following sharp reversals as a result of the deleveraging process taking place in host countries, while SMEs remained relatively resilient, helped absorb the retrenched workers, and potentially revived the business cycles," said Aekapol Chongvilaivan, a research fellow at the Institute of South-east Asian Studies.

In the case of Singapore, economic policies in the past decade have slowly but surely shifted to give greater attention towards the SME sector. While SMEs have traditionally been second- or third-tiered suppliers to MNCs and GLCs, there is now a growing recognition that they play pivotal roles in employment and could potentially be a source of innovative activities, as start-ups in the US have done since the early 1990s.

At the individual level, they may not create jobs on a massive scale like MNCs do, but taken collectively, they are quite a might.

According to the Department of Statistics, SMEs – defined as enterprises with fixed asset investment less than $15 million (for those in manufacturing) or less than 200 workers – accounted for 99 per cent of the 160,000 firms in 2007. They employed nearly six out of every 10 workers, and generated 49 per cent of total enterprises' value-add in the same year, up from 46 per cent in 2003.

The majority of SMEs are in the wholesale and retail trade (32 per cent), real estate and business services (19 per cent) and community, social and personal services (14 per cent). Together, they contributed about half of total SMEs' value-add in 2007. Manufacturers, although constituting only 5 per cent of total SMEs, generated some 17 per cent of value-add among SMEs.

According to credit agency DP Information Group, home-grown SMEs have largely been a resilient lot. This is reflected in its annual SME500 ranking, which shows the aggregate turnover of the top 500 SMEs here growing by 128.46 per cent between 2004 and 2009. With such influence, supporting the SME sector will be key to sustaining an economic recovery.

"We have no choice because in the longer term, it is better to have a strong base of local enterprises anchored in Singapore but present globally," said long-time SME champion Inderjit Singh and deputy chairman of Action Community for Entrepreneurship (ACE), a public-private partnership movement that encourages entrepreneurial activity in Singapore.

"We can count on these companies to contribute to Singapore forever while we can depend on MNCs only while they are located here. Realistically, MNCs will have to move to where it makes sense for them, the reason why they came to Singapore in the first place. So the day will come when another country will loom more attractive than Singapore for MNCs to place their operations.

"If this happens on a wider scale, we risk hollowing our economy if we do not already have local enterprises to fill the vacuum when that happens. So if I am planning the future economy of Singapore, I will rebalance everything and place equal emphasis on supporting local enterprises without compromising the support of MNCs. It does not have to be a zero sum game but it will require unlocking more resources, which we definitely have. It is something worth betting and spending our resources on."

In order to support SMEs, there is a need to understand their problems, which are many and wide-ranging. The reality is that "not all SMEs are created equal", as aptly put by NUS Business School associate professor Tan Soo Jiuan. "Just as we segment customers by demographics and psychometrics, we should also segment SMEs in terms of other measures ... including market potential, the management structure and style, the aptitude of the owners and managers towards R&D, etc," he said. "Unfortunately, to my knowledge, no such information is available or that no efforts have been made in this direction to segment the SMEs for profiling. Only with such profiling could we understand and identify the right dosage of help or assistance for deserving SMEs.

"I use the word 'deserving' because there are clearly SMEs which should be allowed to be phased out if they are resistant to the call for upgrading their operations, expertise, technology or management. Using a one-size-fits-all approach to help SMEs is not the way to go."

"THERE MAY BE A NEED FOR ACTIVITIES OR MECHANISMS THAT FOSTER SME COOPERATION AND NOT JUST OVER NEW TECHNOLOGIES OR INNOVATIONS, BUT FOR BUSINESS IN GENERAL. IT WOULD REQUIRE SMES TO LOOK OUT FOR WIN-WIN SITUATIONS AND NOT ONLY TO PROFIT THEMSELVES."

– Tan Wee Liang,
associate professor in entrepreneurship and law at SMU


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But generally speaking, SMEs face a number of broad challenges, including access to financing and talent, and a limited domestic market. It does not help that many SME managers continue to be occupied with operational matters, leaving them little resources or time to consider new markets, products, services or technology.

Mindsets need to be changed from a "cheap and good mentality" – which tends to spur an over-reliance on foreign workers – to one that invests for growth. "These investments could be in assets, technologies and people," said Tan Wee Liang, associate professor in entrepreneurship and law at the Singapore Management University (SMU). "In order to engage in greater activities, SMEs need to hire, and to hire competent and skilled people."

