

Box 1.1: Singapore's Corporate Sector: Recent Trends in Firm Formation and Cessation

The corporate landscape in Singapore consists of business entities such as companies, partnerships, sole proprietorships, limited liability partnerships (LLP) and limited partnerships (LP), with each business entity differing in terms of its legal structure.¹ In general, it is cheaper and easier to set up and maintain a business (comprising sole-proprietorships and partnerships) than a company. First, businesses pay a lower registration fee as compared to companies.² Second, they have simpler statutory obligations, unlike companies which have to comply with statutory standards such as the filing of annual returns, which may include financial statements, with the Accounting and Corporate Regulatory Authority (ACRA), among others.

Companies and businesses are the two dominant types of business entities in Singapore

In tandem with economic growth, the total stock of business entities in Singapore has risen steadily over the years. Between 2010 and 2016, the total number of business entities increased by a compounded annual growth rate (CAGR) of 4.3 per cent to reach 480,000 in December 2016 (Exhibit 1A).

Exhibit 1A: Stock* of Business Entities, 2010-2016

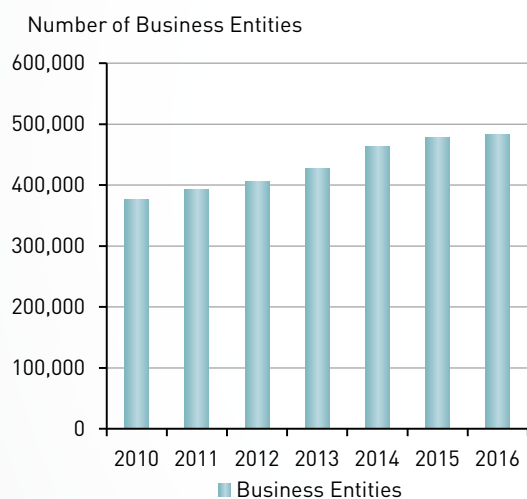
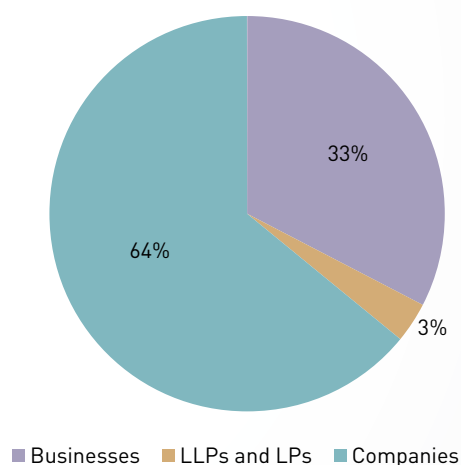


Exhibit 1B: Share of Business Entities by Type, 2016



Source: ACRA

*Stock figures are as at December of each year

¹ Briefly, a company is a business entity incorporated under the Companies Act consisting of at least (i) one director, (ii) one secretary and (iii) one member. On the other hand, a business is an entity formed either as a sole-proprietorship or partnership consisting of two to twenty members. In terms of liability, a company is a separate legal entity, which means that its directors and members are generally not personally liable for the debts and obligations incurred by the company. On the other hand, business owners are generally accountable for any obligations borne by the business. A more detailed comparison of the different types of business entities in Singapore can be found on ACRA's website (www.acra.gov.sg).

² The registration fee for setting up a company is \$300, while that for businesses is \$100.

The large majority of business entities in Singapore are companies and businesses. As at 2016, companies and businesses made up around 64 per cent and 33 per cent of total business entities respectively (Exhibit 1B). The remaining 3 per cent of business entities comprise LLPs and LPs. Given the dominant share of companies and businesses in our corporate landscape, the rest of this article focuses on recent trends in the formation and cessation of companies and businesses based on data from ACRA.³

