

NATIONAL BUSINESS SURVEY 2018/2019

SUMMARY REPORT



**Tackling Change Amid
New Uncertainties**



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Foreword



S S Teo
Chairman
Singapore Business
Federation

I am pleased to share with you this summary report of the findings of our latest National Business Survey 2018/2019 conducted by the Singapore Business Federation (SBF).

Every year, we conduct this flagship survey that provides insights on the sentiments of our Singapore business community on topics such as business confidence, the economic climate, the business environment, etc. The survey identifies the priorities, challenges and future plans of action of our business community. The survey also calls attention to areas where companies require greater assistance including their wish list for the coming Singapore Budget. These perspectives are shared with our Government.

This year's National Business Survey is the 11th run. The data was collected from 19 September to 7 December 2018, drawing responses from more than 700 companies across all key industries, that operate here. The survey touched on a wide range of areas including how digitalisation, technology and transformation is impacting Singapore businesses and the growing importance of business innovation in a fast-changing world.

The results of this year's survey show that the general sentiment for the local and global business environment is softer compared to 2017, possibly due to global uncertainties. Having said so, companies are still optimistic about ASEAN. Innovation is increasingly a priority for Singapore businesses. The lack of manpower will shift mindsets and skill sets towards innovation. Our companies recognise the importance of innovation across all aspects of their business ranging from customer experience, operational processes, business models to new products and services. Skills matching continues to be a key challenge for Singapore businesses as they seek to do more with less by adopting new technology and processes. Singapore companies are also under-investing in training as a means of dealing with their manpower challenges.

Even as the economic climate ahead seems uncertain, we urge our businesses, both large and small, to focus ahead by pressing on with innovation to stay ahead of the curve, and be on the look out for opportunities in the region and beyond. Training is not necessarily confined to sending employees to attend courses. It also includes on-the-job training, learning circles and more. We encourage companies to continue to pay attention to this in the current age of rapid disruption.

I hope that the findings from this survey will be useful to you as you draw lessons from the results to apply to your businesses. I would like to acknowledge all our member companies that have participated in this year's survey and the Trade Associations and Chambers (TACs) that have supported us.



NATIONAL BUSINESS SURVEY 2018/2019

SUMMARY REPORT

Tackling Change Amid New Uncertainties

The National Business Survey (NBS) is the flagship survey of the Singapore Business Federation (SBF). This survey provides a very good sense of the state and sentiments of the Singapore business community and its key concerns.

- This is the 11th annual edition of the survey. It was carried out from 19 September to 7 December 2018.
- The survey drew responses from more than 700 companies across all key industries. 88% of the responses were from SMEs and 12% of the responses were from large companies.
- This survey was carried out in collaboration with local research firm, Blackbox Research Pte Ltd.

The NBS 2018/2019 shows that sentiment on the business climate in Singapore is largely neutral. There is uncertainty amongst companies about the global economic climate but businesses are still optimistic about ASEAN.

Skills matching continues to be a key challenge for businesses as they seek to do more with less by adopting new technologies and processes. Support in technology and digitalisation is the top item of businesses' wish list for Budget 2019.

To keep up with changes in the business / economic environment, Singapore companies¹ are embracing innovation. Singapore companies identify innovation as crucial across all aspects of business.

Amid growing trade tensions, businesses are still venturing overseas. ASEAN continues to be the top destination for companies to expand. These companies are looking for assistance in terms of market knowledge and meeting regulatory requirements. Companies have identified collaboration as crucial when they internationalise.

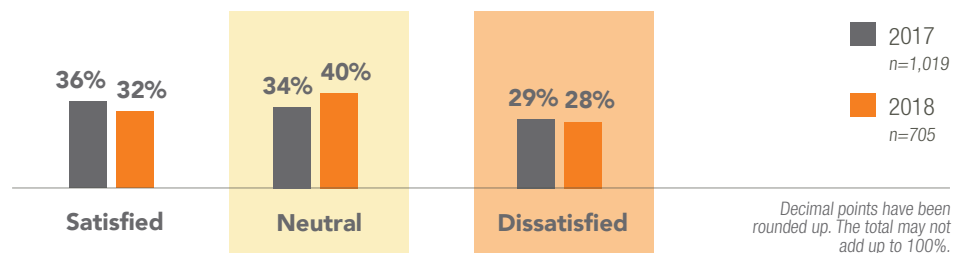
¹ Refers to businesses that operate in Singapore regardless of whether they are local- or foreign-owned.

Business Sentiment and Outlook

The current general business sentiment is neutral as compared to that at the end of 2017, possibly due to uncertain times ahead. In 2017, businesses held high expectations for the economy to do better in 2018. However, last year's market conditions have not lived up to their expectations. Businesses have adopted a cooler outlook for 2019 as they prepare themselves for a potentially challenging year ahead.

Majority (i.e. 40%) of Singapore businesses are neutral about the current business climate in Singapore, up from the 34% in 2017.

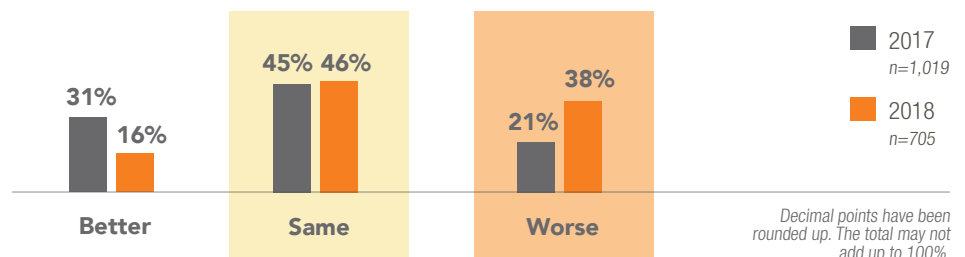
Current Business Climate in Singapore



Q: How satisfied or dissatisfied are you with the current business / economic climate in Singapore?

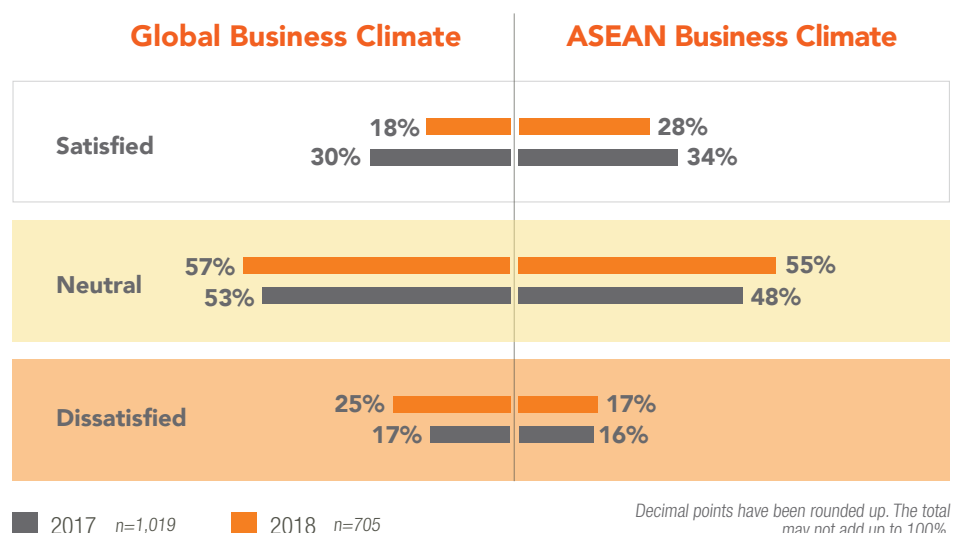
Business sentiment is steady with 46% of Singapore businesses believing that the Singapore economic climate will likely remain unchanged in the coming year.