Instead of staying as "one-leader organisations", where the entrepreneur is the sole decision-maker, SMU's Prof Tan suggested that SMEs that have yet to do so build an organisation made up of a team with common goals, agreed practices and a culture of common norms. They would also need to learn to cooperate among themselves, especially when branching into foreign shores.

"Their networking should extend beyond developing contacts for new business but to seek collaboration," he added. "There may be a need for activities or mechanisms that foster SME cooperation and not just over new technologies or innovations, but for business in general. It would require SMEs to look out for win-win situations and not only to profit themselves."

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Although there are plenty of assistance schemes available through Spring Singapore, IE Singapore and the Infocomm Development Authority of Singapore, SMU's Prof Tan said that they may not reach out to as many as is hoped. For one thing, the Enterprise Development Centres that help advise entrepreneurs on legal, financial, management and business matters are only available through industry associations and chambers of commerce. That means SMEs that do not have links with those groups may fall off the radar.

ACE's Mr Singh suggested that a one-agency approach might be better. It bestows ownership to a single entity to see through the growth of local companies and cuts down the number of channels that SMEs need to go to for help and advisory services. The agency can also help to draw foreign SMEs to Singapore, thereby adding more buzz to the enterprise eco-system here.

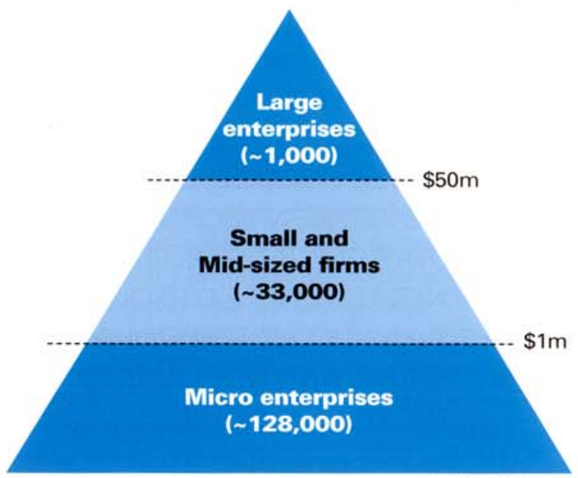
Participants at a recent forum held by the Economic Strategies Committee also threw up other suggestions. One was setting up of an SME bank or a government-run venture capital arm that invests solely in SMEs. It was met with mixed response.

While agreeing that having institutions dedicated to the cause of SMEs is helpful, SMU's Prof Tan said that they need to be backed by staff who are trained to understand the peculiar issues that SMEs face, as evaluating proposals from SMEs would require a different set of criteria, analyses and appreciation from that of larger firms. He noted that in Japan, which has more than 1.6 million SMEs, there are about 3,000 experts on standby to help SMEs under its Organization for Small and Medium Enterprises and Regional Innovation.

Mr Singh said that perhaps it may be time for Singapore to take a lesson from history. "GLCs became possible because of development funding from government, in both equity through Ministry of Finance or Temasek, as well as debt financing through a development bank (the former DBS)," he explained. "The time has come for us to once again set up some form of development funding mechanisms."

But DP Information Group managing director Chen Yew Nah said that SMEs are already well-served by financial institutions on the funding front. "Providing financial services to SMEs should be market driven and having an SME bank seems rather too prescriptive," she added.

Composition of SMEs



Source: Spring Singapore

There appears also to be much envy for the way corporates in Japan, South Korea, Taiwan and France collaborate. The larger firms tend to bring their suppliers in the value chain when they venture abroad. And in the case of Japan, there exists a methodical *sogo shosha* system where SMEs leverage on the economies of scale available at large home-grown companies to coordinate trading, marketing and financing activities.

Said Mr Singh: "We cannot compel MNCs to support SMEs in their overseas ventures but we can definitely get our GLCs to play that role, quite like what the Japanese and French large corporations do – where they see it as their duty to help SMEs from their country succeed.

"To reach this state, GLCs have to reach out and win confidence of SMEs so that they can see themselves as partners. I sense we have not been able to develop the level of trust among GLCs and SMEs to be able to achieve the equivalent of the *sogo shosha* system."