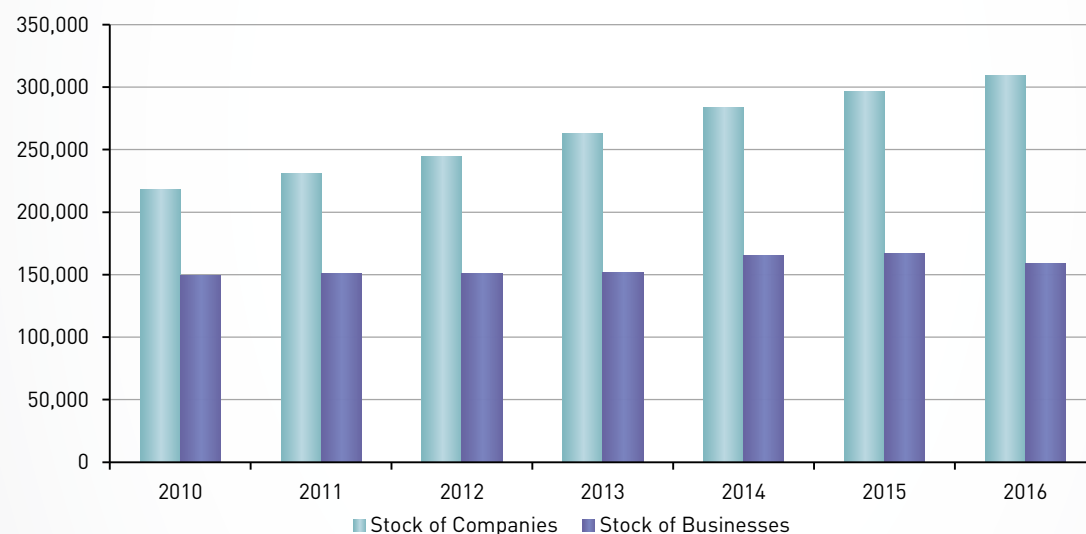
The stock of both companies and businesses has generally increased over the years, although there was a slight dip in the stock of businesses in 2016

Over the 2010 to 2016 period, the stock of companies has grown at a healthy rate of 6.0 per cent on a CAGR basis (Exhibit 2). The rising stock of companies is reflective of the positive net flows of companies annually, with the number of new companies formed exceeding the number of companies that ceased operations every year between 2010 and 2016.

As for businesses, the stock of businesses remained stable from 2010 to 2013, before rising in 2014. The increase in the stock of businesses in 2014 was due to robust business formation, even as business cessation remained stable. However, on the back of slower economic growth in 2015 and 2016, business cessation picked up pace while the number of new businesses formed declined. This led to the stock of businesses dipping slightly in 2016.

Exhibit 2: Stock* of Companies and Businesses, 2010-2016

Number of Business Entities



Source: ACRA

*Stock figures are as at December of each year

The following sections describe the formation and cessation trends for companies and businesses in greater detail.

The number of new companies and businesses formed in Singapore has remained healthy in recent years

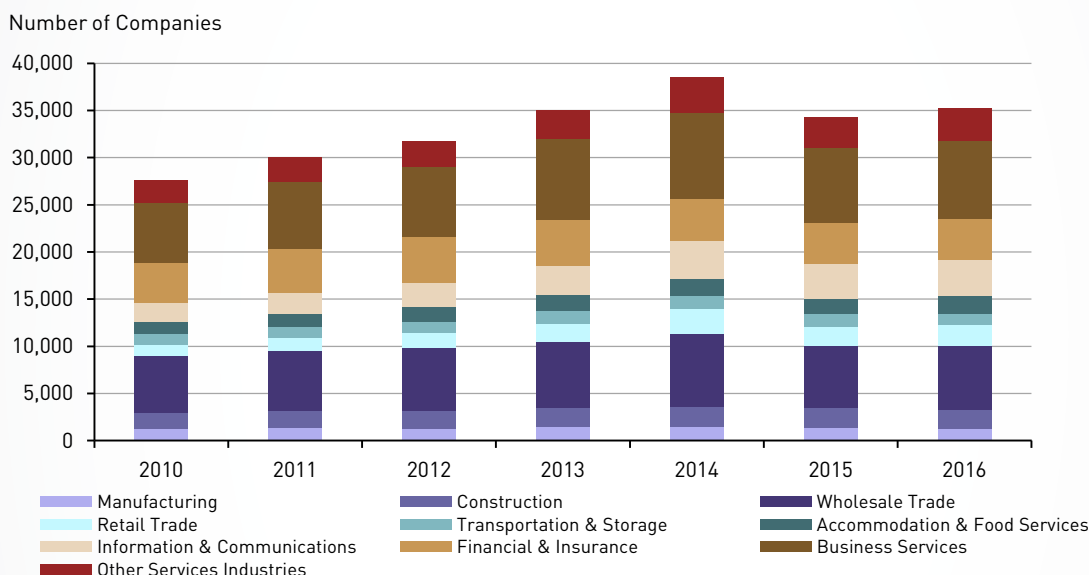
The formation of new companies and businesses is an important indicator of economic health. In particular, the creation of new firms leads to the generation of new jobs and investments. A high level of firm entry may also reflect strong entrepreneurial activities, which could in turn bring about greater experimentation and the introduction of innovative technologies, processes and business models. Collectively, these would contribute to an economy's competitiveness and dynamism.