The Singapore Economy in the Next 12 Months



Q: Looking ahead, do you expect the business / economic climate in Singapore to improve, worsen or remain the same over the next 12 months?

There is uncertainty amongst Singapore businesses about the global economic climate, with less than one in five businesses being satisfied with the global economy. Companies tend to be more optimistic about the business climate in ASEAN.



Q: How satisfied or dissatisfied are you with the current business / economic climate across the ASEAN region and globally?

Events Impacting Businesses

What's impacting businesses?

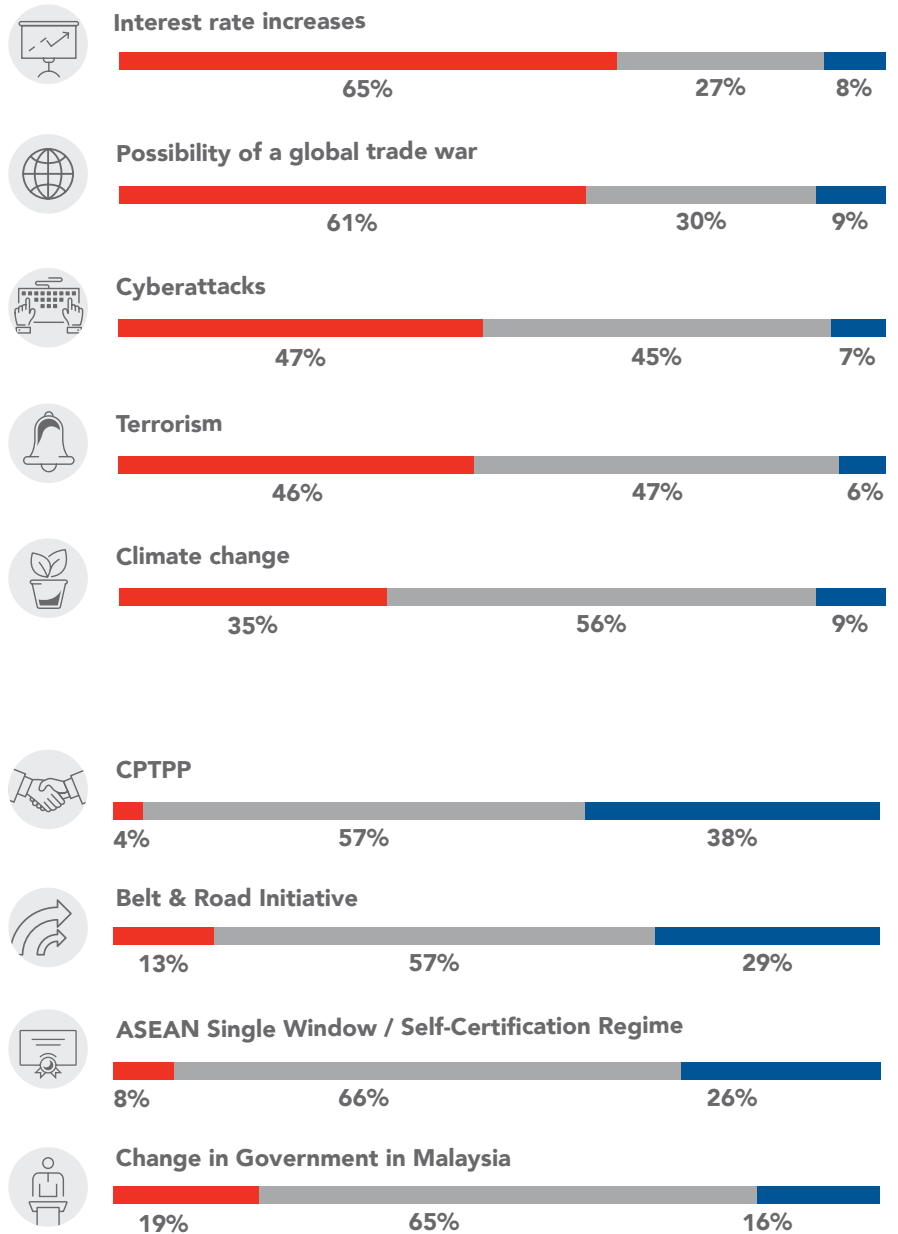
Looking at the recent global geopolitical and economic affairs, businesses are most concerned about rising interest rates (65%) and the ongoing trade tensions between the US and China (61%).

Businesses are optimistic about the business opportunities that may arise from developments such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (38%), and the Belt and Road Initiative (29%).

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

The CPTPP is a Free Trade Agreement among 11 countries - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

Global Events and Their Implications



■ Negative ■ Not affected ■ Positive

n=705

Decimal points have been rounded up. The total may not add up to 100%.

Q: Thinking about the last 12 months, which of the following recent events or developments have had notable implications for your industry, and indicate whether you see them as positive or negative?

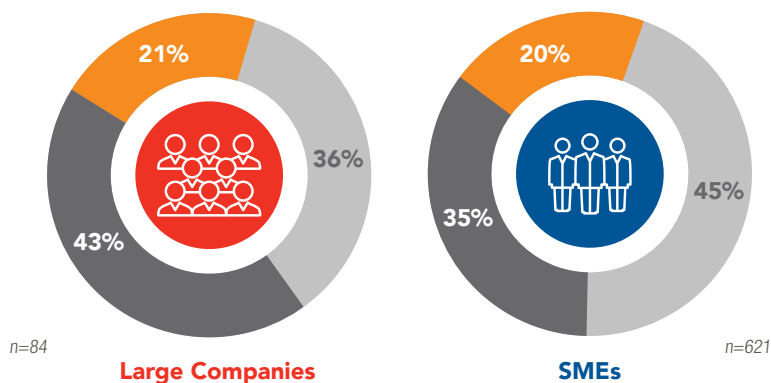
Innovation: Increasingly A Top Priority for Singapore Businesses

A key trend emerging from the NBS 2018/2019 is business innovation. To remain competitive and stay up-to-date with the changes in today's economy, businesses find it vital to innovate. Innovation is recognised as important in areas such as customer experience and operational processes. Through innovation, companies can increase their productivity and generate more value for their customers. The role of innovation is becoming more critical among businesses, as more than half (56%) of all Singapore businesses have implemented business innovation.

Implementation of Business Innovation

64% of large companies have implemented a medium to high level of innovation, as compared to 55% of SMEs.

- High (At the forefront of change & innovation)
- Medium
- Low (No adoption)



Q: How would you describe the extent to which your own company has implemented these business innovations on a scale from 0 to 10? (0 – No adoption; 10 – At the forefront of change & innovation)

Implementation of New Technology

Nearly one in three businesses have increased their implementation of new technology in the last 12 months. When companies were asked for the top three priorities for their businesses in the next 12 months, the development of digital business capabilities (39%) and the review of business models or structures (33%) were identified as one of the top priorities.



