

# Good essay on small and medium-sized enterprises (smes) in singapore

[Business](#), [Marketing](#)



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## **Introduction**

Small and medium sized enterprises (SMEs) are the major entry points for entrepreneurs to build new enterprises, create jobs and contribute to the enrichment of the economy of the nation (eds Harvie & Lee, 2002).

Singapore tops among those countries with the most SME – friendly economy, especially in terms of providing grants and tax benefits for training purposes. The SMEs are the bedrock of the economy of Singapore. Out of all the enterprises in Singapore, more than ninety percent are SMEs. Thus, SME sector provide a strong base to this nation’s economy. They contribute to the economic output and provide employment to a large part of the native population.

As part of expansion, the SMEs are looking for niches beyond their country. Besides, Singapore is trying to become the world's first Smart Nation, enhancing hyper-connectivity for citizen-centric services and improving enterprises’ productivity. The SMEs would play a key role in this process, using the available inputs, skills and technology. Most of the SMEs in

Singapore are partially or wholly owned and managed by families and shareholders, which run with locally available human and material resources with less cost of production and increased flexibility of operation which ultimately leads to the minimization of geographical imbalances (Das & Zheng 2008). These SME firms are the prime sources of job creation, thus, promoting economic development and social security of Singapore.

## **Contribution of SMEs in Singapore**

The SMEs dominate the service sector of Singapore. According to Singapore Business Federation's recommendations for Singapore budget 2014 (2013), SMEs employ seven workers out of every ten of the workforce , and contribute about 55 per cent of the national Gross Domestic Product (GDP). More than 99% of SMEs are in service sector. They operate mainly in the sectors like wholesale and retail, tourism related businesses like restaurant and hotel enterprises, manufacturing, medical services, healthcare, transport, education, etc. creating huge job opportunities. The SME ventures are also found in business and communication, Information Communication Technology (ICT) and biotechnology sectors. Entrepreneurial activities in the SME sector caused structural changes with positive effects, spillovers, which improved the competitiveness and productivity of the concerned enterprises. Ingress of new SMEs and egress of existing SMEs is an example for such a structural change. With the liberalisation of markets, entrepreneurial activities were promoted to ensure social well-being and to enhance wealth creation in the economy of Singapore.

## **Constraints of SMEs in Singapore**

The SMEs in Singapore are dealing with a lot of challenges. The SMEs generally complain about the lack of proper financing. Loan guarantees and informal equity provision are highly deficient for SMEs. Additionally, the SMEs are burdened with corporate regulatory and compliance taxes. Some of the financial Human Capital Managements (HCMs) are targeted only at big firms or large scale projects with huge capital. The SMEs face special difficulties while internationalizing their business through Foreign Direct Investments (FDI). The lack of availability of finance while internationalizing is mainly due to structural market failures relating to asymmetric or improper information. Financial institutions appraise loans to SMEs as a risky idea, ignoring the importance and status of SMEs in the national economy of Singapore (Pangarkar & Husain 2013).

SMBWorld Asia (2014) remarked that the SMEs also face mounting manpower issues with slower workforce growth, which challenges their productivity. All the available technologies are not sufficiently utilized by the SMEs; instead, unproductive methods of operation are relied upon for the production processes. The SME leaders report high difficulty in hiring efficient and suitable staff. Due to the high technical manpower costs, foreign workers employed for low wages considerably affects the productivity of the firm, irrespective of following standard selection processes and procedures. The managers of SMEs lack technical know-how and professionalism which results in managerial constraints.

Relentless competition makes it difficult for many SMEs to maintain their foothold in the existing market conditions. The combined effects of rising

rental costs and other costs for the business land and space further increases the cost of production. The entrepreneurial culture of the country is generally fragile and the domestic markets are small. The SME firms face international competition, even in the local markets, which makes their promotional activities less effective. Most times, SMEs fail to exploit the economies of scale (Singapore National Employers Federation 2008).

### **Steps to strengthen SMEs in Singapore**

Government should strengthen the support to SMEs in three key areas, viz. innovation, capability grading and productivity. Priority sector lending to the small-medium enterprises can include direct and indirect finance to the eligible SMEs. This will help the SMEs to meet the long term financial demands and even promote internationalization of SMEs in Singapore.

Financing the companies at various stages of operation and intensification of micro-loan programs attract more young entrepreneurs to SME sector which would lead to improved productivity of SMEs. Reference pricing policies can be introduced and or strengthened for SMEs in the country. Care should be taken not to set the reference prices at a very low range, but at a reasonable and optimum level. This is of prime importance considering the theories of behavioural economics.

Reforms should be made in the foreign labour law of Singapore. Presently, the government has raised the minimum wage of the foreign employee; imposed levy on the wage paid to the outsiders and reduced the dependency ration ceiling. All these factors force the Singapore SMEs to face tight competition in the labour market, both from local business establishment

and multinational companies. Recruiting talented workers has become a costly affair, training costs have sky-rocketed, profits have reduced and new challenges have emerged in the productivity and expansion front of the SMEs. Necessary amendments are to be made on these labour laws in favour of the SMEs.

Tax and tariff deduction for innovations in SMEs can be retained (My Business 2014). New initiatives within the same industry will considerably reduce the cost of SMEs. In such situations, there will be merging of resources and operations as well as increased demand for the products and services. Embracing information communication technologies improve the networking and access to information and thereby improve the productivity and competitiveness of SMEs.

Future prospects of SMEs in SingaporeThe trials of SMEs in Singapore to improve their productivity encouraging innovations and utilising the most out of the available technologies, should be continued in order to sustain in today's challenging market environments. SMEs should adopt globalisation, remodel their business structures and think of product diversification.

Technology adoption will help them in this attempt by reducing the cost of production and man power. Giving thrust to gender issues in SMEs is another prospect. Encourage and finance women entrepreneurs to start SMEs in Singapore. Along with that, initiatives by talented young entrepreneurs are to be welcomed in the SME sector. Innovations empower SMEs to grow wings in the overseas. Checking the reliability and validity of products will enable the SMEs to deliver high quality products and services. This increases the demand for products and services from Singapore SMEs in the domestic as

well as international markets. An increased demand facilitates them to get a good hold in the global market as well (UNESCAP 2012). In short, SMEs in Singapore should work towards exponential growth in the changed economic environment boosting up their unique competencies, taking advantage of all available opportunities and technologies, developing strategic collaborations with customers and all other players in the market including their competitors and embellish their potential. Entrepreneurship will be the key area that all SMEs in Singapore should focus on to flourish further, in the highly challenging market environments.

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