

By Invitation

From start-ups to scale-ups

Start now to help Singapore's start-ups scale up to be larger firms



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For The Straits Times

Many early analyses of Singapore's economy lamented the lack of entrepreneurship in Singapore and its dearth of start-ups.

How often did we hear in the 1990s, or even the early 2000s, that young Singaporeans were not creative.

That has changed dramatically over the last five years.

The number of local start-ups has risen significantly to close to 50,000 and it is estimated that about 10 per cent of these are innovative entrepreneurial tech ventures. I made a quick count and toted up about 25 active incubators and accelerators. Being an entrepreneur these days is an accolade, at least by young people.

At the Singapore Management University (SMU), we have a shortage of space in our incubator. When we started a special alumni section for entrepreneurs at the beginning of this year, we saw very rapid, spontaneous registration of more than 300 entrepreneurs.

With a few exceptions like e-commerce site Lazada and Singapore-based ride-sharing service Grab, not many start-ups here have become nationwide or international brands, but we have seen a few successful initial public offerings or major capital investments based on the growth potential of such companies.

What has led to this change? Off-cited factors are the ease of doing business in Singapore, ease in setting up a company, a good environment to protect intellectual property, a well-educated population and strong government support, be it from Infocomm Development Authority, Spring Singapore, the National Research Foundation or others.

This is clearly good news and we should not hesitate to celebrate this. But there is a need to ensure that these ventures grow and become a real source of employment and gross domestic product. What is needed in the next phase is to scale up these start-ups into larger companies.

I am often reminded of my experience in Cambridge in Britain. Thanks to the very entrepreneurial culture there and the university's support, there were many

successful start-ups. So much so that we often referred to it as the "Silicon Fen", as an analogy to California's Silicon Valley.

But I also noticed that Cambridge produced lots of wealthy individuals and serial entrepreneurs, but relatively little employment. Indeed, successful entrepreneurs tended to sell out their companies to multinational corporations (MNCs) once they reached medium size. And while the research and development units often were kept in or around Cambridge, the sales and operations were absorbed into the existing units of these MNCs elsewhere in the world.

That some entrepreneurs will sell out at a relatively early stage and get the fruits of their hard work is to some extent unavoidable. They may want to take some profits to enjoy their success, or they may realise that their strength is not in running larger, more strictly operated organisations.

But I hope that we can help some of our local start-ups become sizeable companies, generating jobs and contributing to the local economy.

Here, I am not hoping for many unicorns, that is, companies valued at more than US\$1 billion (S\$1.35 billion). No doubt there will be some. But in Singapore, we may be equally well off with a dozen real "scalars" which are valued at more than US\$100 million. How do we create an environment and the conditions in our small economy that will enable those scalars to emerge? The literature on entrepreneurship can no doubt suggest dozens of actions, but I will focus on five which I find particularly relevant to Singapore

Five suggestions for action

INVEST CAPITAL, NOT GIVE GRANTS
The potential for growth is often embedded in the original financial DNA of the start-up: how and how well it is financed.

Entrepreneurs who have to continuously spend most of their time on getting additional funding cannot focus on the essence of their business – products and markets.

A recent comparison of the start-up landscape in France and Britain pointed out that the growth potential in Britain was much higher than in France because of better financing at the start of the company.

The type of financing also plays a role. Investment in the capital of the new firm appears to be much more effective than grants or subsidies of an equal amount.

It may well be that there is a slight

and unintended perverse effect of grants. They go into the profit and loss statement that shows a company's revenue and expenses over a set period, such as a year, while capital goes to the balance sheet, which shows a company's assets, equity and liabilities at a specific point in time.

Entrepreneurs may well be a bit more careful in the start-up phase about the balance sheet than about their profit and loss statement, since investors may be prepared to see them make initial losses. So we may have to consider adjusting the financial support for starters to boost their balance sheets.

