

ON-THE-GROUND EXPERIENCE COUNTS

SMPs as Strategic Partners to SMEs Venturing Abroad



By
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Expansion beyond Singapore is becoming a must for many domestic companies. This is necessitated by the increasing cost challenges, manpower constraints and, for some, limited growth in the local market. Reinforcing this push is also a pull factor: Despite the subdued global economic outlook, many growth opportunities continue to exist in Asia. In addition to the potential provided by emerging markets like Myanmar and Indonesia, China remains a major market for Singapore businesses to consider expanding to.

This trend of venturing abroad was corroborated by the findings of a survey conducted by then-Institute of Certified Public Accountants of Singapore (ICPAS) (now Institute of Singapore Chartered Accountants (ISCA)) early this year. The survey showed that many respondents have or are considering expanding overseas. More than 50% of respondents, particularly those from the information and telecommunications, construction and manufacturing industries, indicated that the IE Singapore double-tax deduction scheme was useful for their internationalisation activities. This follows a survey conducted by the Institute in early 2012 that showed that a significant number of small and medium-sized enterprises (SMEs) and small and medium-sized accounting practices



(SMPs) have expanded or are interested in expanding overseas (34% and 38% respectively).

Beyond leveraging on government assistance, what more can our SMEs do to navigate the new markets as they venture abroad? Where can they seek further support? Respondents to surveys conducted by the Institute, particularly those working in SMEs, have indicated that they would like to have more information and advice regarding regulatory and tax matters for venturing overseas.

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TAKING THE LEAP AWAY FROM HOME

Let's look at China, a key market that many businesses are looking to venture into. While many Singapore companies are familiar with operating conditions at home, they struggle to understand China's – at times – complex regulations and unwritten rules. Unlike Singapore which was ranked first as the easiest place to do business by the International Finance Corporation and World Bank in their Doing Business report, China was ranked 91st in the same report¹.

Jason Lee, Founder of Lixin International, a local accounting firm which has expanded into China, noted

that many SMEs tend to struggle badly in their virgin forays into China due to the significant cultural differences. "It is very important for SMEs to build trust and relationships with the relevant parties in China. Many of them had to spend significant amounts of financial resources and time to meet regulatory rules before they could commence operations in China. Moreover, they find it hard to build up their market share as China customers tend to be more patriotic and tend to support Chinese businesses," he said.

Nevertheless, there are many fine examples of Singapore businesses that have made fruitful inroads in China. They include SMPs that support the business activities of SMEs in many ways, including in cross-border transactions. By extending their reach beyond Singapore into China, Singapore SMPs are better able to provide greater support to SMEs that want to go there or are already there. With their professional knowledge and expertise on regulatory matters, SMPs are suitable business advisors or partners who can provide valuable information and advice to SMEs in their efforts to venture abroad.

Those SMPs who have yet to venture abroad may also want to consider doing so to better support their SME clients. For those who do so, there are several avenues. In addition to joining international accounting networks, a method adopted by 65% of respondents in survey data gathered by the Institute, SMPs can either work with foreign partners through an arrangement on a bilateral basis (42%) or establish overseas offices (16%) to support their clients. Having partnered a China-based accounting firm in 2004, Lixin International's Mr

Lee has found the partnership useful for his firm's SME clients. "SMPs may find it easier to access the Chinese market by entering into partnerships with domestic China-based accounting firms that have good rapport and relationships with the authorities. Such arrangements allow SME clients to leverage on such relationships to expedite their incorporation process," he said.

Such cross-border partnerships between the SMPs appear to benefit SMEs in both countries too. With the globalisation of Chinese enterprises, many China firms are keen to venture overseas. As such, apart from sharing resources and knowledge, the accounting firms also support China-based SMEs looking to expand into Singapore or ASEAN. According to Mr Lee, the partnership has been a fruitful one, with healthy growth in his client base. He encourages Singapore-based SMPs to look beyond operating in Singapore and adopt a more global mindset.

HELPING SMES VENTURE ABROAD

Our SMEs showed a strong preference to establish a permanent presence in the market when they venture overseas. Based on survey data gathered by the Institute in 2012, 50% of respondent SMEs who had ventured overseas chose to set up an overseas entity and 42% chose to work with foreign partners.

However, most SMEs face significant challenges in setting up a new office overseas. Apart from the challenges to incorporate a new entity in China, they may also encounter significant difficulties in building a strong and robust financial accounting function for the new office. Hence, new overseas entities may suffer from weak internal controls and financial

SMEs, ON GOING OVERSEAS



Over **50%** of SME survey respondents like IE Singapore's double-tax deduction scheme



38% of them have plans to expand overseas

34% of them have an overseas presence



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¹ Doing Business 2013: Smarter Regulations for Small and Medium-Sized Enterprises, www.doingbusiness.org/reports/global-reports/doing-business-2013, 23 October 2012

VIEWPOINT

INTERNATIONALISATION

reporting capabilities. Such weak governance is undesirable from the parent company's perspective.

Many SMEs also tend to consider acquiring or investing in companies that are based in the targeted new market. This is not an uncommon strategy for companies that are looking to expand swiftly into China. However, such a strategy may be particularly risky especially if companies are not familiar with the potential target and the China business environment.

Given such challenges, SMEs may find it useful to engage our SMPs with operations in the China market to support them in the execution of their business plans abroad. Beyond the provision of traditional services in the areas of financial reporting and compliance, the SMPs can also be a valuable source of information and advice for SMEs in growing their businesses.

On the potential benefits for SMEs to work with SMPs in their efforts to venture abroad, Lee Sen Choon, Senior Partner of UHY Lee Seng Chan & Co, suggests that SMEs may find it more beneficial and easier to work with SMPs. "SMPs generally are more approachable and they are willing to give personal attention to their SME clients. As a result, SMPs can acquire an indepth understanding of the needs, strengths and weaknesses of their clients, which will be helpful when providing advice to their clients on their efforts to venture overseas," he said.

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PHOTO CORBIS



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UHY Lee Seng Chan & Co's Mr Lee also advises SMEs acquiring or investing in a company abroad to engage SMPs with the necessary professional knowledge and understanding of the business environment in that country when performing due diligence on their potential targets. The right SMPs may help to identify all the significant risks and offer appropriate advice for SMEs to gain entry into the new market without incurring financial losses that could have been avoided.

Mr Lee also has advice for SMPs. He believes that SMPs must grow beyond offering just audit and compliance services to their customers. By taking a bold approach to grow beyond Singapore and to extend the range of services to include advisory services, SMPs, such as his company, have not only better met the needs of their SME clientele, they have also enhanced their firms' reach and footprint.

Recognising that many locally-based SMPs are considering growth beyond Singapore and to better meet the needs of SMEs in such efforts, Mr Lee Fook Chiew, CEO of ISCA, spoke of the initiatives undertaken by the Institute in that respect. "The Institute organises seminars and workshops to familiarise our SMP members with the various government schemes that support them in their internationalisation activities. We also organise study and mission trips for SMPs to interact with their counterparts in other countries to help our SMP members in their overseas expansion efforts," he said.

With growth through overseas expansion becoming a key consideration for SMEs, SMPs may want to embark on the same journey overseas to better meet the needs of their clients. This will help SMPs stay relevant and become important enablers of their clients' future business growth. ISCA

SMPs, ON GOING OVERSEAS



65%
of SMP survey respondents expand overseas by joining an international accounting network



42%
of them work with foreign partners on a bilateral arrangement



16%
of them establish overseas offices to support their clients

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This article was first published in *The Business Times* on 13 June 2013.