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MANAGING PARTNER'S MESSAGE

Frankie Chia
BDO Singapore

The Singapore Budget was unveiled on 20 February 2017. Many small and medium-size enterprises (SMEs) were disappointed that the Budget lack short-term measures that many are hoping for to help them during the economic and challenging period.

The government felt that there's no strong reason to overreact just yet but rather to press on with the restructuring of the economy and upskilling the workforce. It's no surprise that many of the measures and initiatives announced in the Budget primarily based on the strategies and recommendations put forth by the Committee on the Future Growth (CFE). The Budget, largely a forward-looking one, is intended to prepare the nation for the future ensuring the country remained competitive and continue on a sustainable growth footpath. Thus, the theme "Moving Forward Together" is more like a rallying call to get the nation behind the government effort in its transformation plan.

The government also recognise the urgency to transform the SMEs and the workforce to meet challenges that arise from the rapid technological changes that have disrupted the norms of doing business and making jobs obsolete. The "SME Go Digital Programme" and "The Adapt and Grow" are some of the many initiatives announced in the Budget to tackle the problem head-on.

The highlight of this year's Budget is the introduction of Green Taxes. The announcement is a right step towards saving and caring for the environment in a bid to reduce carbon emission and to kerb wastage on water consumption. However, there is concern that it might add pressure to the already high cost of doing business faced by many SMEs and lead to increase in the cost of living.

To know more about the Budget. I highly recommend you read our Budget Commentary which is available from *https://www.bdo.com.sg/en-gb/insights/tax/singapore-budget-commentary-2017*.

I hope this quarter's issue will benefit you as we share the updates on tax developments and business insights. Enjoy!

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SINGAPORE BUDGET 2017 - HIGHLIGHTS

The Singapore Budget 2017 was delivered by the Finance Minister, Mr Heng Swee Keat, on 20 February 2017, one which aims for innovative economy, quality environment and inclusive society. Companies will receive some near-term support to tide over the current economic slowdown, while others will benefit from new measures to help them innovate, scale up and globalise. There are also help for our people to deepen capabilities and enhance employability. Measures to build a sustainable quality environment is another highlight of this year's Budget. Here are the highlights :-

PERSONAL INCOME TAX

Personal Income Tax Rebate

- For **Year of Assessment (YA) 2017** – 20% Personal Income Tax rebate for resident taxpayers, capped at S$500.

CORPORATE INCOME TAX

Corporate Income Tax Rebate

- For **YA 2017** – 50% Corporate Income Tax (CIT) rebate, cap raised from S$20,000 to S$25,000.
- For **YA 2018** – CIT rebate at a reduced rate of 20% of tax payable, capped at S$10,000.

New and Streamlined

- Intellectual Property (IP) Development Incentive - administered by Economic Development Board to cover IP income under a Base Erosion and Profit Shifting compliant modified nexus approach, to be introduced from **1 July 2017**.
- Finance and Treasury Centre Scheme - streamlined conditions for qualifying counterparties for certain transactions of approved Finance and Treasury Centres will apply to new or renewal of incentive awards approved on or after **21 February 2017.**
- Global Trader Programme (GTP) - the following enhancements will apply to qualifying income derived on or after **21 February 2017**:
  - Requirement for qualifying transactions to be carried out with qualifying counterparties is removed.
  - Concessionary tax rate will be granted to global trading companies on physical trading income
    - i. derived from transactions in which the commodity is purchased for the purposes of consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore; and
    - ii. attributable to storage in Singapore or any activity carried out in Singapore which adds value to commodity by any physical alteration, addition or improvement (including refining, blending, processing or bulk-breaking).

  Also, substantive requirement to qualify for GTP will be increased for new or renewal of incentive awards approved on or after **21 February 2017**.

- Section 14D cost sharing agreement - Taxpayers may opt to claim tax deduction for 75% of the payments made on or after **21 February 2017** incurred for qualifying Research & Development projects under a cost sharing agreement instead of providing the breakdown and excluding the disallowed expenditure.

Extensions and Refinements

- Aircraft Leasing Scheme extended until **31 December 2022**:
  - From **21 February 2017**, scope of qualifying ancillary activities for approved aircraft

lessor covers incidental income derived from the provision of finance in the acquisition of aircraft or aircraft engines by any lessee;

- Single concessionary tax rate of 8% will apply to new or renewal incentive awards approved on or after **1 April 2017**; and
- Automatic withholding tax (WHT) exemption regime extended to qualifying payments made on qualifying loans entered into on or before **31 December 2022**.