Q: In the past 12 months, would you say your business has decreased / stayed the same / increased in the implementation of new technology? n=705

Businesses recognise that innovation is crucial across all business areas, including customer experience, operational processes, business models and products or services.

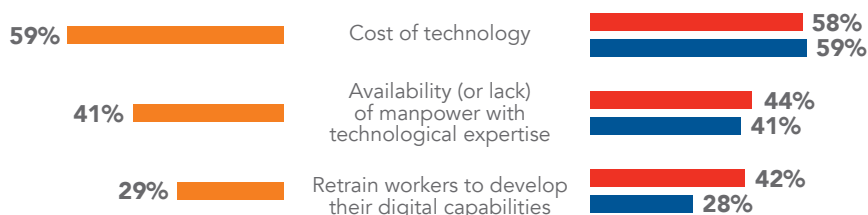
Aspects Where Companies Identify Innovation as Playing a Critical Role



Q: How important is the role of innovation for the following aspects of your business? n=705

With regard to innovation, businesses rank the cost of technology and the availability (or lack) of suitable manpower with technological expertise as key concerns. Large companies are having more struggles in reskilling workers for the digital economy.

Innovation Challenges



Q: Which of the following challenges would you be concerned with in carrying out innovation within your business?

- All Businesses n=705
- Large Companies n=84
- SMEs n=621

Business Innovation: SMEs vs Large Companies

SMEs are willing to transform but need to play catch up with large companies in innovation.

➤ SMEs are lagging behind in terms of innovation and the implementation of new technology. 40% of large companies indicate that they have increased the implementation of new technologies in their organisations, compared to only 31% of SMEs that indicate that they have done so.

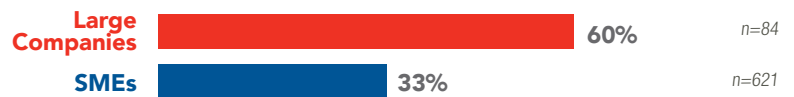
My business has increased the...



Q: In the past 12 months, would you say your business has decreased / stayed the same / increased in the implementation of new technology?

➤ Three in five large companies are prioritising the development of digital business capabilities in the coming year, compared to only one in three SMEs.

Developing Digital Business Capabilities

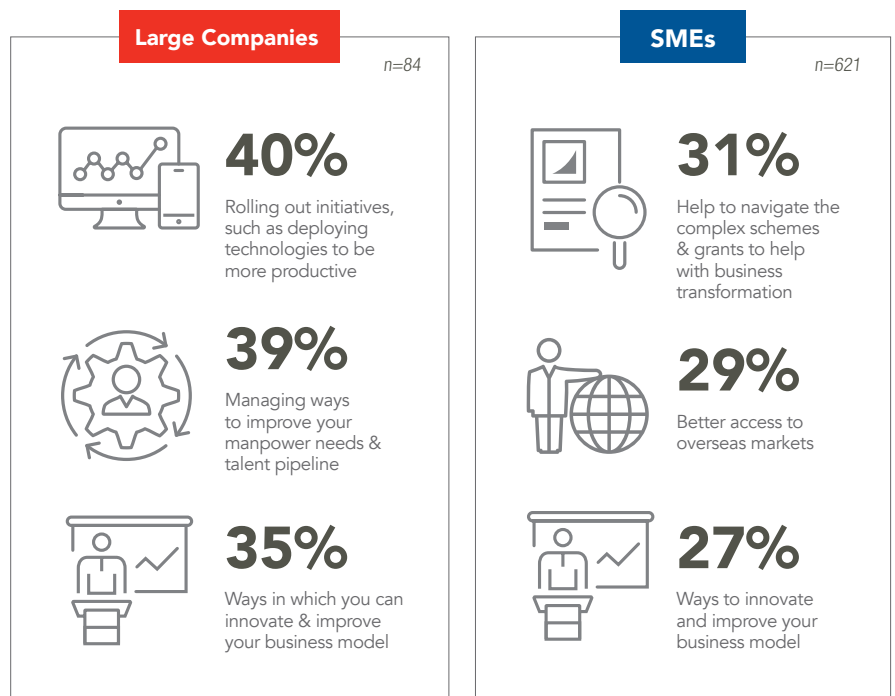


Q: Which of the following will be the top three priorities for your business in the next 12 months?

The Industry Transformation Maps (ITMs) for all 23 industry sectors, covering over 80% of Singapore's Gross Domestic Product, will integrate the different restructuring efforts going on in Singapore and take a targeted and industry-focused approach to prepare companies for the changing economic demands over the next few years.

➤ Large companies and SMEs have different expectations of the ITMs. While large companies hope to receive help to deploy technologies to be more productive and find ways to improve their manpower needs, SMEs are more focused on getting assistance to navigate complex schemes and grants. Large companies are also more likely to expect the ITMs to help them in ways to innovate and improve their business models.

Different Expectations of How ITMs Can Help Their Businesses



Q: Which of the following do you hope can be addressed for your company by the ITM for your industry?

On the Cost of Innovation

As a boutique financial company, the cost of digital transformation is disproportionately high due to lower economies of scale. IT cost is one of the fastest growing areas of our company, increasing by over 10% each year.

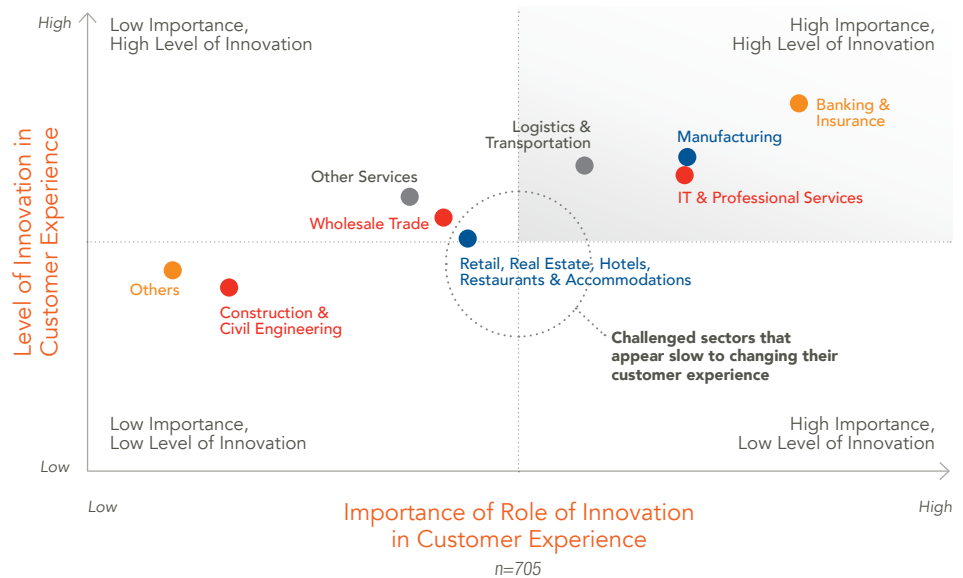
Business Innovation Across Sectors

Innovation exists along a continuum, from customer experience to products and services. Though the concept of innovation seems to lend itself to technology and science, it can be implemented successfully in other industries. In the NBS 2018/2019, we see that while some industries are typically not considered to be at the forefront of innovation, there are companies that have implemented high levels of innovation in certain aspects of their businesses.