³ The analysis is based on the latest data available, which is published on the Department of Statistics' website (www.tablebuilder.singstat.gov.sg). The statistics on the cessation of business entities have been revised to provide a more accurate reflection of the cessation trends. An explanation of the revisions made can be found on the Department of Statistics' website.

Between 2010 and 2016, the number of new companies formed in Singapore grew by 4.1 per cent on a CAGR basis. Notably, the number of new companies formed rose steadily from 2010 to a record high of 38,480 in 2014, before moderating in 2015 and 2016 in tandem with a slowdown in the economy. Notwithstanding the moderation, company formation in 2015 and 2016 remained healthy, with an average of 34,740 new companies formed annually, higher than the historical average of 32,570 per annum over the preceding five years from 2010 to 2014 (Exhibit 3).

In terms of sectors, the business services, wholesale trade and information & communications sectors were the main contributors to overall company formation over the period of 2010 to 2016. In 2016 alone, the number of new companies in the business services and wholesale trade sectors grew by 5.5 and 2.6 per cent respectively. The increase in the number of companies formed in the business services sector was in turn driven by robust company formation in the professional, scientific & technical activities segment. Similarly, the number of companies formed in the information & communications sector rose by 7.9 per cent. Growth was mainly driven by new companies in the IT & information services industry, underscoring the increasing prominence of the digital economy.

Exhibit 3: Number of Companies Formed by Sectors, 2010 – 2016



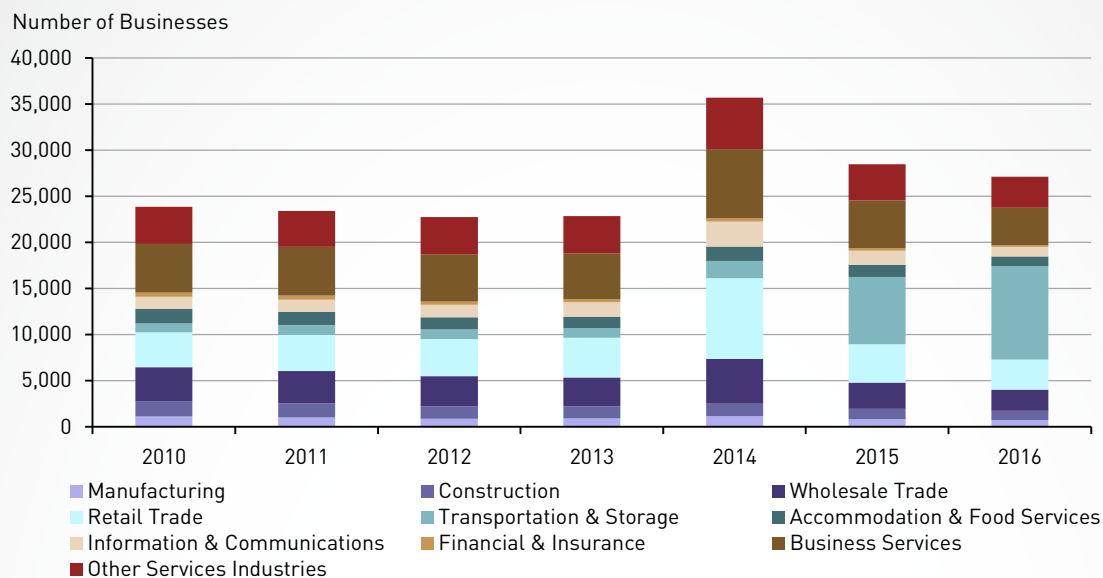
Source: ACRA

Turning to businesses, the number of new businesses formed rose at a CAGR of 2.2 per cent between 2010 and 2016. Following stable business formation trends between 2010 and 2013, business formation spiked in 2014 before moderating in 2015 and 2016. However, notwithstanding the decline in business formation in 2015 and 2016, the average number of new businesses formed annually in the two years, at 27,800, was still higher than the annual average of 25,700 seen over the period of 2010 to 2014 (Exhibit 4).