• Integrated Investment Allowance Scheme extended until **31 December 2022**:

  - For projects approved on or after **21 February 2017** – qualifying productive equipment may be used by the overseas company primarily to manufacture products for the qualifying company.

• WHT exemption on payments made to non-resident non-individuals for structured products offered by financial institutions extended until **31 March 2021**.

• WHT exemption on payments for international telecommunications submarine cable capacity under an Indefeasible Rights of Use agreement extended until **31 December 2023**.

• Tax Incentive Scheme for Project and Infrastructure Finance extended until **31 December 2022**, with the exception of remission of stamp duty payable on the instrument of transfer relating to qualifying infrastructure projects/assets to qualifying entities listed, or to be listed, on the SGX.

GOODS & SERVICES TAX

Withdrawing the GST Tourist Refund Scheme for tourists departing by international cruise

• From **1 July 2017**, Tourist Refund Scheme will be withdrawn for tourists who are departing Singapore by international cruise from cruise terminals.

• Tourists will have until **31 August 2017** to claim the refund on purchases made before **1 July 2017**.

GST Voucher (GSTV) Scheme

- One-off (GST) Voucher – Cash Special Payment
  - Eligible Singaporean will receive a one-off GST Voucher – Cash Special Payment of up to S$200.
  - Cash recipient will receive up to S$500 in total to be paid out in November 2017.
- Increase in GST Voucher – U-Save rebate
  - **From July 2017**, eligible HDB households will benefit from a permanent increase of up to S$120 in GST voucher – U-Save rebate.
  - U-Save rebate will be paid over four quarters, in January, April, July and October.

Table 1: One-off GST Voucher – Cash Special Payment

Assessable Income for YA2016 < $28,000 Aged 21 years and above	Annual Value of Home as at 31 Dec 2016	
	Up to S$13,000	S$13,001 to S$21,000
GSTV – Cash (Regular) (S$)	300	150
GSTV – Cash Special Payment (S$)	200	100
Total (S$)	500	250

Table 2: Increase in GST Voucher - U-Save Rebate

HDB Flat Type	Current Annual Rebate (S$)	Increase in Annual Rebate (S$)	Revised Total Annual Rebate (S$)
1- and 2-room	260	120	380
3-room	240	100	340
4-room	220	80	300
5-room	200	60	260
Executive / Multi-Generation	180	40	220

OTHER TAXES

Introduction of Green Taxes

- Diesel duty move to volume-based duty at $0.10 per litre with effect on or after **20 February 2017**. This is to be offset by: -
  - Permanent reduction of Special Tax on diesel cars and taxies by $100 and $850 respectively.
  - 100% road tax rebate for one year and partial road tax rebate for two years for commercial diesel vehicles.
  - Additional cash rebates for diesel buses ferrying school children.
- Carbon Tax to be implemented from **2019**. Price level and implementation schedule to be decided after public consultations.
- Carbon Emissions-based Vehicle Scheme (CEVS) extended until **31 December 2017**.
- New Vehicular Emission Scheme to replace CEVS from 1 **January 2018**, for two years.
- Early Turnover Scheme extended until **31 July 2019**.

- Enhance Certificate of Entitlement bonus period for light goods vehicles.
- 10% NEWater tariff to be imposed from **1 July 2017**.
- Water price to be increased by 30% in two phases by **1 July 2018**.

INDUSTRY HIGHLIGHTS

- Bring forward S$700m worth of infrastructure projects to start in financial year **2017** and **2018**, such as upgrading of community clubs and sports facilities, providing opportunities for local construction firms.
- Defer foreign worker levy increase in the Marine and Process sectors until **30 June 2018** to help with the current weakness in the industry.
- No further changes to the Wage Credit Scheme which will continue in **2017**.
- Special Employment Credit extended until 2019 to provide support for wages of older workers.
- Additional Special Employment Credit, where employers receive wage offsets of up to 3% for workers earning under S$4,000 a month, extended until **31 December 2019** and will apply to new re-employment age of 67.
- The Productivity and Innovation Credit Scheme will lapse after **YA 2018**.

STRENGTHENING CAPABILITIES

Digitalisation

- A new Small and Medium Enterprises (SMEs) Go Digital Programme will be introduced with the following components:
  - Industry Digital Plans on technologies to use at each stage of growth.
  - In-person help at SME Centre and a new SME Technology Hub for specialist advice.
  - Advice and funding support when piloting emerging information and communications technology solutions.

