ISSUES AND CHALLENGES OF CORPORATE CHANGE INITIATIVES IN SINGAPORE'S SMALL BUSINESS SECTOR

Thomas Menkhoff
Benjamin Loh
Singapore Management University
Singapore

Lena Kay
Kay & Associates
Singapore

ABSTRACT

This paper explores the change propensity of owners of small and medium-sized enterprises (SMEs) and associated challenges in the Republic of Singapore. Based on both qualitative interviews and quantitative survey research amongst Singapore's SME owners and change advocates, it identifies several critical issues with regard to the successful management of organizational transitions in small firms: "the need to change", "the mindset of small entrepreneurs", "change management know how" and "the value of external consultancy inputs". The data suggest that awareness building measures and educational efforts are necessary to enable more owners of local SMEs to benefit from change management tools and concepts as well as respective external expertise. Change management training and exposure to "best" (sectoral) change management practices and successful projects facilitated by external change agents might help more small entrepreneurs to manage both intra-organizationally and externally induced organizational changes more effectively.

INTRODUCTION

External forces of change such as globalization, competition, deregulation, technology and the rapidly evolving knowledge-based economy are forcing Asia's small entrepreneurs to reposition their firms and to be more open with regard to "new" management approaches. "Successful" corporate leaders and managers are required to adapt to environmental change and to manage organizational change effectively (Beckhard, 1969; Beckhard & Harris, 1987; Tushman, Newman & Romanelli, 1997; Schaefer & Thomsen, 1998). There is an increasing pressure to implement concepts such as change management, business

1 The authors gratefully acknowledge the support of the National University of Singapore (NUS Research Grant R-317-000-035-112), the Singapore Chinese Chamber of Commerce and Industry (SCCCI), the Institute of Management Consultants, and the various local SME owners and consultants who participated in the research. A longer version of this article entitled "World's Apart? Reflections on the Relationship Between Small Entrepreneurs and External Change Advocates in Singapore" appeared in the Journal of Asian Business (2002) Vol. 18, No. 1.
process reengineering, survey feedback, sensitivity training, team building, quality of work life programs and quality circles aimed at changing organizational work settings, technology and/or people so as to improve organizational effectiveness and to enhance job satisfaction (Greenberg & Baron, 1997: 563).

Change agents can play a catalyst role in change processes (Ginsberg & Abrahamson, 1991; French & Bell, 1978; Huse, 1975). A change advocate is typically a behavioral scientist brought in to help a client system by applying his or her knowledge to the client’s problems. One of the core competencies of change agents is "change management" which professional consultants define as a systematic process of aligning the organization's people and culture with changes in business strategy, organizational structure, systems and processes resulting in ownership (buy-in) and commitment to change, sustained and measurable improvement and improved capability to manage future change.

The purpose of this article is to shed light on the receptiveness of owners SMEs in the Republic of Singapore with regard to the use of external change agents in managing change within their firms. SME owners are often reluctant to utilize external expertise even though SME promotion bodies such as Singapore's Standards Productivity and Innovation Board (SPRING) or Malaysia's Small and Medium-Sized Industries Development Corporation (SMIDEC) provide subsidies of up to 70% of management consulting fees (Menkhoff, Kay & Loh, 2002). This gives rise to a couple of interesting research questions, which will be addressed in this essay: How relevant is the issue of change management for SME owners in Singapore? What are the main issues in the relationship between SMEs and external change agents such as management consultants and SME promotion bodies? Which measures could be deployed by small business consultants and SME promotion bodies to help foster a smoother transition of change among SMEs?

To provide answers to these questions, we begin with a review of SMEs and their receptiveness towards change and the role of consultants and change agents in managing change within SMEs. In the subsequent paragraphs, we present five issues in the relationships between SME owners, small business consultants and official SME promotion bodies, which were derived from a series of qualitative interviews with both local SME owners and management consultants and a subsequent survey of the change management practices of 101 small and medium-sized enterprises. The paper concludes by outlining some recommendations to help improve the receptiveness of SMEs towards engaging external change agents in assisting the process of managing change in their firms.
METHODOLOGY

Library, fieldwork and data analysis were conducted in Singapore between April 1999 and January 2001. The methodologies employed included semi-structured, qualitative expert interviews with nine management consultants and representatives of SME promotion bodies; semi-structured, qualitative in-depth interviews with five SME owners as well as several top executives, HR specialists, and lower-level employees of SMEs; and a questionnaire survey of altogether 101 members (exclusively SMEs) of the Singapore Chinese Chamber of Commerce & Industry (SCCCI) from various sectors.

