

IT HAS been five years since the government announced its long-term economic strategy of improving productivity in Singapore. Latest figures from the Ministry of Manpower (MOM) show that the republic's employment numbers are falling, in line with the current economic restructuring, but part of that transition towards a manpower-lean economy driven by productivity is still stuck in reverse.

Despite governmental efforts to boost productivity growth, the MOM figures show that labour productivity has fallen for the third consecutive six-month period with the manufacturing, services and construction industries struggling to rise to the challenge of a tighter labour supply. Singapore's overall productivity growth "is not likely to see a significant uplift this year", notes MOM, which projected that "some consolidation and exit of less-productive businesses is also expected" as the economy restructures.

A recent SBF-DP SME Index showing that the optimism of small and medium-sized enterprises (SMEs) hit a three-year low in the second quarter indicates that high business costs and the manpower crunch – along with greater competition, rapid technological advances and more demanding customers – may have exacerbated SMEs' worries during the course of this year. The key question on the minds of many SME executives, then, is what lies ahead for 2016 and how to succeed in such a challenging environment.

SOLVING THE TALENT SHORTAGE

Finding staff and managing a multi-generational workforce will continue to be a challenge in the year ahead, as the government has said that it will still limit the hiring of foreign workers. SMEs are expected to embrace new human resource (HR) and hiring models in 2016 to help to alleviate the shortage of talent.

The trend towards hiring freelancers and contract workers both domestically and overseas to support business in Singapore looks set to grow, as it can enable organisations to meet manpower needs, reduce cost pressures and increase flexibility. Some SMEs have hired staff overseas in locations such as the Philippines or Vietnam to support their businesses in Singapore, while others are reaching out to organisations such as oDesk or Guru.com for outsourced support for everything from website development to graphic design.

HR departments will also put more effort into upgrading their capabilities in the year ahead so that they can attract, engage and retain talent better. Along with building a talent pipeline to prepare for growth, SMEs are working to strengthen their talent management capability, understand the career aspirations of today's workforce and develop more creative ways to reward good performance such as profit sharing or support for employees' further studies.

More companies may also follow the lead of innovators such as Yang Kee, which has set up an in-house training academy, increased automation and established facilities such as childcare services in order to increase productivity and retain staff.

MANAGING RISING COSTS

From rent to salaries, cost increases for SMEs in Singapore are seemingly relentless; and SMEs can expect the trend of rising costs to continue in 2016. SMEs are looking intensely at all parts of their operations as they focus on how to squeeze costs for everything from postage and paper to laptops and salaries, and that focus is likely to grow over the coming year.

Training staff and leveraging automation are among the key practices for companies to reduce the costs of office space and staff. An increasing number of SMEs may well take advantage of the trend to let staff work remotely as part



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WHAT LIES AHEAD

SMEs will need to solve their talent shortage, manage rising costs, leverage technology and create opportunities for expansion

BY CHIU WU HONG

of the effort to reduce rent, and use cloud-based technology solutions for services ranging from accounting to office software to reduce technology costs.

Companies are likely to participate in workshops that will help them to identify more opportunities to reduce costs further as well as programmes run by non-profits such as the Workforce Advancement Federation or the Association of Small and Medium Enterprises (ASME).

LEVERAGING TECHNOLOGY

The relentless focus on productivity and manpower constraints have compelled companies to automate and to make better use of technology. SMEs by and large need to master mobile, analytics and cloud computing to gain a competitive edge in an overcrowded industry and successfully deliver what customers are seeking.

Through adopting technology and making it fit for purpose, SMEs can boost innovation, strengthen customer interactions, improve the agility of their businesses, stay competitive and develop a reliable and unique relationship with their markets. Being able to leverage technology and build innovation successfully will also help SMEs to bridge the gap between venture creation and knowledge creation. This will also help them to accelerate the conversion of ideas to market-ready enterprises.

The government has supported these initiatives in recent years with grants such as the Productivity and Innovation Credit (PIC), Capability Development Grants (CDG) and the SkillsFuture Earn and Learn Programme, which provide funds for SMEs to install new technology to increase productivity and train their staff. These programmes are likely to continue into 2016 and beyond, and more programmes may be on the way.

A recent DP Info SME Development Survey found that a growing number of SMEs are indeed embracing technology and innovation to improve productivity, and about 50 per cent also plan to use technology to increase production capacity.

From sushi-making machines and self-service ordering in restaurants to courier service automation such as Rocketuncle, and with advertising increasingly moving to social media, technology is already making an impact. More technology solutions will be implemented during the next year.

CREATING OPPORTUNITIES FOR EXPANSION

Along with growing their businesses domestically, SMEs are increasingly expanding overseas and will have even

more opportunities to do so in 2016. The establishment of the Asean Economic Community (AEC) at the end of 2015, which is intended to make it cheaper and easier to do business in the region, is likely to accelerate regional expansion. Business operations can, for example, be structured to use the region as an integrated production base.

That growth would build on both existing internationalisation by SMEs. DP Info found that more than half of SMEs already generate revenue from overseas, and are on government support for overseas expansion through initiatives such as the Double Tax Deduction for Internationalisation and the Market Readiness Assistance schemes.

BUILDING A BETTER TOMORROW STARTS WITH DELIVERING TODAY

When businesses seem to be falling behind in sectors where they were once the dominant players, there is a clear recognition that the status quo cannot be maintained. How does the leadership create a work environment and work life that not only survives a crisis, but capitalises on today's frequent and disruptive accelerating changes?

The answer is change. SMEs need to embrace change, and this has to start today. SMEs need to be innovative and forward-looking in order to cope with challenges as well as to succeed in domestic and regional markets. They will need to introduce new strategies to strengthen their value proposition and remain attractive as an employer.

Amid a weaker global economy and a leaner workforce, there are government initiatives in place to help companies move towards higher skills, innovation and productivity. An example of this is the announcement by Singapore Prime Minister Lee Hsien Loong about setting up a new committee on "The Future Economy". The committee looks at how Singapore can continue to create opportunities and help workers and businesses adapt in a weaker economy and with a leaner workforce. Chaired by Finance Minister Heng Swee Keat, the committee reviews and revises policy measures that have been in place since 2010.

A better utilisation of incentives, more pathways for expansion and partnerships and schemes that nudge SMEs to internationalise will attract and retain competitive talent. These will be the promising new leaders capable enough of taking enterprises into the next era of growth. ■

The writer is head of enterprise incentive advisory at KPMG in Singapore. The views expressed are his own.