Innovation

- Operation and technology road-mapping by A*STAR to help 400 companies over the next four years to identify how technology can help them innovate and compete.
- IP initiatives to match companies with the IP they need and to co-develop IP with A*STAR to enjoy 36 months of royalty-free use of IP.
- Tech access initiative to provide companies with use of advanced and expensive machine tools for prototyping and testing.

SCALING UP

- International Partnership Fund
  - New International Partnership Fund will co-invest with qualifying Singapore-based firms in opportunities for scale-up and internalisation, with a focus on Asian markets.
  - Qualifying Singapore-based firms should be headquartered in Singapore with annual revenue of no higher than S$800 million.

**Further details on the new, streamlined, extension and enhancements will be released by the relevant Government agencies in due course.*

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Singapore Issues Updated Transfer Pricing Guidelines

OVERVIEW

On 12 January 2017, the Inland Revenue Authority of Singapore (IRAS) issued fourth edition of the transfer pricing guidelines. The revised edition largely reflects Singapore's commitment back in 2016 to implement the four minimum standards of the 15-action plan under OECD's Base Erosion and Profit Shifting (BEPS) project.

KEY CHANGES

Arm's length principle

The revised guidance supports the BEPS principle that profits should be taxed where the real economic activities generating the profits are performed and where value is created. It soughts to achieve profit allocation to locations where real functions are performed compared to profit allocations on mere contractual risk allocation and legal ownership of intangibles.

Going forward, taxpayer should ensure that profits follow functions and value creation to ensure adoption of the revised arm's length principle for related party transactions by revisiting their existing structures and profit allocations.

Risk allocation

The profit distribution between related parties is dependent on the functions each enterprise performs taking into account assets used and risks assumed. The new guidelines now devote three pages on risks analysis compared to a short paragraph under the earlier guidelines. Risks are the effect of an uncertainty on the objectives of the business. The actual assumption of risks by a taxpayer to a transaction can significantly affect the pricing of that transaction at arm's length. Accordingly, when analysing risks under the revised guidelines, taxpayers should consider:

a) The effect of the risks assumed though not apparent on the financial statements;

b) Risk assumption vis-à-vis risk management – a taxpayer who assumes a risk is entitled to the upside benefits and incurs the downside costs with the result that the party assuming a risk will also bear the financial and other consequences if the risk materialises; whereas risk management should not be thought of as necessarily encompassing a separate function, requiring separate remuneration, distinct from the performance of the activities that optimise profits;

