

Enterprise 50 THE BUSINESS TIMES

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Creating value to stay ahead



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EVEN in an environment beset with challenges, Singapore's small and medium-sized enterprises (SMEs) continue to display their resilience and flexibility in adapting to new market realities while still continuing to seek out and pursue growth opportunities in markets outside Singapore. Here, two successful homegrown entrepreneurs and a banker share their thoughts on some of the challenges that SMEs are facing and how they can create value to stay ahead in an OCBC Bank-initiated roundtable.

Question 1: The business environment has become increasingly challenging for SMEs in recent years. What do you think is the next big hurdle that SMEs will face? How much will this change the business landscape in Singapore?

Lawrence Leow: Businesses operating in the new environment will have to continue to reduce their reliance on foreign labour and focus on raising productivity as the main driver of growth. The primary challenge for any business is having to keep its business going and growing while adapting to the tight foreign labour supply, and instituting productivity improvements in its operation. This is a phase where businesses may be more susceptible than ever to external shocks. Hopefully, there will not be any unexpected events in the foreseeable future to exacerbate the situation.

Paul Yeo: Unlike China SMEs, whose ability to grow is not confined by market, manpower and land constraints, Singapore SMEs will have to deal with challenges that come with increasing global competition as we lack the economies of scale at home. As such, globalisation has become a prerequisite for Singapore SMEs looking to scale up quickly and sustainably.

Linus Goh: Going international has become an even higher priority for businesses in Singapore. Already limited by a relatively small home market, over two-thirds of SMEs have operations overseas today. However, with the rising cost pressures in Singapore as well as the growing appeal of regional and global markets, SMEs are intensifying their focus on expanding overseas. The confidence gained from their success and improved performance in the regional markets have also given them an added boost to their search for new markets.

Q2: What can SMEs do to overcome the hurdles?

Mr Yeo: It is essential for one to do well in the home market before you expand overseas. A company that has built up strong revenue streams, created a sustainable business model and groomed strong and capable human resources will be operationally and financially soiled to take on the challenges and demands of any new markets. As with all overseas expansion, it is important that the same policies and product quality are consistently applied in both your home and overseas markets.

For instance, Fagerdala has established critical process controls to enable us to effectively replicate and transfer all aspects of our business, from manufacturing to equipment to HR systems, from one country to another. As a result, we are able to build new factories anywhere in the world, while adhering to the established policies and high product quality controls instituted by the Singapore headquarters. Beyond that, we continue to reinvent ourselves by designing new processes and integrating them into our packaging solution. In doing so, we are able to prevent the erosion of our competitive advantage.

Mr Leow: SMEs should leverage the various government assistance schemes and programmes to help them in their transition process towards a less labour-intensive and more productivity-driven business model. The manpower issue will persist and SMEs have to embrace the new challenges by adapting to a tightening labour market with no expectations of any reprieve likely in the short to medium term. SMEs will need to explore ways and means to improve productivity and innovate to create new value for their business and processes.

Mr Goh: There are no shortcuts to operate profitably as a regional business, SMEs will need a robust business model for internationalising the company and to invest in developing key management talent both at home and for the new markets. Businesses will have to be restructured to retain management and key high-value activities in the Singapore headquarters,

while shifting other activities to overseas markets.

SMEs with good overseas operations, for example in Malaysia, Indonesia and China, can tap on their experience and key personnel from these markets to break into new markets.

Q3: There has been a lot of focus on productivity and innovation recently, which have been identified by the government as the two value drivers that are critical to an SME's ability to stay ahead of the competition.

Mr Leow: As competition for labour and market share intensifies on the domestic front, SMEs should look beyond our shores and seek new frontiers in overseas markets. For our group, we have added new investments to existing ones in Malaysia, Indonesia, China and Australia, and initiated new projects in Sri Lanka and Maldives recently. These new offshore investments and projects will provide the impetus to drive our group's growth.

Mr Goh: Through our association with the E50 Award over the years, we have observed many winning companies sustain their ability to create value by paying close attention to their customers' requirements. Often, it's not just about the new technology but a keen awareness of how the technology, along with improvements in design, processes and products can be applied to ensure their customers are satisfied and remain loyal.