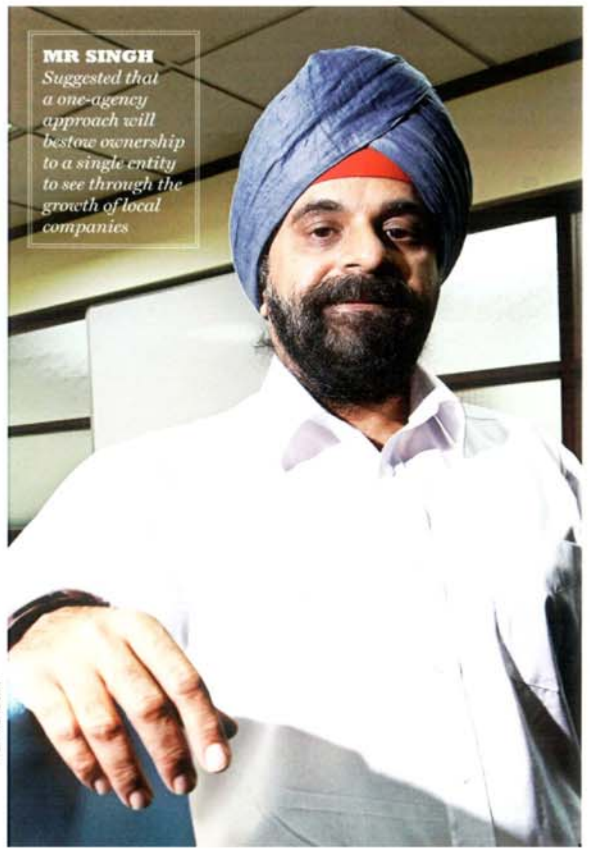
With the multitude of challenges confronting them, can SMEs save the economy?

Many seem to think so, just by the mere fact that SMEs form the biggest group of employers in the private sector. There is a huge potential for operational and productivity improvement, which can lead to economic growth. And since average wages have a tendency to increase with enterprise size, helping SMEs to grow would lift domestic demand.

"But many SMEs operate upstream in the supply chain," said Nanyang Business School professor of operations management S Viswanathan. "So while they can create the multiplier effect and sustain the recovery once it commences, the initial catalyst probably has to come from elsewhere."

SMEs can contribute by being more innovative.

"The innovations do not need to be seen as branded, finished products or services but could be intermediate products or services," explained SMU's Prof Tan. "An illustration is perhaps now a footnote in history. Many personal computers at one time incorporated the Soundblaster that was an SME innovation which enabled that enterprise to grow. A number of Japanese SMEs are international giants in their fields as many manufactured products and production processes employ their innovations."



MR SINGH *Suggested that a one-agency approach will bestow ownership to a single entity to see through the growth of local companies*

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And innovation does not necessarily have to be product-oriented. It can also revolve around process (a new or improved manufacturing technology or delivery method), marketing (such as changes to the product design, or pricing), or organisation (eg a new business practice).

Seeking new markets and brand investment are important too. While a growing number of local SMEs are venturing abroad, anecdotal evidence suggests that they need to do more on the branding front.

If examples in other countries are any indication, the contribution by local SMEs can certainly grow in importance. Many SMEs in Taiwan, South Korea and Japan are leaders in their fields, not just supporting their larger conglomerates but also dominant players on the global stage. A November article in *The Economist* highlighted a number of them, including Mabuchi – which makes 90 per cent of the micro-motors used to adjust the rear-view mirror in every car – and YKK, which makes around half the world's zip fasteners. Both are considered medium-sized firms in Japan.

"Having a relatively strong SME community will definitely help our economy ride out any crisis," said DP Information Group's Ms Chen. "This is too sizeable a group to ignore." ■

This story went to print before the Economic Strategies Committee (ESC) released its blueprint for Singapore's growth in the coming years. The report could include recommendations for the SME sector, which is reviewed by a sub-committee led by Minister in Prime Minister's Office and Second Minister for Finance and Transport Lim Hwee Hua, and Sanwa Group CEO Ricky Souw. The sub-committee will look into strategies to develop a vibrant landscape of entrepreneurial activity, to foster the growth and internationalisation of local companies and strengthen the links between small and large enterprises. The ESC is expected to release its report by the end of January.