At a sectoral level, business formation trends for the various sectors were relatively stable between 2010 and 2013, with the retail trade and information & communications sector contributing the most to overall business formation. The sharp increase in overall business formation in 2014 was mainly due to new businesses being formed in the retail trade sector, including a mixture of brick-and-mortar and online shops (104 per cent). By 2015 and 2016, business formation in the retail trade sector has moderated, in part due to headwinds facing the sector given sluggish sales and labour constraints. This contributed to the bulk of the decline in overall business formation during this period. Other key contributors to the decline in overall business formation were the business services and wholesale trade sectors. By contrast, the number of new businesses in the transportation & storage sector surged by close to 300 per cent and 39 per cent in 2015 and 2016 respectively. This was in turn driven by new businesses entering the land transport segment, likely due to new business registrations by drivers providing private car-hire services via platforms such as Uber and Grab.⁴

⁴ All cars used in the provision of a car hire service must be commercially registered under a business entity.

Exhibit 4: Number of Businesses Formed by Sectors, 2010-2016



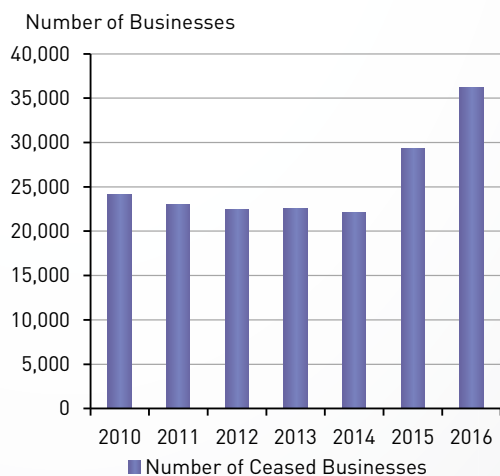
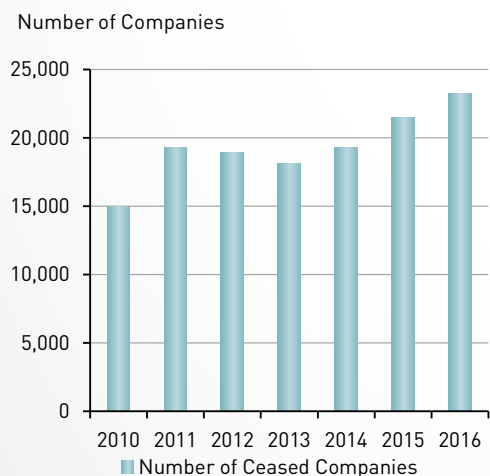
Source: ACRA

However, company and business cessations have seen an increase in recent years, in line with the economic slowdown and on-going economic restructuring

Firm cessation is an inherent part of economic restructuring, in which unproductive firms exit the market, thus freeing up capital and labour so that they can be put to better use.⁵ At the same time, changes in firm cessation may also be a reflection of the business cycle, with firm exits increasing in tandem with weaker economic conditions.

In Singapore, the absolute number of company and business cessations has seen an increase since 2015, after remaining relatively stable in the preceding years (Exhibits 5A and 5B). As the increase in the cessation numbers could in part be a reflection of the larger stock of companies and businesses in the economy over time, especially in light of the strong formation trends in 2014, it would also be useful to examine how the cessation rate⁶ of companies and businesses has changed over time (Exhibit 6).

Exhibit 5A: Number of Companies Ceased, 2010-2016 **Exhibit 5B: Number of Businesses Ceased, 2010-2016**