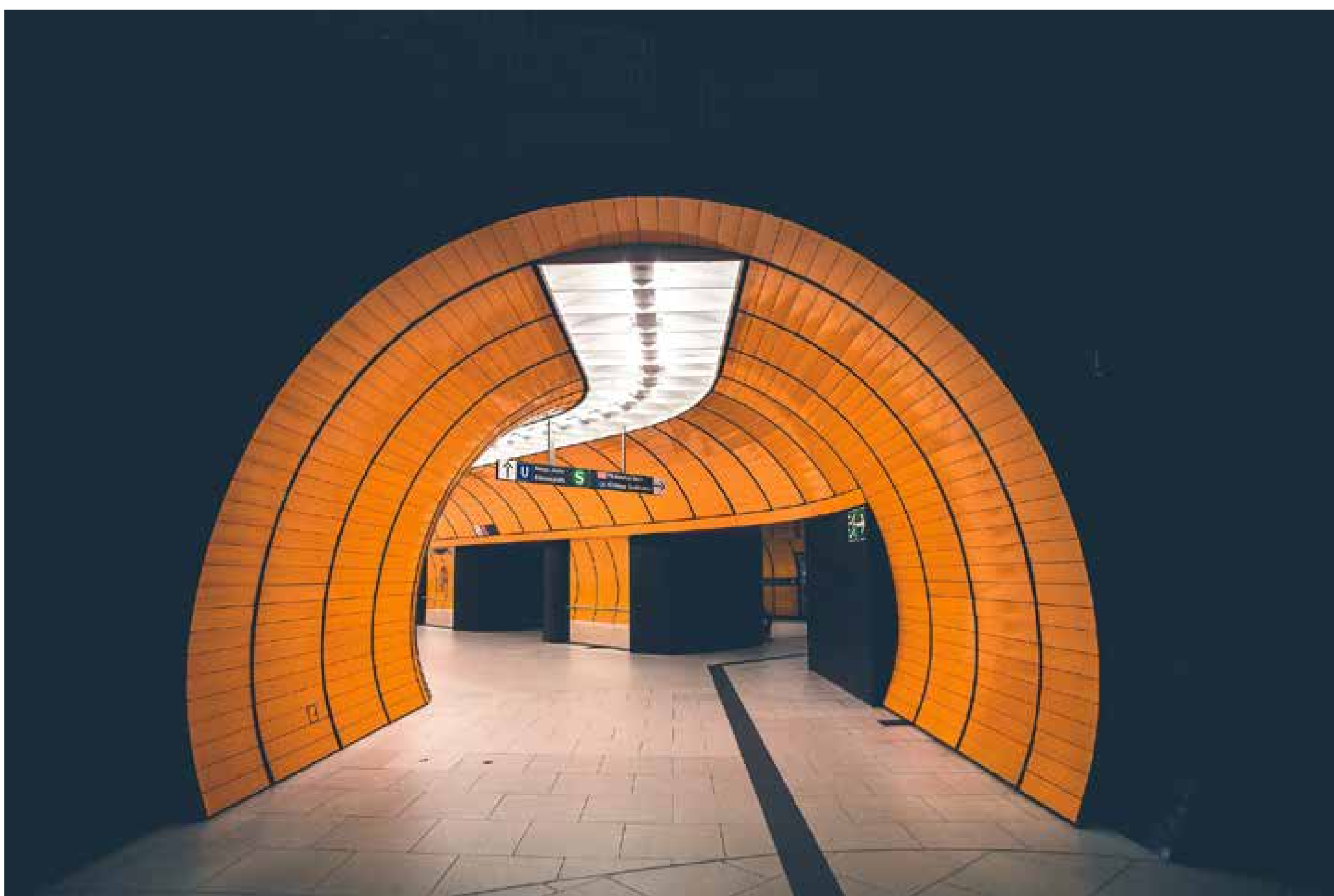
c) To assume a risk for transfer pricing purposes, the taxpayer needs to control the risk and has the financial capacity to assume the risk.

Safe harbour for inter-company loan transactions

The revised guidelines have introduced a safe harbour in the form of an "indicative margin" to price related party loans obtained or provided from 1 January 2017. The indicative margin can be applied to an appropriate base reference rate such as swap rate or Singapore Government Securities yield for fixed rate loans or SIBOR and LIBOR for floating rate loans. The indicative margin for calendar year 2017 is +250 basis points (2.50%).

IRAS will publish this indicative margin on its website and will be updated at the beginning of each year for taxpayers to price their Singapore-dollar denominated and foreign currency denominated loans. For loans denominated in foreign currency, the Singapore dollar threshold of S$15 million is to be determined based on the prevailing exchange rate at the time the loans are obtained or provided.

Taxpayers can choose to apply the indicative margin to each related party loan that does not exceed S$15 million at the time the loan is obtained or provided. The threshold is based on the loan committed and not the loan utilised. Accordingly, if a taxpayer obtained a loan facility of S$18 million from a related party; the safe harbour of an indicative margin cannot



be applied notwithstanding that the amount utilised or intended to be utilised is less than S$15 million. Once the taxpayer has opted for the safe harbour of indicative margin to price related party loans, then they are not expected to prepare transfer pricing documentation to justify the arm's length rate for those loans. However, the application of indicative margin is not compulsory and taxpayers are free to adopt a margin that is different from the indicative margin by performing a detailed transfer pricing analysis.

Documentation thresholds - Guarantees

Guarantee income and guarantee expense has been included within the "others" category along with service income/expense, royalty income/ expense and rental income/expense. The threshold for this "others" category is S$1 million.

Though, guarantee income/expense has been included within the "others" category, there is no definition provided within the guidelines to the term "guarantee" as to whether it only refers to explicit guarantee or implicit guarantee or both. In addition, there is no safe harbour provided unlike the indicative margin for related party loan transactions and the detailed steps on undertaking comparability analysis for guarantee transactions is also not provided. With these missing, we expect a fair deal of controversy on the guarantees front and therefore a clarification from IRAS will be much welcomed by the taxpayers.

Further, a clarification is now included that strict pass through costs should also be included in the computation to determine if the thresholds are breached and therefore whether there is an obligation to prepare a transfer pricing documentation.