**TABLE 1**
PARTICULARS OF COMPANIES COVERED DURING EXPLORATORY PHASE OF RESEARCH

<table>
<thead>
<tr>
<th>Type of company</th>
<th>No. of employees</th>
<th>Turnover sales (p.a.)</th>
<th>Industry sector</th>
<th>Type of consulting services engaged</th>
<th>Assistance schemes employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Listed</td>
<td>20</td>
<td>25 million</td>
<td>Ornamental fish</td>
<td>Quality control</td>
<td>National cost of quality</td>
</tr>
<tr>
<td>Pte. Ltd.</td>
<td>16</td>
<td>26 million</td>
<td>Car accessories</td>
<td>ISO 9002</td>
<td>Nil</td>
</tr>
<tr>
<td>Sole Proprietor</td>
<td>60</td>
<td>11 million</td>
<td>Automation</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Pte. Ltd.</td>
<td>150</td>
<td>100 million</td>
<td>Database information</td>
<td>Corporate restructuring</td>
<td>Management consulting</td>
</tr>
<tr>
<td>Pte. Ltd.</td>
<td>8</td>
<td>800 000</td>
<td>Medical (allergy) care</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**TABLE 2**
PARTICULARS OF CONSULTANTS INTERVIEWED DURING EXPLORATORY PHASE OF RESEARCH

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Types of services offered</th>
<th>Industry sectors served</th>
<th>Interviewee's position</th>
<th>Interviewee's area of responsibility</th>
</tr>
</thead>
</table>

*Continued on next page*
TABLE 2 (Continued)

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Types of services offered</th>
<th>Industry sectors served</th>
<th>Interviewee's position</th>
<th>Interviewee's area of responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big 4</td>
<td>&quot;</td>
<td>&quot;</td>
<td>Senior Consultant</td>
<td>General Management</td>
</tr>
<tr>
<td>Big 4</td>
<td>Assurance/Business Advisory Services, Finance, Mgt., Tax/ Legal Services, BPR, HR</td>
<td>Finance, Insurance, Property, Government-linked Firms, Hotels, Retail, Electronics etc.</td>
<td>Partner</td>
<td>Change Management</td>
</tr>
</tbody>
</table>

Continued on next page
TABLE 2 (Continued)

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Types of services offered</th>
<th>Industry sectors served</th>
<th>Interviewee's position</th>
<th>Interviewee's area of responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pte. Ltd.</td>
<td>Strategy, Business Planning, ISO9000/14000/18000, TQM, BPR</td>
<td>SMEs (Service &amp; Manufacturing Industries)</td>
<td>Principal</td>
<td>General Management</td>
</tr>
<tr>
<td>Pte. Ltd.</td>
<td>Human Resource, Executive Search</td>
<td>MNCs (IT, Telecommunications, Banking and Finance, Manufacturing) and SMEs</td>
<td>Owner</td>
<td>General Management</td>
</tr>
</tbody>
</table>

The questionnaire was intensively discussed, pre-tested and modified with various subject matter experts and selected small businessmen to ensure that all questions were adequately formulated and properly understood. The questionnaire included six sections: (i) demographics, (ii) business characteristics, (iii) organizational change, (iv) personality traits, (v) firm performance, and (vi) external management consultants. Interviewees were provided with two versions of the questionnaire – English and Mandarin.

The SMEs (defined as firms with less than 200 employees) operated in different sectors that included manufacturing (28.7%), trading (23.8%), professional services (20.8%), retailers (8.9%) and others.

CHANGE AND SMALL FIRMS

Singapore's SME sector is heterogeneous. Small businessmen surveyed in an earlier study (Menkhoff, 1993) showed considerable differences in management practices, work organization and change propensity. Due to managerial flexibility, business experience,
inexpensive family labor, embedded social networks based on trust as well as shared experience and interests, many of them had overcome the constraints of international trade and other business problems without any external change advocates or supporting schemes. Several of Singapore's "traditional" small entrepreneurs (both Chinese and English educated) had indeed proactively modernized their outlets, using modern communication means, electronic cash registers etc. Interviewees not satisfied with their business performance expressed their vision of computerizing business operations and improving organizational effectiveness.

The Asian crisis affected almost 80% of Singapore's businesses, resulting in many SME owners introducing changes to overcome and survive. One SME owner interviewed for this study commented that the Asian crisis had helped him to "create more change readiness amongst family members and staff and to overcome pockets of resistance" towards organizational change.