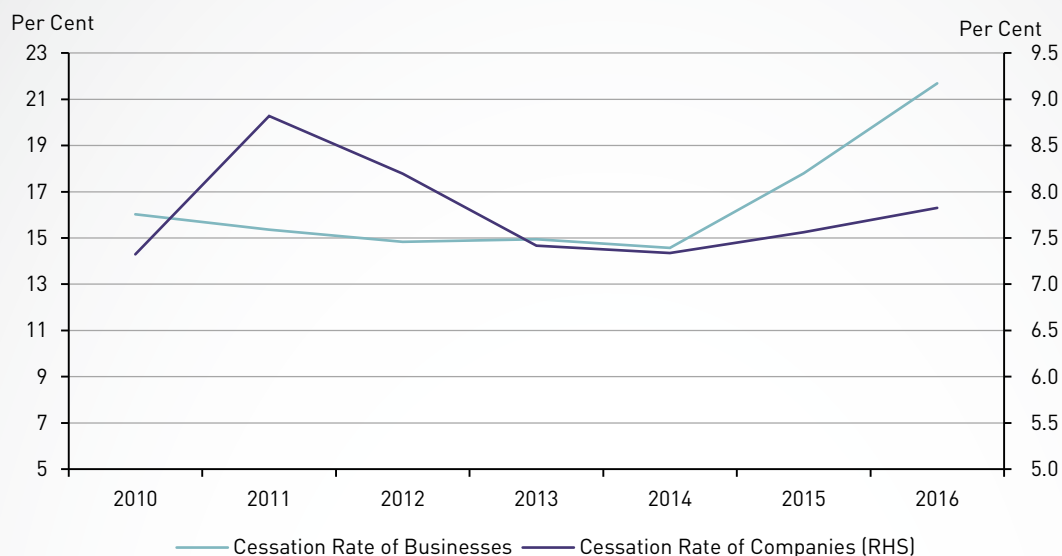


Source: ACRA

⁵ For instance, an earlier MTI study found that between 2009 and 2013, the firms that exited the manufacturing sector were less productive on average than the entering firms. [Source: "Firm Dynamics And Their Impact on Productivity Growth In The Manufacturing Sector", Economic Survey of Singapore, 2016]

⁶ Cessation rate is calculated as the number of firms that had ceased in a particular year out of the total number of firms at the end of the preceding year.

Exhibit 6: Cessation Rates of Companies and Businesses, 2010-2016



Source: MTI Estimates based on ACRA data

Based on the cessation rates, a few salient observations can be made.

First, the cessation rate of businesses over the 2010 to 2016 period is roughly double that for companies. The higher cessation rate may in part be explained by the nature and dynamics of businesses. For instance, due to the ease and lower cost of registering a business with ACRA, it is likely that entrepreneurs may register a business to experiment and test out a new concept, with many subsequently ceasing their operations if the concept does not work out.

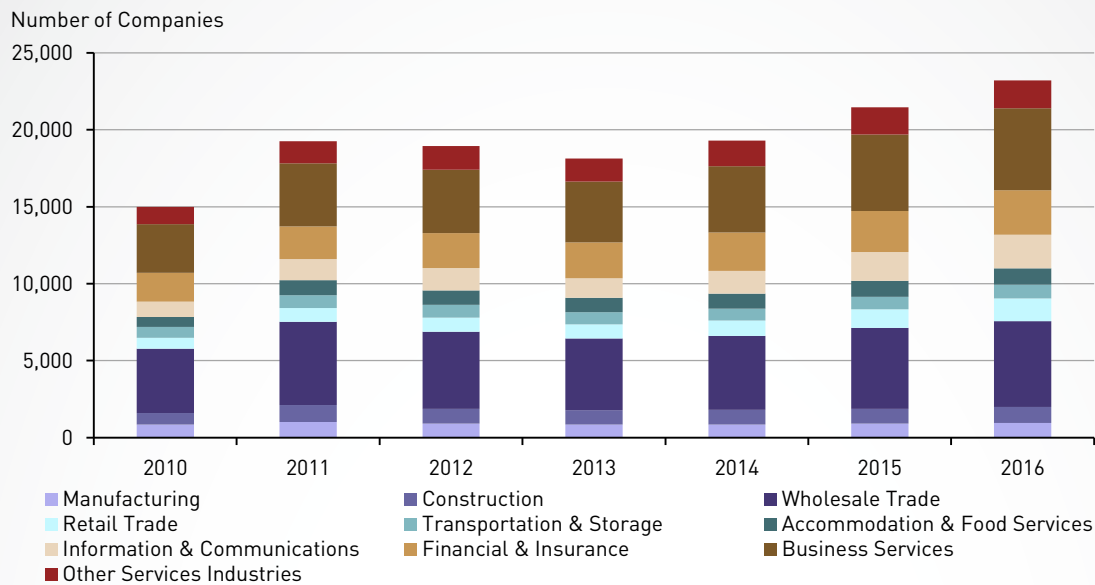
Second, there was a slight pickup in the cessation rate of companies in recent years, from 7.3 per cent in 2014 to 7.6 per cent in 2015 and further to 7.8 per cent in 2016. This could be due to the economic slowdown in 2015 and 2016, as well as on-going economic restructuring. Nonetheless, the cessation rate as at 2016 was still lower than the levels recorded in 2011 and 2012, suggesting that the overall corporate health of companies has not deteriorated significantly.

On the other hand, the cessation rate of businesses rose considerably in the last two years to reach 22 per cent in 2016. This suggests that businesses may be more vulnerable to economic slowdowns than companies, as they likely have weaker balance sheets and may lack access to financing to tide over a period of slower economic growth. This could be especially the case for younger businesses, as a significant proportion of the businesses that ceased operations in 2015 and 2016 were less than two years old.