Mr Yeo: There are many ways that SMEs can create value for their companies. These are some of the value creation initiatives that Fagerdala has implemented over the years in order to strengthen our competitive advantage:

- Vertically integrating the manufacturing operations
- Acquiring an automation solutions developer to engineer productivity gains
- Expanding our global footprint
- Rolling out innovative packaging designs

For continual value creation, we have also established Centres of Excellence (COE). The COEs hold the domain and functional knowledge within and beyond the group, and help accelerate the application of new ideas to all our subsidiaries.

Q4: The various players in the business ecosystem have a part to play in ensuring the sustainability of entrepreneurship in Singapore. Do you think enough has been done to support the SMEs in Singapore? Can more be done to ensure their success locally and globally?

Mr Yeo: Entrepreneurship comes from within and is a manifestation of one's hunger for success and willingness to sacrifice comfort for success. The Singapore government has done more than enough to promote entrepreneurship, and it is now up to the individual entrepreneur to strive to achieve his dreams and succeed. The spirit of entrepreneurship cannot be passed on from one generation to another as it all depends on the individual; whether he has the passion and determination to succeed. The generation of today is too comfortable and are not hungry enough for success. In order to avoid falling victim to their own success, Singaporeans need to rekindle the fire in their belly, only then can the spirit of entrepreneurship be kept alive in Singapore.

Mr Leow: The government has been very supportive of the local business community. They have formulated many schemes and programmes to help SMEs transit to a productivity- driven model. A good example is the Productivity and Innovation Credit scheme that has been very well received by the business community and benefited many SMEs. The various government agencies such as Spring Singapore, IE Singapore and JTC have also provided very good support and assistance to businesses during these challenging times.

These agencies have done well in supporting the SMEs so far. However, at some point in time, there may be a need for a dedicated agency to better coordinate and streamline the various schemes and programmes. SMEs account for 50 per cent of Singapore's GDP and 60 per cent of the workforce. By virtue of the SMEs' sheer strength and significant contributions to the economy, there is a strong case for the establishment of a dedicated agency to look after the needs and welfare of SMEs. This dedicated agency can also ensure a coordinated and seamless provision of support and assistance to SMEs all under one roof.

Mr Goh: I agree that much has been done by the government over the years to support SMEs. The reality is, all SMEs start out small. Individually, they lack the voice and influence that larger companies have. Support from all quarters is therefore essential to systematically ensure that the issues and challenges of the SMEs are heard, and ultimately to ensure that they have an environment that is conducive for good ideas and business models to succeed.

Of course, it's important to strike a balance and not overdo the support to the point that we lose the essence of entrepreneurship. As Paul mentioned earlier, entrepreneurship is about initiative. It is about people being self-starters, getting out on their own, taking the risks and being able to succeed and fail.

QS: Given the change in business environment, how critical is the role of a banker in the SME ecosystem? And besides financing, how else can a bank work with the SMEs to ensure the long-term viability of their businesses?

Mr Yeo: Bankers' willingness to lend commensurate with their ability to understand an SME's business model. Hence, the banks' relationship managers (RM) play a critical role in acting as the bridges connecting their banks and SMEs. A more enterprising RM who truly seeks to understand and appreciate what the SME is doing and thinking will definitely help to boost the SME's success as opposed to an arrogant and inflexible RM who goes strictly by the book which will stifle the growth of an SME.

Mr Leow: Banks continue to play an important role in financing SMEs by providing short-term credit, medium and long-term loans. However, there is scope for banks to do more than being just a financier and go beyond its traditional role of being a source of funding to SMEs. With its vast network and contacts, banks can play a pivotal role in being a matchmaker to help SMEs find suitable partners both locally and overseas to grow their business.

Q6: What is the key ingredient to a successful business-banker relationship?

Mr Yeo: Trust! In 2010, two years after the 2008 subprime crisis, our business did well. Our revenue grew by more than 50 per cent, while our annual receivables almost doubled. I remember calling the business head of a bank and asking him to help us free up some cash for our working capital. The bank met our request by granting us a trade line which allowed us to leverage market demands and our growth momentum to expand our business further. This was possible due to the trust that had been built up as a result of our constant and open communication with the bank. The bank also understood our business well, knew our business plans, and so were able to support us when it was most critical.