Miscellaneous

In order to implement Singapore's commitment to one of the four minimum standards of the 15 point action plan under the BEPS project – Countering harmful tax practices, Action 5 – IRAS will spontaneously exchange information on cross border unilateral APAs within three months after date of agreement (for unilateral APAs issued on or after 1 April 2017) and by December 2017 (for unilateral APAs issued before 1 April 2017). The unilateral APAs will be exchanged, subject to satisfaction of certain safeguards, with (a) jurisdictions of residence of all related parties with

whom the taxpayer enters into transactions that are covered by the unilateral APAs; and (b) jurisdictions of residence of the taxpayer's ultimate parent entity and the immediate parent entity.

KEY TAKEAWAYS

Under the revised arm's length principle, taxpayers will have to demonstrate where real economic activities generating profits are performed and where value is created compared to a contractual separation of risks and intangibles from functions. At the same time, taxpayers should be mindful of which entity within the group assumes risks compared to an entity performing risk management given that only the former is entitled to upside benefits.

Further, with the introduction of a safe harbour for related party loans, IRAS has struck a fine balance in ensuring that the arm's length principle is applied for related party transactions whilst keeping the overall costs of compliance low and helping taxpayers in these difficult times.

All in all, the revised guidelines are a step in right direction which reflects Singapore's commitment to the BEPS project by ensuring that it provides world's most efficient and transparent business environment and is not seen as a tax haven despite its low corporate tax rate. Singapore does not condone harmful and abusive tax practices which undermines its sovereignty as the world's best place to do business which is protected through the subject guidelines.

Kindly contact us to understand further on how we can support you in riding this new wave of change.

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Introduction of Additional Conveyance Duties

Additional Conveyance Duties (ACD) on **Residential Property-Holding Entities (PHE)** have been implemented in Singapore, effective 11 March 2017. This article is aimed at providing a high level overview to our clients on the ACD. There are many nuances to the rules and it is highly recommended that you seek professional advice when considering a transaction.

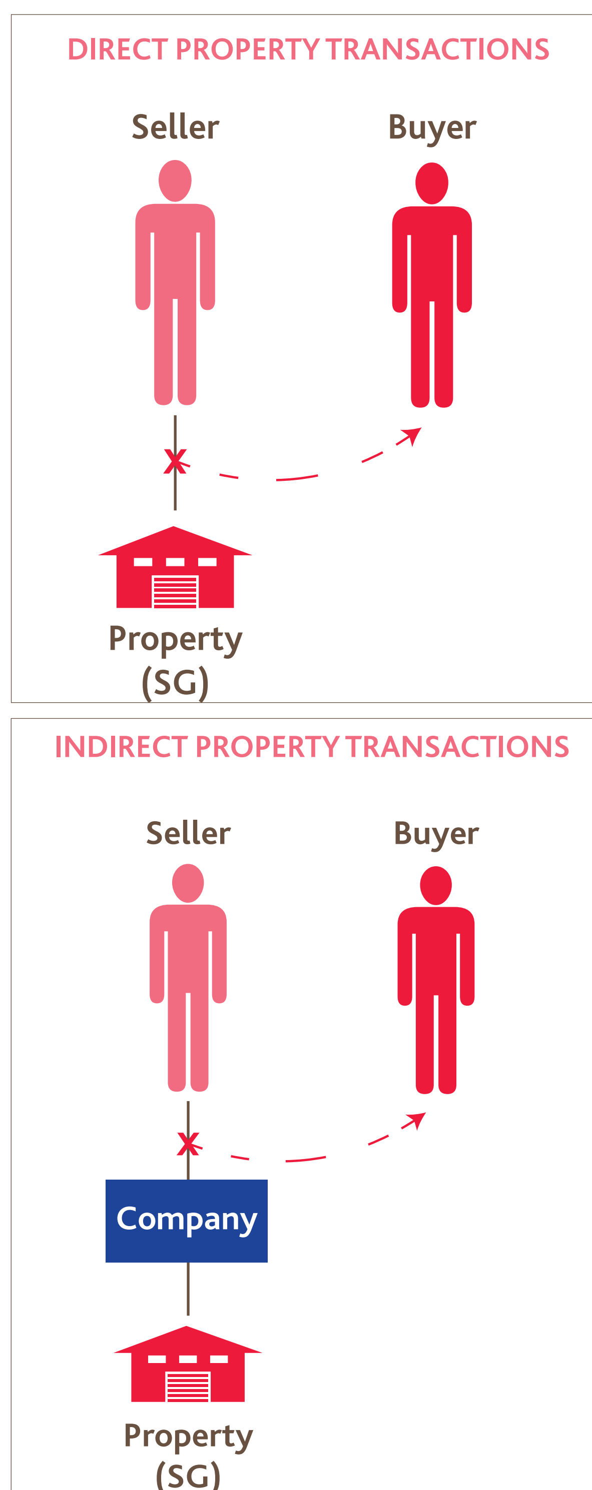
WHY ACD?