CHANGE AND EXTERNAL CHANGE AGENTS

Due to lack of qualified staff and size, SME owners are forced to seek the services of external consultants to assist in corporate planning activities. One of the SME owners interviewed for this study stated, "external change agents should act as doctors". He subscribed to the belief that change agents must be able to "heal the ailments" of the client company:

"… by transforming employees from behaving like stereotypical Chinese businessmen into actors who have adopted professional business practices" (source: interviews 1999).

As he pointed out, most of his staff members had been working for his firm for more than 15 years. Despite their loyalty, they were not willing to adapt to the changes he planned to institute. He felt that it was "inevitable" that they change. However, the external consultant that he had hired was "not effective" because he had developed a "general strategy" for his company rather than catering to "individual needs". He would have preferred the consultant to work with individual employees so as to "transform" them. As with shamans, change agents are sometimes positioned as modern day medicine men and spiritual guides in transformational processes who are expected to "cure" the organization even when it is terminal ill (Barber & Nord, 1977; Beck & Beck, 1989).

An example of a SME, which successfully utilized the services of a change agent in the process of organizational transformation, is an ornamental fish farm in Singapore whose dynamic entrepreneur found the engaged external consultants to be "effective and productive". Recently, the company was listed on the Singapore stock exchange.
Beer and Walton (1987) have argued that a consultant working with SME owners to solve problems on the job might stimulate behavioral learning through doing rather than representational learning through language typically delivered by standardized training programs. This demands that consultants are effective in diagnosing problems and designing and managing experiences that permit inductive learning. Furthermore consultants also often challenge the existing cognitive order:

"They state the obvious, ask foolish questions and doubt – all of which helps organizational members get outside of themselves" (Smircich & Stubbart, 1985: 731).

However, owner-managers of SMEs can be very intense people – their responsibilities are often multifunctional, performed within tight schedules and with a real sense of urgency. Due to potential conflicts between the personality of the SME owner or manager, situational pressures and structural features of small firms, effective external change agents must have a good understanding of the strengths and weaknesses of SMEs as well as the psychological and sociological foundations for power within such organizations.

MANAGING CHANGE IN SMEs

Our interviews with SME owners and management consultants in Singapore suggest that there is a gap between the world of small firm owners and change agents. Some SME owners are reluctant to adopt formal change management practices, to utilize external change agents such as management consultants and to actively approach SME promotion bodies that are interested in upgrading local firms (Armenakis, Harris & Mossholder, 1993). While qualified external change agents have the potential to contribute to intra-organizational performance improvements, their expertise is not always fully utilized by SME clients. This can be illustrated with regard to five issues shown in Figure 1: (1) the need to change; (2) change management competency; (3) the mindset of small entrepreneurs; (4) the value of external consultancy inputs; and (5) SME development assistance schemes.

The Need to Change

Contrary to our pre-assumptions, many of the SME owners in this study felt that it is necessary to be responsive to external change. Interviewees pointed out that they were "forced" to change "certain things" in their firms during the period 1997–1999 because of changes in the business environment caused by the Asian crisis and its consequences. They emphasized that they would not have implemented change(s) such as cost reduction strategies if not for the crisis, since (i) they had been quite satisfied with their business performance in the past and (ii) hence had seen no need for change then (Figure 2).
Firms sampled in the study indicated that the major/critical technology-related changes included the use of Internet and E-commerce facilities, purchase of new tools and equipment, office automation and implementation of online procedures. Significant people-related changes included the provision of employees with more company-related information, more consultation, and more staff participation in decision-making processes. As a management consultant said:
"The crisis was a blessing in disguise because it made SMEs more aware of their negligence in their operational processes which they would have otherwise ignored" (source: interviews 1999).

All management consultants agreed that those SMEs, which were forced to shut down because of the crisis, were companies whose owners had "refused to change" or "did not see change coming". It was critically emphasized that many "SMEs are not aware that they need help" and that "a more creative approach is necessary to reach out to SMEs".

Changing customer needs, customer complaints, and activities and innovations of competitors turned out to be the most important external forces of change highlighted by the 101 entrepreneurs surveyed (Figure 3). The three most important internal forces of change which motivated respondents to initiate organizational changes were customer complaints, outdated business strategies and a new emphasis on quality.

