**Essay Question 6**

**Using appropriate examples, discuss whether firms operating in Singapore should aim to become big to be competitive. [25]**

Key Issue: Size of Firms and Competitive Strategies:

In Singapore SMEs contribute 46% to GDP and employ 63% of the workforce.

To compete successfully in the market for its product or service firms need to leverage on revenue and cost advantages. One basic strategy is to expand its size. However, whether this strategy is appropriate is debatable.

Firms in Singapore can be classified broadly into

(1) SMEs and (2) MNCs # .

Should firms in Singapore aim to grow big?

Where there are Potential for Economies of Scale. In industries where there are potential economies of scale e.g. Manufacturing (electronics; Pharmaceuticals; petrochemicals); transport

e.g.: buses and some type of retail e.g. supermarkets.

* Technical economies

Examples:

Technological economies — R + D; scope for employing sophisticated machines e.g. pharmaceutical manufacturing and petrol chemical or petrol refining etc. Those in the so- called hi-tech high-value add sectors.

The public utilities and public transportation network e.g. MRT — natural monopolies or network industries. Technology industries e.g. ICT; Pharmaceuticals

* Administrative and marketing economies

Examples:

Bulk discounts from purchase of raw materials

* Financial economies

Public-listing in the stock market and capital markets (bond issue) e.g. SIA, NOL, PSA. Especially important for firms requiring large capital outlay.

* Risk-bearing economies — scope for diversification of product range; markets and suppliers

Evaluation:

Basic limitation of the Singapore Market: Small Domestic Market.

However to expand its output to\* leverage on scale economies firms cannot rely on selling its output in the domestic market.

Generally the domestic market in Singapore is too small to support big firms e.g. MNCs. Thus, the big firms based in Singapore generally do not depend on the local market for the sale of its product. For example, foreign MNCs use Singapore as a production base or R+D centre for the distribution of its product world-wide.

Local or home-grown MNCs (GLCs) e.g. NOL, SIA; Singtel derived a substantial portion of its revenue from overseas. Thus, the ability to leverage on economies ultimately depends on the ability of locally-based firms to grow its overseas/export markets.

REVENUE ADVANTAGES

* Branding and production differentiation — non-price competition - got more resources to engage in product differentiation to gain bigger market share.
* More pricing power e.g. price discriminate such as mobile service providers.

Evaluation:

* Given our small domestic market, big firms must compete in global markets e.g. SIA; Singtel etc. In this respect such firms might not have the monopolistic power when they operate in global markets unless they have a substantial global market share. This In turn depends also on leveraging on our comparative advantage as well as competitive advantage. In this regard Singapore has been quite successful in exporting its public services e.g., building of industrial parks; housing and operating ports and airports. On the other hand, our 3 big local banks are by international standards considered small players. Hence, there is a push by the government to encourage the mergers of local banks to leverage on EOS before the liberalisation of the financial markets.
* Big firms (if too dominant) faced or attract regulatory attention e.g. Singtel acquisition of Shin Corp in Thailand and could be a subject of anti-monopoly investigation. Singaporean firm expansion into overseas markets faced regulatory hurdles. Recently, SJA acquisition of China Eastern Airline was subject to a regulatory cap of 24%.
* Diseconomies of scale e.g. bureaucratic red-tape and other forms of managerial diseconomies.

**SURVIVAL OF SMALL FIRMS**

However, not all types of firms/businesses stand to gain from expansion into bkj firms.

* Economies are limited or insignificant Example: Monopolistically competitive firms e.g. hawkers with insignificant market share; Small firms providing customised goods and personalized services; Firms providing sub-contracting services to big MNCs.
* Flexible: Small firms nimble in the face of adverse market conditions; Cut cost; change marketing strategies - not burdened by a large bureaucracy or managerial diseconomies e.g. plagued by labour or industrial problems; too much red-tape in decision-making.

**Conclusion:**

Firm size is dictated by the size of its market Generally, firms which aim to serve only localized markets/niches/ heartlands and provide customized services or product generally do not gain from growing into big firrns.

E.g. clinics; fashion boutiques; small eateries might not benefit from an expansion in its scale of operation. Today, however, given our strategy to venture into global markets overseas as a cornerstone of our economic growth, there is a need as well as opportunity for local firms to expand into big global players capable of leveraging on scale economies as well as product innovation and development e.g. Breadtalk, OSIM, Hyflux and etc.