

COMMENTARY

Business transformation in a volatile economy

By Dennis Khoo

THE Covid-19 pandemic accelerated digitalisation across most industries. Small and medium-sized enterprises (SMEs) were pushed to embrace business transformation faster than anticipated, to keep ahead of the competition.

Yet while 65 per cent of Singapore's SMEs agree on the importance of digital transformation, adoption remains slow as they face various challenges, according to the Singapore Business Federation's (SBF) latest *National Business Survey*.

Another study – by Microsoft Singapore and the Association of SMEs – found that over 80 per cent of SMEs have digital transformation strategies, yet only two in five consider their transformation successful. Why might this be so?

Top challenges

Responding to an SAP survey at the turn of the year, SMEs said digital transformation would be critical for their survival in the next 12 months. Yet many are struggling to keep pace amid changing customer wants and needs. They face competition from larger organisations, and need to adapt to a rapidly changing marketplace fraught with economic volatility.



SME leaders need to shift their focus to holistic business transformation rather than just digital transformation, with an emphasis on transforming people and processes too. PHOTO: PIXABAY

Perhaps the main problem is that most SMEs do not know where to start. Some also consider transformation a waste of time, with high costs involved. In the SBF study, the top challenges to transformation were the high cost of adoption, cited by 52 per cent, and upskilling employees, named by 30 per cent.

Other barriers include the lack of a digitally skilled workforce, the uncertain economic environment,

low awareness of government support and not having the right technology partners. The SAP survey found that 92 per cent of respondents were hampered in their digital transformation plans due to the Great Resignation phenomenon.

Nonetheless, SMEs must still work towards organisational transformation by investing in technology to future-proof their business. They also need to re-en-

gineer their processes to keep abreast of changes in supply chains and market trends. How can this be achieved?

Rethinking the approach

First, SME leaders need to shift their focus to holistic business transformation rather than just digital transformation.

Besides focusing on technology, an emphasis needs to be placed on the transformation of people and processes too – key pillars of SMEs' business success.

SMEs need to directly address the causes of business transformation failures – while remaining agile, which is their key strength compared to larger incumbent companies. This starts by removing the tunnel vision of finding "the best digital solutions". Instead, they should first define the key issues hampering their business and the root causes, then begin by transforming those areas.

The good news is that SMEs can pivot much faster as they do not carry "baggage", unlike incumbent companies that may have many legacies embedded in their people, processes, investments and software, among others.

At the same time, transformation must not be a knee-jerk reaction to today's problems, but

should instead address long-term challenges and opportunities. For example, during the pandemic, many SMEs shifted to online commerce just to survive. But in the post-pandemic era, SMEs with foresight are continuing to expand their online retail channels to international markets, gearing their people and systems to deliver greater value to more customers.

The *allDigitalFuture Playbook* which I co-authored identifies four dimensions and 19 elements that business leaders need, in order to get their transformation right. These four dimensions are customers; business; capabilities; and people and leadership. The book explains the interactions across these dimensions and elements, and these concepts are now the DNA for the National University of Singapore's Digital Transformation Leaders Programme, which welcomes SME leaders.

Moving ahead

Solving any problem successfully begins with understanding the issues clearly. The same goes for SME business transformation. This starts with clarity about what areas of transformation to focus on – which must be clear and known to everyone involved in the business.

While it initially takes time and effort to review and change existing business models, workflows and workforce, SMEs should understand it is a continuous journey and not a sprint.

SMEs need to have a systems-wide and people-centric approach on top of tech solutions, to handle transformation in an effective manner. In Singapore, SMEs' top business priorities are growing revenue, ensuring a positive cash flow and reducing costs. A successful business transformation will help them achieve these goals.

Economic headwinds amid a potentially looming recession, rising costs and geopolitical tensions all mean that business transformation is not just a trend, but a necessity to empower SMEs with the competitive advantage to survive and thrive in years to come.

The writer is programme director of the National University of Singapore's Digital Transformation Leaders Programme. He is the co-author of *The allDigitalFuture Playbook: How to Succeed in Digital Transformation and Innovation in a Complex World*, as well as author of *Driving Digital Transformation: Lessons from building the First Asean Digital Bank*.