NETWORKING FOR SCALERS

To grow, entrepreneurs need to expand their markets. While the Singapore market is sophisticated and rich, it is limited. International and in particular regional expansion will be necessary. That will require networks with other entrepreneurs.

As it happens, this is not yet a strength of our young entrepreneurs. Many of them love to spend time in California or Shanghai, and universities have developed great schemes to expose our students to the entrepreneurs in the United States, Europe, Israel or India.

But I frankly wonder how many real networks they have constructed on their return.

I wonder whether they have the cultural sensitivity and language capabilities to operate in Jakarta, Hyderabad or Chengdu.

Over the last two years, I have been travelling to many of these places in the hope that through contacts with the local universities, we can build networks with the dynamic student entrepreneurs in these places, where the competition may be a bit less fierce.

What we do on a small scale at SMU may well be needed on a larger scale for the nation.

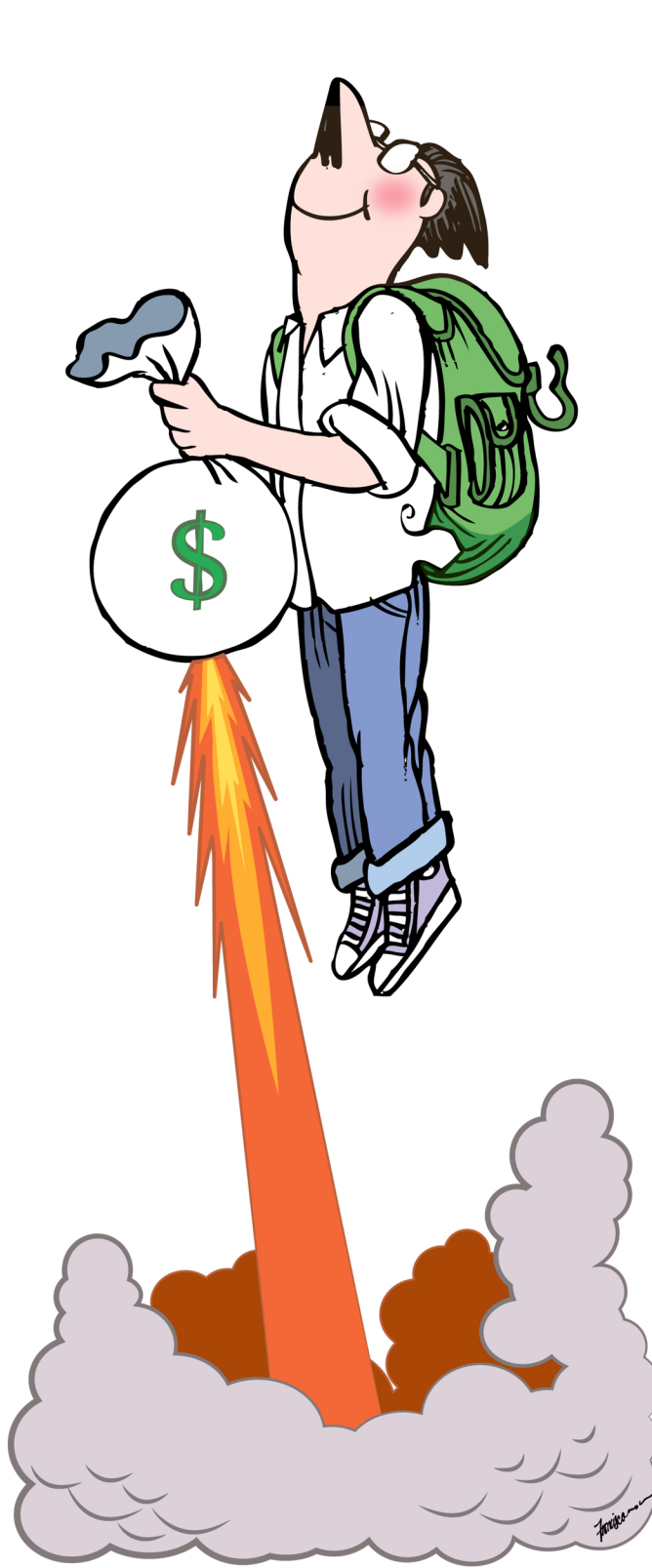
Incidentally, we don't need to develop the full value chain for these start-ups in Singapore.