The purpose of the ACD is to eliminate the difference in stamp duty treatment of residential property transactions that previously existed.

In a direct property transaction in Singapore, where a seller transfers its title to the buyer, the following stamp duties would apply:

- Buyer stamp duty (BSD) – 1% on the first $180,000, 2% on the next $180,000 and 3% thereafter;
- Additional buyer stamp duty (ABSD) – up to 15%, depending on factors such as the nationality of the buyer and the number of properties owned. Foreigners and entities such as companies would be liable for ABSD of 15%; and
- Seller stamp duty (SSD) – up to 12%, depending on how long the seller has held on to the property.

Prior to ACD, the above duties could be avoided in an indirect transaction, where the property was held by a company and the seller sold the shares of the company instead of the property itself. This would have resulted in stamp duties on the transfer of shares at a rate of 0.2%, resulting in significant stamp duties savings.



HOW WILL ACD WORK?

To align the stamp duty treatment of direct and indirect transfers of residential property, the ACD will be applied on certain transfers of shares in PHEs, which are entities whose primary tangible assets are Singapore residential properties. There are two forms of ACD: (i) ACD applying to buyers of the shares (ACDB); and (ii) ACD applying to sellers of the shares (ACDS). Unlike stamp duties on shares, which are based on the higher of the transaction value or net asset value of the shares, ACD will be based on the market value of the underlying property.

ACDB consists of two portions. The first portion is charged at 1% on the first $180,000, 2% on the next $180,000 and 3% thereafter. This is in effect the equivalent of BSD. The second portion is 15% of the value of the underlying property transferred. This is equivalent to the highest tier of ABSD.

ACDS will be charged at 12% of the value of the underlying property transferred. This is equivalent to the highest tier of SSD.

ACDB and ACDS will be charged on top of the stamp duty applicable to the transfer of shares in the PHE.

This means that indirect transfers of residential property would attract stamp duties higher than direct transfers of property. This is illustrated in the table below, where there is a transfer of a Singapore residential property valued at $5m, financed with a bank loan of $1m. For the purpose of this example, we assume that the transfer is made by a Singapore permanent resident private client who wishes to transfer the property into a trust. We assume that he has not transferred ownership of this property for five years prior to this transaction and is not liable for SSD.

	DIRECT TRANSFER			INDIRECT TRANSFER		
	Rate (%)	Base amount ($)	Duty payable ($)	Rate (%)	Base amount ($)	Duty payable ($)
Share transfer				0.20%	4,000,000	8,000
BSD	1%	180,000	1,800			
	2%	180,000	3,600			
	3%	4,640,000	139,200			
ABSD	10%	5,000,000	500,000			
SSD	0%	5,000,000	-			
ACDB				1%	180,000	1,800
				2%	180,000	3,600
				3%	4,640,000	139,200
				15%	5,000,000	750,000
ACDS				12%	5,000,000	600,000
Total duty payable			644,600			1,502,600

WHO SHOULD BE CONCERNED?

In addition to clients who may be considering a sale or purchase of a PHE, clients who intend to transfer a PHE into a trust or as part of a reorganisation of their asset holding structures may similarly be affected. Stamp duty is applicable on the value of the assets transferred, even if there is no consideration.

AREAS OF UNCERTAINTY

Two areas of uncertainty have presented themselves at this stage.

The first is its scope. Will it apply to the transfer of shares of offshore entities that hold residential properties in Singapore? The new rules state that the transfer of shares in a “company”, which is defined in

the Stamp Duties Act to include companies incorporated outside Singapore. However, it is our understanding that the new rules operate as part of the existing regime, where an instrument needs to be stamped only if it is received in Singapore.

Regardless, the spectre of the anti-avoidance rules remain. These rules provide that the IRAS can impose ACD even if the conditions were not met, if it is satisfied that the arrangement was to circumvent the conditions, suggesting that it is possible for the IRAS to take a position that stamp duties are chargeable on such transactions.

The second area of uncertainty is a practical one. What would be the stamp duty payable for a private client who wishes to transfer his offshore entities holding residential properties in Singapore into a trust, especially one where she may be the main beneficiary? The primary mode available to determine the stamp duty payable is through the adjudication process, but the IRAS currently requires the submission of the executed instrument as part of the application for adjudication. This means that the private client would be bound by the decision of the IRAS even if the result of the adjudication process is unfavourable.

