



KEEPING PACE WITH TODAY'S ECONOMY

There are many government initiatives that help SMEs by educating and providing tools for companies to scale up their capabilities

BY JONATHAN HO

IN THE fourth industrial revolution – or as many call it, Industry 4.0 – rapid advances in technology are upending business models, blurring lines between industries and companies, and demanding an entirely new way of thinking about business. At the same time, small and medium-sized enterprise (SME) owners are looking for opportunities to regroup and to build up their company's capabilities in anticipation for the future. Companies are also sending their workers for training and reviewing their internal business processes to improve productivity, innovate and upgrade capabilities.

The Singapore government has been proactive in its initiatives to help SMEs, actively educating and providing tools for companies to scale up capabilities, and in gloomy economic conditions, to navigate their way out of the challenging economic environment. While many SME owners are aware of the host of government assistance schemes in Singapore, they have difficulty in determining which schemes are most relevant to their needs.

Given that SMEs face many challenges in managing their talents and finances, schemes that address such issues would be helpful. One example is the Capability and Development Grant (CDG), implemented and supported by Spring Singapore, which can help SMEs in their transformation journey.

INVESTING IN HUMAN CAPITAL

The CDG is a financial assistance programme that helps SMEs develop capabilities across 10 development areas. These include brand development, business excellence, business innovation, enhancing quality and standards, financial management, human capital development, intellectual property & franchising, productivity improvement, service excellence and technology innovation.

SMEs can use the CDG to defray up to 70 per cent of qualifying project costs (eg consultancy, training, equipment and software costs) for upgrading initiatives in areas such as increasing productivity, process improvement, product development and market access.

Two areas of development that SMEs might want to look into are human capital development (HCD) and financial management.

The attraction and retention of talent is imperative for all SMEs, and is especially critical for those that are at the cusp of becoming regional and/or global enterprises.

The HCD grant enables SMEs to invest in human capital and put in place strategies to attract, develop and retain talent. The grant covers areas such as recruitment and selection, compensation and benefits, performance management, learning and development, career management, talent management and succession planning, employee engagement and employee value proposition.

Take the example of a young, dynamic company in the retail industry that wanted to design an innovative long-term incentive programme to retain its best talent. The programme was designed using employee performance units. The attractiveness of the programme lay in it being self-funding, ie payouts would only be made if financial thresholds were met, and targets and outcomes are achieved.

In developing the programme, the financial performance of the company was assessed using both past and future anticipated growth. Performance and scenarios were developed to simulate the potential payouts under various economic and financial conditions.

This programme was attractive in that it did not impact the owners' shareholding, and was mostly cash settled. This means that eligible employees who are given performance units instead of a straight-up performance bonus component have the opportunity to vest the number of performance units that they own, much like an option to purchase shares annually.

The value of each unit is calculated yearly based on established formulas determined internally instead of the prevailing market price if it were a share traded on the stock exchange. This approach towards reward management enabled a more entrepreneurial mindset to be nurtured.

Companies that adopt this approach towards reward management must have clarity of business objectives, financial maturity and experienced professional staff who are willing to "invest" in the business as if it is their own. Participation in the scheme is by invitation only.

BETTER FINANCIAL HEALTH

SMEs often face challenges in financing their growth, especially when investors raise concerns about their financial systems, processes and corporate structures. The lack of proper risk management and strong internal controls also makes companies vulnerable to business shocks, which can limit their growth potential.

The four key areas supported by the CDG's financial

management area include:

- Developing a robust financial framework and a set of key indicators to manage and optimise the deployment of financial resources
- Reviewing and implementing internal controls to strengthen corporate governance and promote stakeholder accountability
- Establishing a sound risk management framework for strategic growth
- Formulating a corporate financial strategy and model to support accelerated growth (eg mergers & acquisitions and investments)

These are particularly important areas for companies in terms of upgrading their financial management capabilities and to strengthen their governance processes.

For enterprises experiencing rapid growth, it is a good opportunity to take stock of their financial management capabilities and perform an assessment on their state of operations. And for those preparing for a public listing, the CDG can help them in their next phase of growth.

Take the example of another company in the food and beverage industry which undertook a risk management and internal controls review. The project, supported by the CDG grant, commenced by identifying key risks faced by the group and what has already been done or should be done by the management to mitigate these risks.

The next phase was to analyse the core business processes, and whether current processes were adequate, and identify risks that were not mitigated. These business processes include controls over the inventory items and the payments processed by the company. Where there were instances of duplication of procedures, these were also identified which resulted in opportunities to streamline and improve these business processes.

Financial management enhancement does not happen overnight. To reap the full benefits of such projects, the management team has to consciously walk the talk and set the right tone from the top. The benefits from an enhanced risk management and internal controls environment will serve the company well for a long time to come, through both good and bad times.

DEVELOPING A GLOBAL MINDSET

In addition, the SME portal is also a good touch point for Singapore SME owners and aspiring entrepreneurs looking for information, tools and services that can help them build sustainable and competitive businesses.

Developed by Spring Singapore involving respective government agencies and over 30 industry partners, the portal is a one-stop shop that aggregates grants, loans, tax incentives and credits, banking solutions and much more.

However, for the capability building and productivity drive to succeed, we must go beyond government initiatives and measures. Business mindsets must also change.

For certain industries, amid competition from international entrants and larger multinational corporations (MNCs), SMEs will need to revamp their culture, strategy and technology. SMEs poised for growth are expected to grow outside their domestic markets while dealing with increasing global competition in their own backyard.

By adopting a global mindset and focusing on transformation, firms can enter new markets with the right combination of business acumen and skills sets. Companies will also need to invest in a suite of digital tools to generate ideas, analyse insights and manufacture and design products that meet changing consumer needs.

This will allow SMEs to capitalise on technology-driven change, assess levels of convergence and sophistication in their innovation pursuits, and attain sustained growth. ■

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