Yes, we need to ensure that a significant part of the value is created and delivered here, but some activities such as software programming, help desks or sales will have to be carried out elsewhere, either because we need to be close to the customer, or because our cost structure for labour or space does not make it attractive to operate in Singapore.

DIVERSIFY INTO NICHE AREAS

My third suggestion is to help our entrepreneurial ventures diversify technologically. Yes diversify!

You may think that one of the



most important objectives for a small company would be to focus, and not be distracted by doing too many things at the same time.

Yet very interesting research in the biotechnology industry by two of my colleagues at SMU, Professors Gerry George and Reddi Kotha, indicates that the performance of younger firms benefits greatly by entering early on in their existence into new technological niches.

This does not mean that start-ups should pursue an unbridled expansion into new technological niches, but branching out into one or two novel technological areas helps drive innovation in a firm.

Admittedly this is not intuitive and will require some significant resources from entrepreneurs. But this is the type of research-based insights that we need to share with scalars in the making.

EDUCATING FOR GROWTH

Which leads me to my next suggestion: education for entrepreneurship needs to shift gradually towards education for growth. Many of our incubators have become good accelerators.

They support the budding entrepreneurs in structuring their development process. There may be different approaches. At SMU, we split it up into four phases: business-model development, innovation development, go-to-market stage and financial modelling. Whether it is this or another model probably does not matter, as long as we help starters to structure their development.

But soon we will need education for scalars: how to think regional or global, how to branch out, how to partner. There is no doubt a need to invest in continuing education, perhaps under the SkillsFuture

initiative, to groom the scalars as well as the employees who choose to work for such growing companies.

TEACH THE IMPORTANCE OF DESIGN

A final point I want to make is the need to invest more in design.

Yes, I know we have a university with "Design" in its name, we have a design centre, we have some other institutions such as the Nanyang Academy of Fine Arts and Lasalle College of the Arts, and the polytechnics offering some very good courses in design. And even at SMU, we teach design thinking.

But frankly, I am not convinced that design is one of Singapore's strengths.

With design, I don't mean the narrow focus on aesthetics, but the broader concerns of the definition and establishment of product concepts and development road maps, or the translation of social evolution into product designs.

When we hear design, we may all think of fashion or architecture.

But we also know that Apple's success is partially a consequence of its great design. Many international service organisations, be it in financial services, distribution or medical care, have discovered that design plays a significant role in attracting and satisfying the customer. Yet in my interactions with some of our young entrepreneurs, I get the impression that they still have the narrow concept of design in mind, thinking of it merely as something aesthetic that makes a product more pleasant to look at.

That is myopic. A product may serve a need but fail because it was not designed well.

Preparing the future

After having successfully created a culture of entrepreneurship in Singapore, we need to embark on the next phase: transform our start-ups into scalars.

There are many factors that can help in this, but for Singapore I would suggest five – shift the initial financing from grants and subsidies to participation in capital; invest in the creation of regional networks of entrepreneurs; help young firms to branch out into new technological niches; educate the scalars based on worldwide research results; and invest more in the acceptance of the broad concept of design.

One last word of caution, this is going to take time. While we see very fast transformations from start-ups into scalars in peer-based business models, app design and some other information technology sectors, it takes a lot more time in other industries like biotech, materials science or electromechanical design.

In some of the case studies I looked at when I was at the University of Cambridge, it struck me that the time from initial scientific discovery, as measured by the first publication, to successful commercialisation was on average often over 20 years.

That implies two imperatives. We will need to be patient to see some of these scalars develop, but we also need to start now with creating the conditions for their success.

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