The pickup in company and business cessation in 2015 and 2016 was seen across all sectors, with the retail trade sector being one of the more significant contributors to the increase

By sectors, the increase in company closures in 2015 and 2016 was broad-based, with all sectors recording a larger number of exits in these two years (Exhibit 7). In particular, the business services and wholesale trade sectors contributed the most to the overall increase in company cessation in the two years, with the number of company closures in these two sectors rising by 11 per cent and 7.9 per cent per annum on average respectively. Notably too, the number of company closures in the retail trade sector rose by 20 per cent per annum on average in 2015 and 2016, significantly higher than the 9.3 per cent seen in 2014.

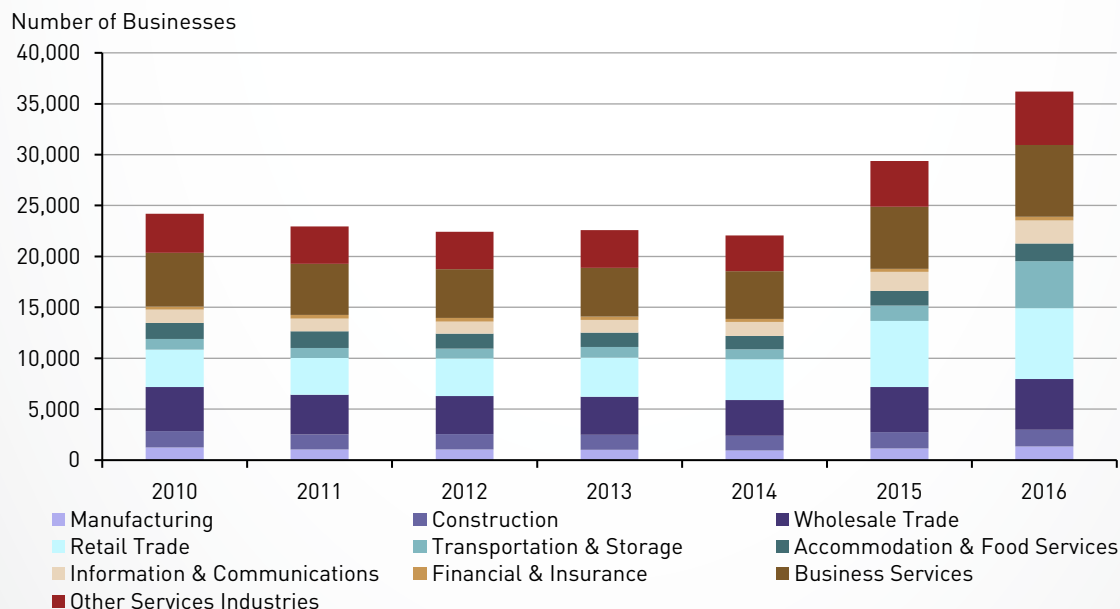
Exhibit 7: Number of Companies that Ceased by Sectors, 2010-2016



Source: ACRA

As for businesses, while all sectors saw a rise in business cessation in 2015 and 2016, most of the increase in overall business cessation in these two years could be attributed to the retail trade and transportation & storage sectors (Exhibit 8). The rise in business cessation in the retail trade sector reflects the sluggish business environment faced by retailers in recent years, and also comes on the back of the spike in the number of new businesses formed in the sector in 2014. On the other hand, the increase in the number of businesses that ceased operations in the transportation & storage sector could be due to the exits of drivers providing private car-hire services after having tried it out for one to two years.

Exhibit 8: Number of Businesses that Ceased by Sectors, 2010 - 2016



Source: ACRA

Conclusion

Notwithstanding the challenging business environment in recent years, the number of new companies and businesses created has remained at healthy levels. While the number of companies that ceased operations has risen since 2015, the cessation rate of companies has remained relatively stable, having seen only a slight pickup. On the other hand, businesses seem to be more vulnerable to the vagaries of the economic cycle, as observed by the larger increase in their cessation rate since 2015. Much of the increase in business cessation in the last two years can be attributed to the retail trade and transportation & storage sectors.

Looking ahead, the outlook for business entities in Singapore is expected to improve this year relative to 2016. Underscoring this, the latest SBF-DP SME Index, which tracks the sentiments of small- to medium-sized firms (SMEs) in Singapore, showed a modest uptick in business sentiments amongst SMEs for the second half of this year. Nevertheless, the Government will continue to closely monitor the health of the firms in our economy.

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