Q: How important is the role of innovation in the following aspects of your business?
 Q: How much innovation has been carried out by your business on each of the following aspects over the last 12 months?

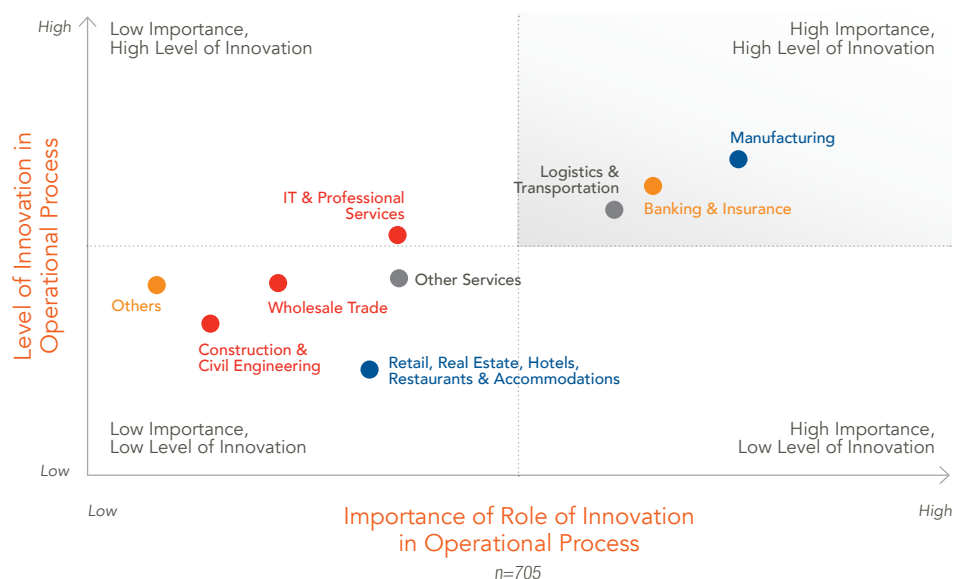
Customer Experience

➤ The **Banking and Insurance** industry is at the forefront of innovation in customer experience – innovation has an important role and the level of innovation is highest compared to other industries.



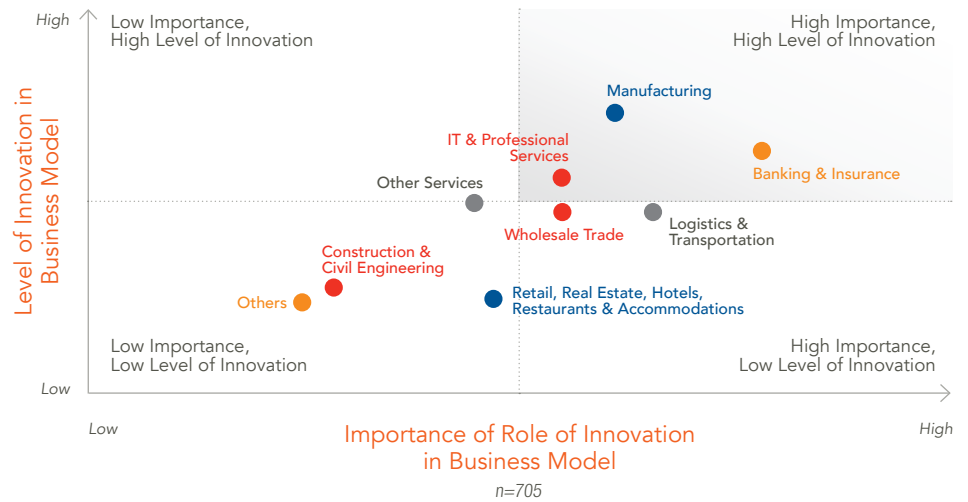
Operational Process

➤ Amid globalisation and technological disruption, it is crucial for companies to develop innovative ways to deliver their products and services. The **Manufacturing, Banking and Insurance** and **Logistics and Transportation** industries have identified innovation in operational process as important. These industries have also implemented notable levels of innovation.



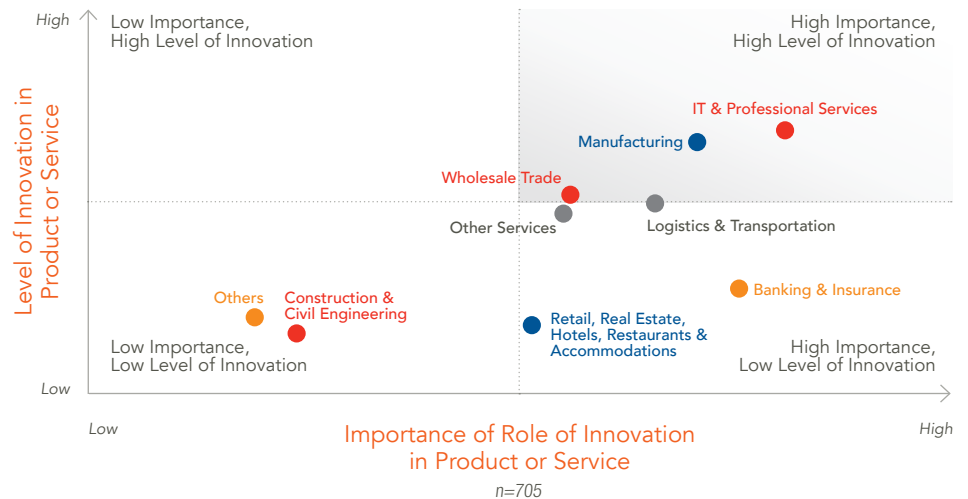
Business Model

Business model innovation involves changes to the organisation's value proposition to customers and its underlying operating model. The **Manufacturing** and **Banking and Insurance** industries recognise the importance of this and have implemented the highest levels of business model innovation to stay relevant.



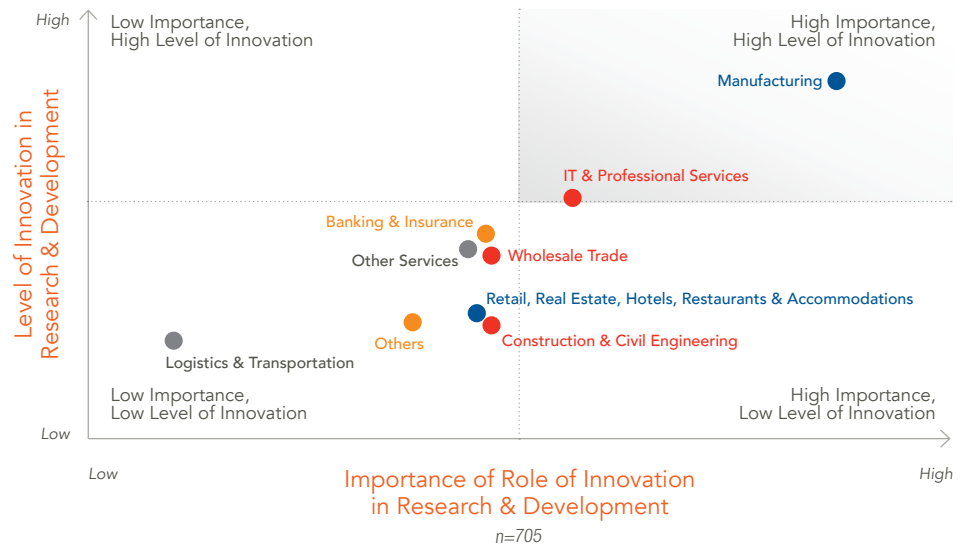
Products & Services

The **IT and Professional Services** industry is at the forefront of innovation in products and services. In general, majority of the industries regard innovation as important but have under-invested in innovation in their products and services.



