

Linking growth with entrepreneurship

Expert take on rates of business activity in good and bad times

By **CHEN HUIFEN**

[SINGAPORE] A shrinking economy may spur more people to start a business out of necessity, but expectations of a better economic climate for Singapore do not necessarily point to less entrepreneurship, according to experts on the subject.

This is because the dynamics contributing to a country's entrepreneurship level are complex, and so the school of thought that entrepreneurial activity increases when the economy is not doing well may not hold.

"There is some cross-country empirical evidence from the Global Entrepreneurship Monitor (GEM) studies that 'necessity' entrepreneurial rate tends to increase when an economy is not doing well – people who lose their job or have difficulty finding jobs may resort to self-employment out of necessity," said NUS Entrepreneurship Centre director Wong Poh Kam.

"However, the same may not apply to 'opportunity' entrepreneurial rate – as the economic prospect weakens, those motivated to exploit opportunities may find such opportunities less attractive, and hence hesitate to start. The effect is also complicated by time lag in people's responses to econom-

ic prospects. As such, the overall entrepreneurial rate may not correlate directly with the rate of economic growth in the same year."

Although Prof Wong found some negative correlation between the economic growth rate and entrepreneurial activity between 1996 and 2006, the link was too weak to be conclusive. As UOB-SMU Entrepreneurship Alliance Centre director Ang Ser Keng pointed out, the inaccessibility of financing during an economic downturn could also dampen entrepreneurial aspirations. "If we look at the data from ACRA for Singapore, the level of entrepreneurship in Singapore has been increasing over the past few years until 2007," added Mr Ang.

"From year 2003 to 2007, the number of companies registered with ACRA grew at an annual compounded growth rate of 13.8 per cent. A total of 25,903 companies were registered in year 2007.

"On the other hand, year 2008, which marked the start of the financial crisis, experienced a slight decline of 2 per cent and 25,328 companies were registered. This is consistent with the foregoing argument – a growing economy give rise to greater opportunities for businesses."

The number of new enterprises registered in major Organisation for Economic Co-operation and Development (OECD) economies has also fallen during



FILE PHOTO

Prof Wong: *'The overall entrepreneurial rate may not correlate directly with the rate of economic growth in the same year'*

the crisis, Mr Ang pointed out. He quoted a 2009 report by the OECD-Eurostat Entrepreneurship Indicators Programme which shows that the number of enterprises created in Australia, Austria, Belgium, Denmark, Finland, Germany, Italy, Netherlands, Spain, UK and the United States had all started to trend downwards from 2007. The fall became steeper between 2008 and the first half of 2009.

Mr Ang argued that aspiring entrepreneurs could take into account the fact that spending in an economic downturn is likely to be low, which could affect sur-

vivability of a new business. He pointed to statistics from Insolvency & Public Trustee's Office (IPTO) which showed that 132 companies went through compulsory liquidation in year 2008 compared to 106 in 2007. "Most companies typically fail in a downturn because of liquidity issues," he said.

Other factors, such as risk-taking culture and technology adoption, could also affect the level of entrepreneurship, making the net overall entrepreneurial rate hard to predict.

Despite the difficulty in forecasting entrepreneurship level for next year, Mr

Ang believes that entrepreneurial activities will continue to grow.

His sentiment is shared by DP Information Group managing director Chen Yew Nah. "Actually, if the economy shows clearer signs of picking up, the level of entrepreneurial activity will increase," said Ms Chen. "Many opportunities will occur within the Southeast Asian region, and hence are within easier reach for start-ups."

There are strong drivers for their outlook.

The government has channelled huge resources to promote entrepreneurship, particularly among the youth. The National Research Foundation, for instance, has allocated \$350 million over five years (2008-2012) to fund innovation and academic entrepreneurship at the three local universities.

There is also the \$12.5 million Young Entrepreneurs Scheme for Startups (YES! Startups), that will provide up to \$50,000 in seed money for youths under 26 to start their own firms. Early this year (2009), Spring Singapore launched a \$30 million programme to give grant support to incubators hand-holding start-ups.

To date, YES! Startups has supported 41 startups, with \$2 million. And about \$16.2 million has been committed to 10 incubators and venture accelerators so far.

However, Prof Wong thinks that the promotion of entrepreneurship among the young should be complemented by support for working professionals and experienced people who may be interested in starting their own businesses too. Maturity and work experience could actually help to raise the success rate of a new venture.

"The involvement of the older folks in the entrepreneurial economy does not just mean having them becoming entrepreneurs themselves; they could also contribute by becoming angel investors, mentors and executives for younger start-up entrepreneurs," said Prof Wong.