While we expect these uncertainties to be resolved in the coming weeks, we strongly recommend clients seek professional advice when entering transactions involving PHEs in order to manage ACD exposure.

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What Happens After The Deal – How To Avoid The Post-Merger-Syndrome

The situation is well known. The share purchase agreement has been signed and all closing conditions have been fulfilled. You have finally closed the deal your company and your team of advisors and lawyers have been working on for the last couple of months and now they have left. But how to prevent the merger or the acquisition from failing? How to prevent billions of dollars in shareholder value being destroyed as in the most prominent post-merger failure of Daimler-Benz and the Chrysler Corporation in 1998, where Germany's Daimler-Benz lost EUR 40bn for their "US Adventure"? What happens to multinational corporations is of course also applicable and a real threat for small and medium-sized enterprises. Not every anticipated synergy will be achieved and even the self-proclaimed perfect merger of equals can fail. Only less than 50% of all M&A deals achieve their strategic objectives *(Ashkenas & Francis, 2000)*.

Interestingly 53% of all M&A deals fail in their integration phase and not during negotiations or due diligence (*Habeck, Kröger & Träm, 2000).* During the integration phase, we will find obstacles such as the lack of obtaining buy-in from employees, obstructive middle management, cultural differences, lack of sufficient commitment from the top management as well as losing top-performers and knowledge.

What is crucial after the deal is to keep the speed and level of commitment as in the pre-closing phase. The whole integration itself can last up to two years depending on the complexity of the transaction. But without any doubt the first 100 days are important to avoid mistakes and to get quick wins with signaling effects for all stakeholders involved. The integration management has to start as soon as possible. The following points are areas of consideration for the rather complex integration process.

IDENTIFYING AND RETAINING OF KEY-PERFORMERS

It should be a given fact that uncertainties and new circumstances during and after an M&A deal will make employees and management members rethink their positions and job security. Good people might leave for a new and better offer just to avoid being asked to leave or avoid more uncertainties. To stay away from those worries, it is essential to look at the role and performance of employees from a neutral point of view as soon as possible. Essential here is to

look at the importance of the employee for the new company moving forward *(Bekier & Shelton, 2002)*.

Once identified, key performers have to be informed in due time about their perspectives and responsibilities in the future. The selection process should be based on choosing people from both companies that share the same aspirations as well as performance, competencies and qualifications. As a result of this assessment, top management members will have to be from both companies and are able to take fundamental decisions at any point in time.

COMMUNICATION OF A STRATEGIC VISION

Essential for the merger success is the communication of the management's plans with measurable and realistic key performance indicators. This plan has to be communicated to the whole workforce *(Stieler, 2003)*. Communication, as one of the key success factors, has to be open and honest. This is to avoid rumours and uncertainties. Knowing that office grapevine is faster then the intranet information has to be communicated on a constant basis *(Stieler, 2003)*.

DECISION-MAKING PROCESSES

Using the right schedule can ultimately lead to 90% higher synergy effects. Taking this into consideration difficult decisions have to be made immediately. Concepts for organisational issues, human resource, locations or production have to be tackled and implemented in due time *(Stieler, 2003)*. Those decisions also include the establishment of integrated and holistic structures and processes. This also encompasses a common company and performance culture.

AVOIDANCE OF CULTURAL CONVERGENCE AND STRENGTHEN THE SENSE OF UNITY

It is a common mistake that the management assumes that the culture will be adapted over the years automatically and two cultures can last in one company for years. Saying that it is important to create and strengthen the sense of unity in both companies. This unity is the basis for the success of all other measurements, as all actions taken have to be supported by all employees. This sense of unity will require trust and collaboration and the acceptance of other cultures prior a joint one.

This common culture encompasses alignment of values and objectives. The aforementioned Daimler-Chrysler deal faced the clash of the American business culture (people-oriented, fast decisions by the empowered middle management, high set of objectives) and the German one (result driven, hierarchy structure, long decision processes based on detailed planning, a prudent set of objectives). Taking this into consideration it is vital to analyse the cultures of both companies and utilize those parts that lead to higher success or fulfilment of deal objectives for the newly formed company. It is then the management's responsibility to act as a role model and to direct the cultural transformation process.