Research & Development (R&D)

Majority of industries appear slow in making changes to R&D as the role of innovation is not perceived as important. The **Manufacturing** industry, however, plays a leading role in this aspect.



Industry Challenges: Skills Matching Continues to be Key Challenge

Manpower continues to be an issue for businesses, as hiring people with the right skills or attitude remains the top challenge for large companies and SMEs alike.

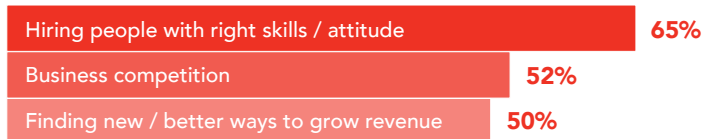
Looking at the key business challenges, hiring people with the right skills / attitude emerged as the top concern (61%), ahead of business competition (50%) and compliance costs (49%). SMEs (50%) are more likely to perceive compliance costs as a challenge as compared to large companies (45%).

Key Business Challenges

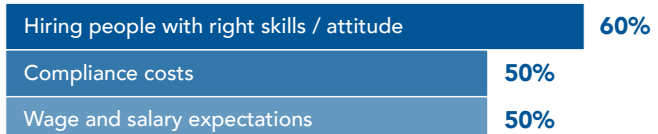
All Businesses n=705



Large Companies n=84



SMEs n=621



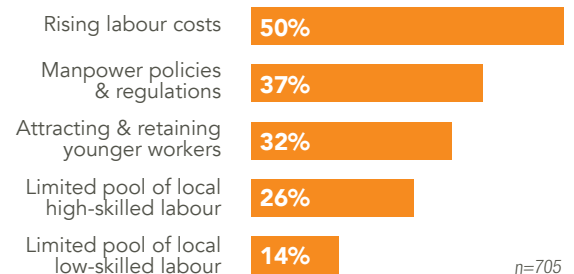
Singapore is open for competition and allows people to easily register a start-up company. However, in terms of regulations, the Government needs to consider both small and large companies. It is easier for large companies to comply with some of these regulations but for small companies with limited resources and manpower, the cost of compliance will be much higher.

Q: In your view, which of the following are the current key challenges for your industry operating in Singapore?

In terms of employment specific challenges, rising labour costs continues to be a challenge for many businesses (50%), followed by manpower policies and regulations (37%) and attracting and retaining younger workers (32%).

Top 5 Employment Specific Challenges

Q: You previously mentioned that your industry is currently facing manpower / staffing challenges. Which of the following do you think are the key issues?



n=705

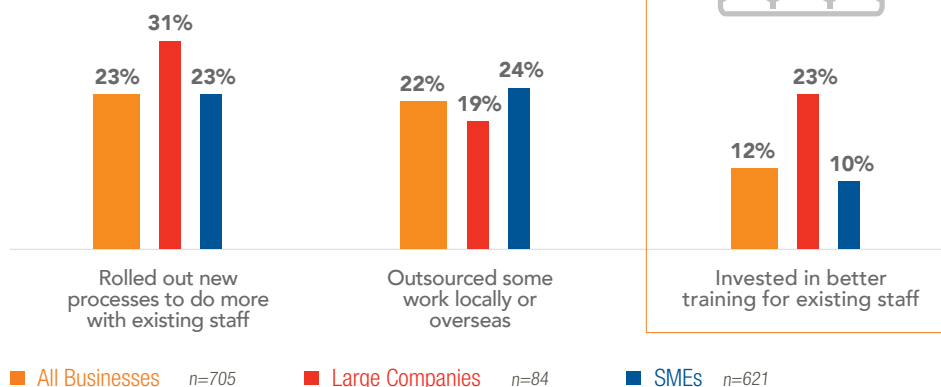
Levies form part of manpower overheads (meaning it has to be incurred with or without generating revenue), which make local enterprises weak within our own market. Overseas competitors have lower labour costs, and do not experience restrictions in engaging workers when there is short term but high-volume work.

Mitigating Manpower Challenges

A majority of businesses have made adjustments to adapt to the evolving manpower landscape in Singapore.

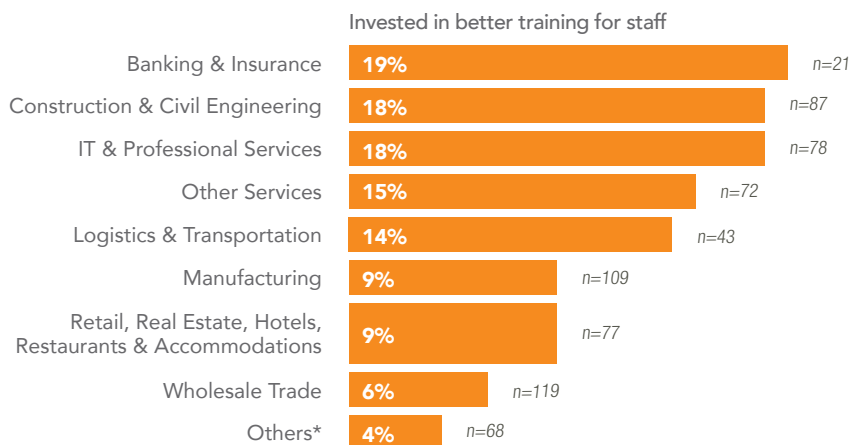
- Nearly half (45%) of all companies have rolled out new systems / processes to do more with existing staff or outsourced some of their work processes to local or overseas suppliers in order to improve workplace productivity and business efficiency.
- Large companies appear more likely to have the resources to introduce new systems and processes to increase their productivity whereas SMEs are possibly tackling manpower challenges by outsourcing some of their work and processes to local or overseas suppliers.

Steps Being Taken To Mitigate Manpower Challenges



Q: Has your company changed its approach to adapt to the manpower challenges in the Singapore economy?

Steps Being Taken To Manage Manpower Challenges



* e.g. Holding / Investment Companies, Water Supply, Sewerage & Waste Management etc.

Q: Has your company changed its approach to adapt to the manpower challenges in the Singapore economy?

With proper training, staff can then have the proper skills to be more productive in their work and hence, even with disruptions and system enhancements, the staff can handle.



36% of businesses are looking at the ITMs for ways to improve their manpower needs and talent pipeline. This suggests that there is scope for the Government and Business Associations to roll out initiatives to help companies with skills shortages and support them in training as well as upskilling employees.