![Figure 3. Major internal drivers of organizational change measures](image)

**Change Management Competency**

All SME owners interviewed needed some initial explanations and briefs on the concept of change management and associated best practices. However, SME owners with higher educational qualifications have more exposure to management concepts and training (including change management) than poorly or less-educated entrepreneurs. More than 70% of the respondents rated their change management competencies as good/very good although only 21% had attended a relevant training course. About one third of all survey participants (31%) believed that they had a good/very good understanding of the change management concept.

Contrary to the results of the qualitative interviews, more than half of all survey participants characterized the outcome of organizational change measures as successful
(55.6%) and claimed that they had measured the effects of implemented organizational change measures (75.3%). Improved job performance (60.5%) and retained business (60.5%), higher sales volume (59.2%) and fewer customer complaints/higher customer satisfaction were cited as the three most important benefits of change initiatives (Figure 4).

![Figure 4. Scale of benefits obtained by change measures](image)

Adverse administrative effects, increase in staff turnover and disruption of production were cited as the three most important negative consequences of implemented change measures.

**The Mindset of Small Entrepreneurs**

During the interviews both SME owners and consultants often referred to the "mentality" or "mindset" of local SME owners as impeding the proactive adoption and successful implementation of organizational change measures, effective strategizing etc. A local consultant stressed that owners/founders of "SMEs must learn the basics first before they can explore strategy". He emphasized that:

"… they need to first change their "mindset" and move away from top line (turnover) to middle (gross margin) and bottom line (profit). Before strategy can come into place, they need to understand whether they have the appropriate HR, adequate technical know how and financial resources. Most SMEs do not have a clue about these things, hence strategy is too far fetched in their capacity" (source: interviews 1999).

A local management consultant felt that this is so because many of the local businessmen are "too naive" or "too stubborn" to realize that change is necessary. Local management consultants perceived some of the local SME owners with their "autocratic and
paternalistic management styles" as "unwilling to break out of their traditional mould". On the other hand, some SME owners interviewed in this study were convinced that "outside" people such as external change agents can be of much help while others argued that they themselves or their own staff can "do the job better" than any outsider.

As in other countries, Singaporean small entrepreneurs find it sometimes difficult to accept external advice that might be a function of both the management style practiced and the structural characteristics of family businesses such as familism and distrust vis-à-vis non-family members, the use of information as a power tool, and/or general communication problems between entrepreneur and consultant (Menkhoff & Kay, 2000; Carney, 1998: 138; Productivity Digest, February 1991: 2–5).

**The Value of External Consultancy Inputs**

Two of the five SME owners interviewed during the explorative phase of the study had hired consultants, a decision influenced by the availability of respective grants provided by Singapore's Standards Productivity and Innovation Board (SPRING).

Two-thirds of all survey participants (70.3%) had never utilized the services of external management consultants. Among those who had hired external expertise, general management, information management/computer applications and financial management turned out as the most frequently received consulting inputs. Of those who had used external expertise, 40% acknowledged that the consultant(s) had a high impact on firm performance. Half of the respondents assessed the business impact of external management experts as moderate while 10% rated it as low.

The three most important reasons for not seeking external advice included the perceptions that external consulting inputs are costly, that many SME owners do not see the need to hire a consultant and that consultants do not fully understand the nature of the respective business (Figure 5).

**SME Development Assistance Schemes**

Altogether, 45% of the 101 SMEs surveyed had utilized official SME assistance schemes provided by the government which is a large number considering prevailing stereotypes and common-sense arguments about the reluctance of SMEs to tap into existing funds. Two of the five SMEs covered in the context of our pre-survey activities had received subsidies (grants) from SPRING. One of them was motivated by the incentives offered. The other, a "promising SME", had made its presence known through a joint promotion with SPRING during a business event. Some SME owners interviewed claimed that it is difficult to benefit from the various SPRING schemes because of "unnecessary" paperwork and the "lengthy" application process. As one local management consultant put it:
Owners of small firms are typically not used to filling out forms and when they do, they do it so unprofessionally that, at the end of the day, it is bound to get rejected" (source: interviews 1999).

Figure 5. Reasons for not utilizing change consultancy services

According to SPRING, the level of the grant, which is generally based on 30%, 50% or 70% of the allowable costs as defined by SPRING, depends on the scope, depth, and effectiveness of the short-term assignment and its relevance to Singapore's economic development objectives. A SPRING representative confirmed the following criteria eligibility for SME applications: (1) at least 30% local equity, (2) fixed assets (defined as net book value of factory building, machinery and equipment) not exceeding SGD$15 million and (3) employment size not exceeding 200 employees. Information obtained from SPRING suggests that SMEs who meet the criteria are usually approved and that companies that are rejected are mostly big firms who wanted to apply for their subsidiaries but did not meet the criteria.