INTEGRATION OFFICE

The brief snapshot above shows that the efforts after the deal are just as important as the efforts before the signing or closing and need proper planning. A good "integration office", which could consist of representatives from top and middle management of both companies as well as advisors, will make the deal successful and ensure a smooth integration process. The integration phase gives the unique opportunity to realign the company and to question existing long-standing processes.

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Key Trends Facing SMEs In Singapore

After 13 consecutive years of positive GDP growth, Singapore's economy recorded its first GDP contraction in 2015, declining 4.44% from USD 306.34 billion in 2014 to USD 292.74 billion in 2015. With many observers keeping a keen eye on the release of the nation's fourth quarter GDP result in 2016, the Singapore economy rallied and grew by 1.8% in 2016. Despite ending the year on a firmer footing, there seems to be a palpable sense of uncertainty amongst business owners in Singapore. Looking out for key trends and new developments will remain imperative for businesses that want to position themselves advantageously and maintain business resiliency in varying economic climates. At BDO Management Consulting Services, we have identified 3 key trends to keep in mind while planning for 2017.

1. POTENTIAL VOLATILITY IN 2017

As a globalised economy, Singapore has relied heavily on exports for economic growth. In fact, net exports make up the largest component of Singapore's GDP. However, globalisation also exposes our nation's economy to volatility in the global economy. Notably, significant international events have yet to show its full effects on the economy – including the exit of United Kingdom from the European Union, a new and seemingly unpredictable administration in the United States, as well as the slowing of China's economy. For companies intending to invest heavily in capital expenditure or aggressive market expansion, greater market volatility brings with it higher risks and subsequently a higher risk-adjusted rate of return for capital investments. Hence, expansion strategies may not be a suitable strategy for smaller SMEs.

Instead, SMEs may use this opportunity to look inwardly and improve on internal margin improvements through cost transformation initiatives. In other words, business owners should consider streamlining different aspects of the company to reduce cost and in doing so, drive profitability improvements. While there are many

potential areas for streamlining activities, business owners may well benefit by first looking at several common areas for improvements, including eliminating wastages in processes, manpower restructuring and product mix optimisation. A leaner and more profitable company is one that will have a greater likelihood of success in a more optimistic economy.

2. DIGITISATION AS THE WAY FORWARD

Digital transformation is a very general term that may sometimes seem intimidating and daunting, particularly for SMEs. While most SMEs in Singapore acknowledge the need for digital transformation, a research report by SAP indicated that 11% have done little to apply new business technology in their companies. Digitally transforming your business does not require a complete overhaul of your operations. Rather, it should be done in incremental ways to avoid both overspending on unsuitable technology and excessive disruptions in operations.

As a general rule of thumb, business owners may consider the following principles when kick-starting digital transformation in their companies. Firstly, invest time to source for providers. In this digital age, there are many vendors that can provide similar digital solutions such as ERP and CRM systems. It is imperative to compare prices, technical specifications and after-sales service in order to select the best provider for your needs. Secondly, pilot a number of small projects and scale up successful initiatives. It is not uncommon that digitisation may come at the cost of trial and error. Hence, it is critical for companies to start small, evaluate the effectiveness of the initiative and invest in successful systems. Lastly, sustain the change. Investment in digital infrastructure is not on a one-off basis. It needs to grow hand-in-hand with your business to ensure it remains relevant and effective for your current business.

3. EMPLOYEES AS THE FOUNDATION FOR GROWTH

According to Forbes and the World Economic Forum, "…the Fourth Industrial Revolution is underway and changing everything we know about life, business and consumerism. The emphasis, they say, will be on talent not capital". In this day and age, employees have begun to part ways with traditional college degrees. Instead, ambitious employees create CVs of their own with additional nano-degrees, online courses and hands-on experience to build their own version of talent. Moreover, switching jobs are now much easier than what it has been in the past, with the arrival and popularity of job portals such as LinkedIn, Indeed and Jobs Bank in Singapore.

Businesses, especially local SMEs, need to develop plans to drive greater employee retention and realise that international companies and offices are well-ahead in their employee retention strategies. It is imperative for business owners to realise that excessive employee turnovers are expensive, time-consuming and may stagnate the growth of an organisation. Each employee turnover will reduce the productivity of the position for months if we look at the chain of events – job hunting, serving notice periods, handling of administrative processes, recruiting and finally the training of the new employee. To avoid these hassles, acknowledge and embrace the fact that change is in motion. Listen to your employees, be open to changes and never take a bargain at the expense of your employees. At the end of the day, a skilled, happy and stable workforce is the foundation for sustainable growth.

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