Budget 2019: Business Expectations

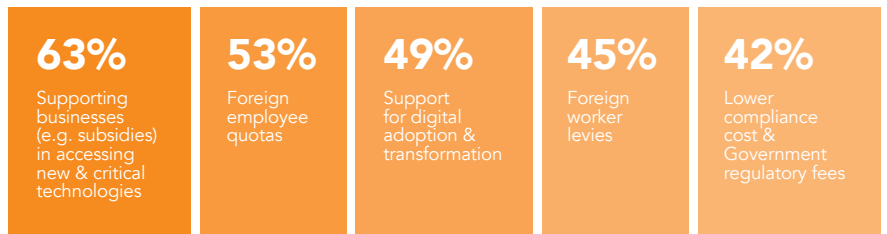
Businesses are seeing the importance of innovation and transformation and they are seeking for more support on this journey.

➤ Six in ten businesses say that support for accessing new and critical technologies should be a key focus of Budget 2019, making it the top-ranked priority ahead of the relaxation of foreign employee quotas (53%), and support for digital adoption and transformation (49%). Support in accessing new and critical technologies topped the wish list for both SMEs (64%) and large companies (56%).

➤ Among measures that businesses want Budget 2019 to focus on, financial assistance such as financing with better conditions (70%) and easier access to finance (60%) will make the biggest difference.

➤ 64% of large companies believe support for digital adoption will make the biggest difference to their businesses whereas 71% of SMEs believe favourable financing conditions will make the biggest difference.

➤ The impact of Budget measures on businesses may differ from sector to sector. Businesses in the Wholesale Trade, IT and Professional Services, Other Services and Logistics and Transportation sectors feel that financial assistance will make the biggest difference.



Q: Looking ahead to 2019, what priorities should the Singapore Government focus on in the 2019 Singapore Budget with respect to businesses? n=705

Top Budget 2019 Priorities for Large Companies

n=84

Supporting businesses (e.g. subsidies) in accessing new & critical technologies

56%

Support for digital adoption & transformation

54%

Foreign employee quotas

45%

Top Budget 2019 Priorities for SMEs

n=621

Supporting businesses (e.g. subsidies) in accessing new & critical technologies

64%

Foreign employee quotas

54%

Support for digital adoption & transformation

49%

Q: Looking ahead to 2019, what priorities should the Singapore Government focus on in the 2019 Singapore Budget with respect to businesses?

Budget Measures That Will Have the Biggest Impact on Singapore Businesses



64% of **large companies** believe support for digital adoption will make the biggest difference to their businesses.

n=84



71% of **SMEs** believe favourable financing conditions will make the biggest difference to their businesses.

n=621

It is important to ride on technological advancements to gain productivity and competitive edge. Some technologies may not be economically accessible for pilot runs and implementations. Information and access to funding would help.

Q: If the Budget 2019 included measures in the areas you have just mentioned, to what extent do you think will they make a difference to your company / your business?

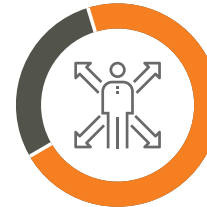
Internationalisation: Going Global Amid Growing Trade Tensions

In 2018, Singapore businesses persisted with overseas expansion despite uncertainty towards the global business climate. Among companies that are keen to venture (further) overseas, ASEAN continues to be the most popular region for internationalisation.

➤ Seven in ten (71%) Singapore businesses have expanded overseas in this year's survey, compared to eight in ten (83%) businesses surveyed last year.

Business Presence In Overseas Markets

29%
Have not expanded overseas



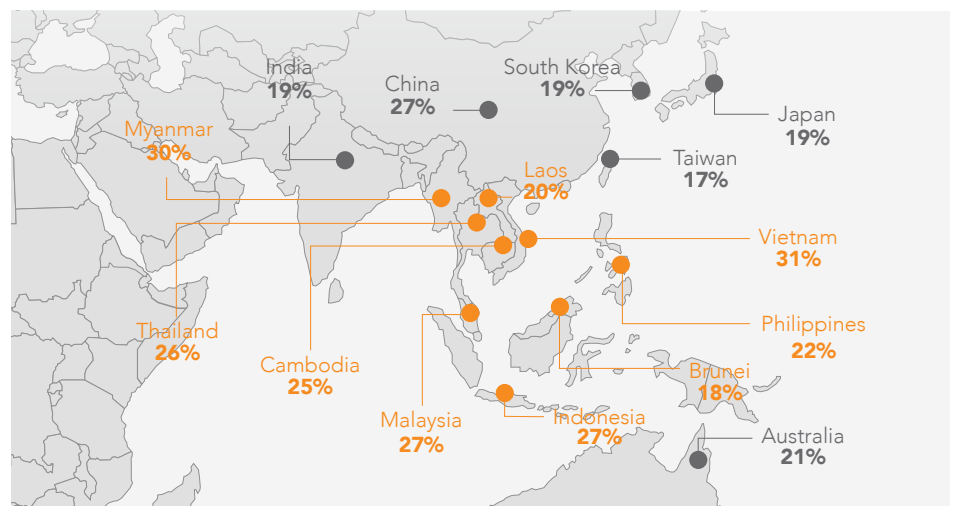
71%
Have expanded overseas

Q: Which of the following country(ies) is your company currently engaged in for overseas business activities?

n=705

➤ Of those keen to expand, 79% are keen to expand into ASEAN, making it the most popular region for expansion. It continues to be an important region for the Singapore business community, with 82% of companies currently active in at least one ASEAN country outside of Singapore.

Most Popular Countries for Future Expansion



■ Within ASEAN ■ Rest of the World

n=420 (keen to expand to at least 1 country)

Q: Which of the following country(ies) is your company keen to venture into for business expansion?

➤ The top countries that companies are most enthusiastic about expanding (further) into are Vietnam (31%), Myanmar (30%), Indonesia (27%) and Malaysia (27%).

➤ Nearly four in ten Singapore businesses still struggle with market knowledge and information when they engage in or expand their businesses overseas.

Top 5 Challenges when Expanding Overseas

n=498

Market knowledge and information
39%

Compliance issues (e.g. meeting local regulatory requirements)
35%

Financing the overseas expansion
31%

Unclear / Non-transparent rules & regulations
31%

Making business contacts
27%

Q: In your view, what are the main challenges your company faces when it engages in or expands its business overseas?

Top 5 Most Helpful Options for Businesses to Expand Overseas

n=420

Relevant contacts in the target overseas market
52%

Understanding of compliance, regulations & standards
51%

More information on market needs & customer requirements
45%

More information on taxation rules
45%

Understanding of business and social norms
38%

Q: In order to facilitate your company's expansion to overseas markets, how helpful would the following be?

➤ To facilitate their expansion to overseas markets, companies find collaboration with other businesses or entities most helpful. More than half of Singapore businesses rated having relevant contacts in the target overseas market(s) as helpful or very helpful.

Re-cap of the Key Survey Findings

1

Singapore Businesses Go into 2019 with a Sense of Uncertainty

- > The National Business Survey (NBS) 2018/2019 findings show that business sentiment is largely neutral with 46% of companies feeling that the Singapore economy will remain the same over the next 12 months.
- > There is uncertainty amongst Singapore businesses about the global economic climate, with less than one in five businesses being satisfied with the global economy. Nonetheless, companies tend to be more optimistic about the ASEAN business climate.