Embracing E-Commerce – The Case of Far East Flora

Far East Flora was founded by the Cheok brothers in 1965. At that time, the three brothers operated their retail flower business from the back of their van. Their first flowers and gifts department was formed in 1978 to complement and improve the company's product line and services. Since then, Far East Flora has expanded and sells over 2,000 freshly cut flowers and other gift items in its garden "supermarket". As a member of Interflora, they embarked on an e-marketplace platform to sell and deliver their products to over 60 countries worldwide. Today, Far East Flora is a major importer, exporter and wholesaler of fresh-cut flowers and enjoyed a turnover of S$22 million in 2000.

Far East Flora Pte. Ltd. is an SME which has taken advantage of government assistance schemes to reinvent itself for the new economy. To assist the SME sector to keep pace
with changing environmental demands, the Singapore government offers over sixty assistance schemes to ensure that SMEs survive and remain competitive. One such scheme is the "Jumpstart Programme" which is offered by SPRING. The scheme aims to accelerate the online transaction capability of SMEs by helping them adopt "ready-made" e-commerce solutions. 17,000 SMEs have taken advantage of this scheme. Another 1,500 SMEs also took advantage of the e-Business Industry Development Scheme which is jointly offered by SPRING and the Infoocom Development Authority (IDA). This scheme allows SMEs to join an e-marketplace that is customized to meet the needs of suppliers and customers in the various industry sectors.

RECOMMENDATIONS

Our research data suggest that Singapore's SME owners implement various organizational change measures in their firms on a routine basis and that they are not a static, homogenous group of entrepreneurs. While the determinants of successful organizational transitions in local SMEs have yet to be ascertained by empirical research, one thing seems clear. To survive in the new economy will be a challenge for some of them, and it will not be simple and painless.

One of the greatest challenges of effective change leadership is mastering changes in the people system – the perceptions, behavior, and competencies of employees. And that often relies on the ability and attitude of the person at the top and his or her mindset, i.e., the SME owner-manager, demographics, personality traits and change management competencies. SME owners will have to adopt new business paradigms which also requires a change in the mindset, thinking and behavior of both management and staff as well as a shift in how firms are designed, structured and managed (Kotler & Kartajaya, 2000).

Owners of SMEs need to understand and appreciate the concept of change management and gradually need to be made more aware of its benefits and how it can impact on firm performance. Awareness building and skills upgrading measures might be critical to turn more owners of small firms in Singapore into potential change masters. With proper change management skills, they might be able to convince primary and/or secondary stakeholders that change measures can produce tangible benefits that outweigh the cost of change. SME owners will have to act like change agents, leading by example, practice open communication, invite participation, listen to subordinates and develop trust in the organization.

External change consultants/agents can play an important role in assisting SME owners/founders to become internal change agents. As counselors or advisors, external consultants could stimulate SME owners to consciously think about and plan change within their
companies. This will require a tedious and extensive process of communication and awareness building as well as training.

The study also showed that policy makers play a very important role in upgrading SMEs and enabling them to embrace change more proactively. SME promotion bodies such as Singapore's SPRING have convinced many small entrepreneurs that it is worthwhile to implement change measures proactively, to utilize external consultancy services and to upgrade skills.

To ensure the success of change programs and efforts, consultants, chambers of commerce and industry and trade associations must each do their part to help SMEs realize their full potential. It is only through this joint concerted effort that local SMEs can be upgraded and become more competitive in the new millennium where the only constant is change.

CONCLUSION

This study is just one piece of work that attempts to understand the change management practices of local SMEs in general and the adoption of formal concepts of change management in particular. To shed more light on the change propensity of local SMEs, future research should focus on the following issues. First, key dimensions of the "mindset" of SME owners in terms of demographic characteristics (age, organizational tenure, educational level, etc.), personality traits, such as one's receptivity to change or willingness to take risks and social cognition. Issues such as one's entrepreneurial orientation and their effects on adopted change measures should also be explored. More systematic research needs to be done to measure the actual impact of consultants on the business operations of local SMEs in terms of financial gains and employee productivity. Second, there is a need for longitudinal studies. The mindsets of SME owners do change as time passes by, either because corporate succession issues (Ngai, Ho, Lam & Tan, 2001) become more prevalent and/or because a highly educated family member (or somebody else) joins the top management team. Some SME owners may simply learn (or be forced to learn) to embrace change proactively and be more positive towards it because of economic imperatives.

REFERENCES