2

Innovation – Increasingly a Top Priority for Businesses

- > Innovation is becoming critical to Singapore businesses: Five in ten Singapore businesses have implemented business innovation. A majority of businesses recognise innovation as crucial across all business areas ranging from customer experience, operational processes, business models and / or their products / services.
- > Development of digital business capabilities (39%) and reviewing of business models or structures (33%) are among the key priorities for businesses in the year ahead as companies continue to seek support for their digitalisation journey.
- > Large companies hope to receive help from the Industry Transformation Maps (ITMs) to deploy technologies to be more productive and find ways to improve manpower needs. On the other hand, SMEs find it more useful to get assistance to navigate complex schemes and grants.

3

More Training Needed to Tackle Manpower Challenges

- The number one challenge among Singapore businesses continues to be hiring people with the right skills / attitude. A majority of businesses have taken steps to tackle manpower challenges by rolling out new systems / processes to do more with existing staff or outsourcing some of their work processes to local / overseas suppliers. However, Singapore businesses are not investing enough in staff training, with only 12% of all companies investing in better training for their existing employees.
- There is scope for the Government and Business Associations to roll out initiatives to help companies with skills shortages and support them in training as well as upskilling employees.

4

Expectations for Budget 2019 to Provide Support in Accessing New and Critical Technologies

- The NBS 2018/2019 findings show that Singapore businesses are responding to the call for transformation. Six in ten businesses say that support for accessing new and critical technologies should be a key focus of Budget 2019 and it tops the wish list for both SMEs and large companies.
- At a company level, six in ten large companies believe support for digital adoption will make the biggest difference to their businesses whereas seven in ten SMEs believe favourable financing conditions will make the biggest difference.

5

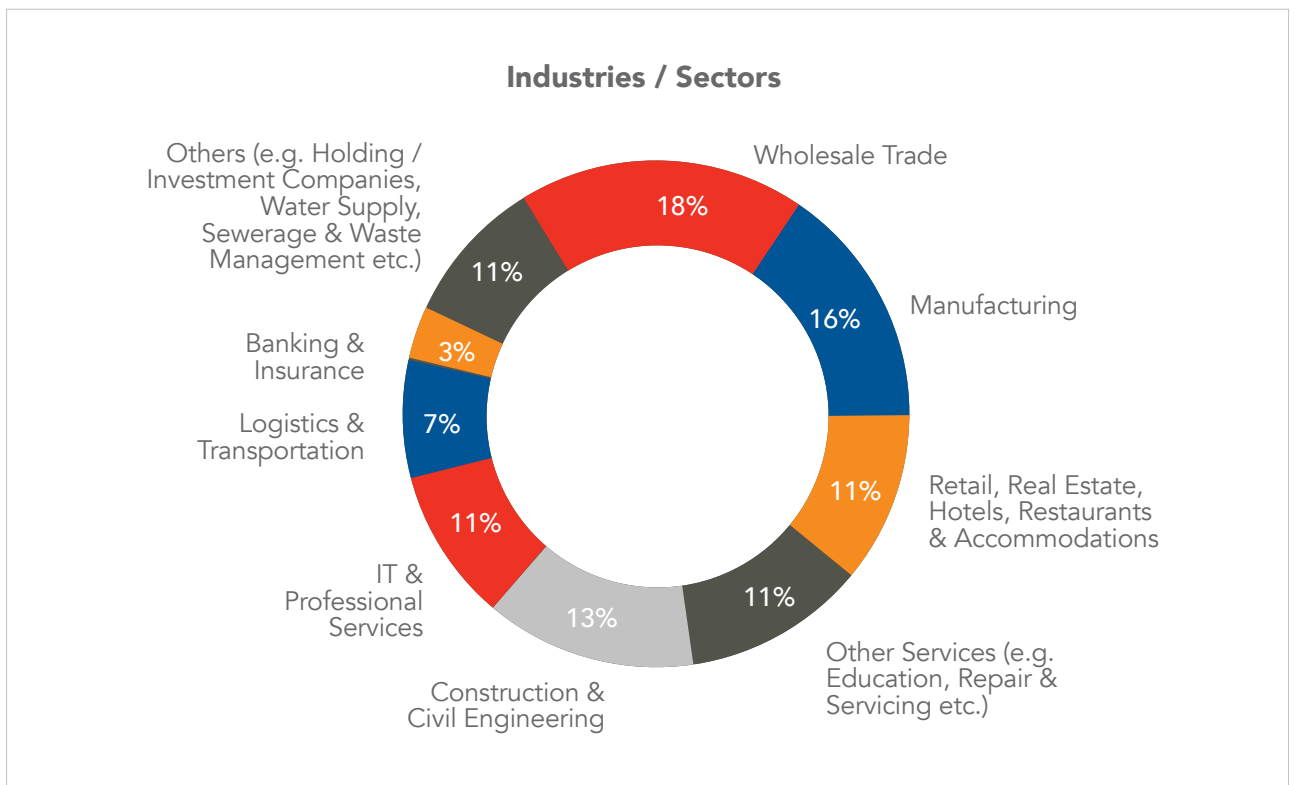
Businesses Still Keen to Expand Amid Trade Tensions

- Singapore businesses are still keen to establish their presence overseas, despite the rising trade tensions. ASEAN continues to be the most popular frontier for expansion, with Vietnam, Myanmar, Indonesia and Malaysia being the top countries of choice.
- Businesses are optimistic about the opportunities arising from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Belt and Road Initiative.
- Market knowledge and information is the key challenge faced by four in ten businesses when they engage in or expand their businesses overseas. Businesses find collaboration most helpful in facilitating their expansion overseas.

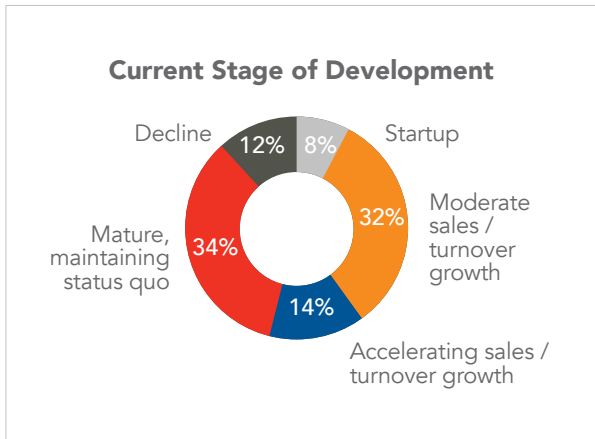
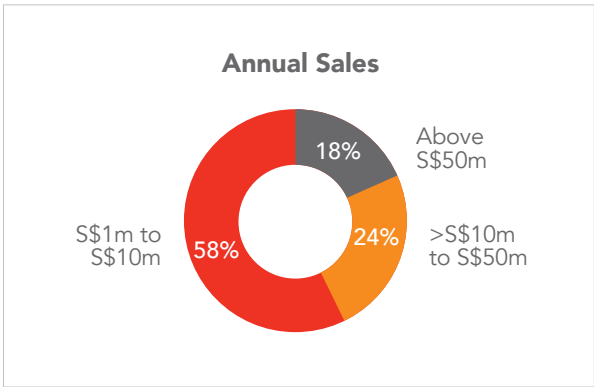
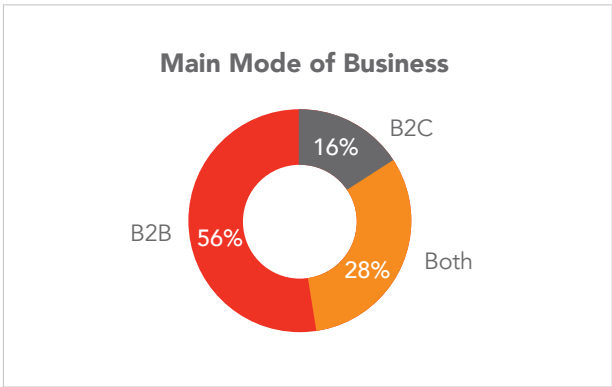
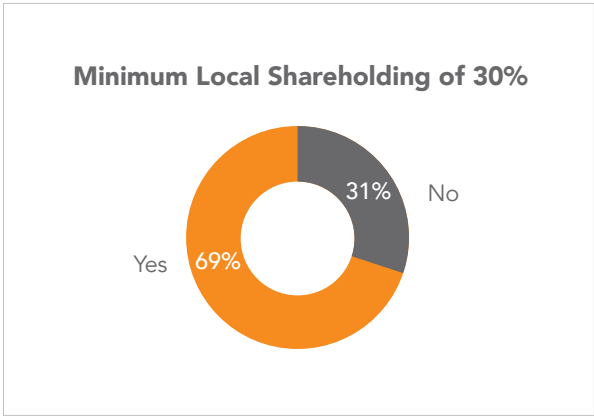
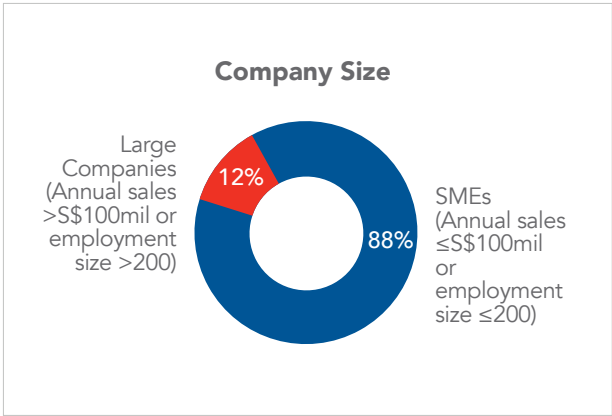
Company Characteristics

SBF commissioned Singapore-based Blackbox Research to conduct its National Business Survey 2018/2019. Now in its 11th year, the annual survey collected feedback from 705 companies across all major industries from 19 September to 7 December 2018. All companies were invited to participate via email. A maximum of one response per company was collected via an online survey.

Information About the Survey Sample



Base=705 Decimal points have been rounded up. The total may not add up to 100%.





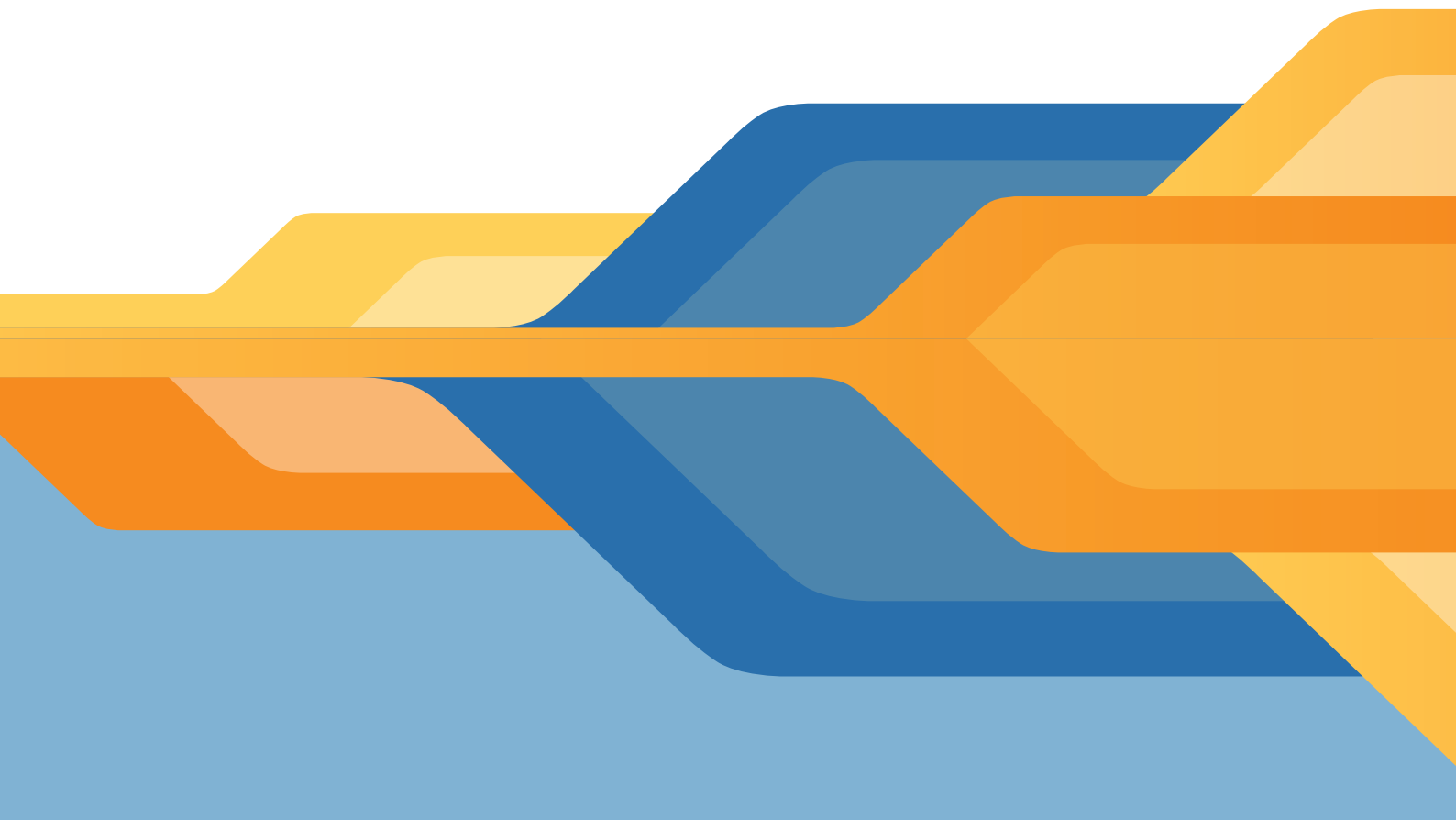
About SBF

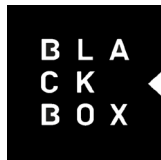
SBF is the apex business chamber championing the interests of the Singapore business community in the areas of trade, investment and industrial relations. It represents 26,000 companies, as well as key local and foreign business chambers.

In July 2001, the Minister for Trade and Industry introduced a Bill in Parliament to establish the SBF Act, which was passed by Parliament and became law on 5 Oct 2001. The Federation was established on 1 April 2002, with the aim of representing the business community's interests both locally and overseas. Under the SBF Act, all Singapore-registered companies with share capital of S\$0.5 million and above are members of SBF.

If you would like to contribute to the SBF National Business Survey 2019/2020, please indicate your interest via email to research@sbf.org.sg.

For more information about SBF, visit www.sbf.org.sg.





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