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Singapore's Small Business Sector and the Financial Crisis: Is the Small Business Sector Positioned to Survive?

Heather Cameron

ABSTRACT

Global financial distress caused by the sub-prime mortgage crisis has created several difficulties for the nations of the world. One of the most prominent of those areas affected is the small business sector, as businesses struggle to receive access to credit and demand for products and services. Singapore, one of Southeast Asia's most thriving economies, has been heavily impacted by this crisis. This paper discusses the topic described above and focuses on the nation of Singapore. The information presented has been sourced from online newspapers, government and company websites, personal interviews, and academic literature. This paper will examine how small businesses have been affected by the crisis, what assistance the government has provided to support the small business sector, and what strategies small businesses should adopt in order to minimize risk and ensure competitiveness. Several accounting concepts will be applied to illustrate how businesses can mitigate risk. This paper proves that the small business sector in Singapore is fairly well-positioned to recover from the financial crisis. It illustrates that despite the impact of the crisis on the Singaporean economy, small businesses have been equipped with extremely supportive government assistance programs and other external sources of support. However, it is suggested that small businesses must also examine their internal operations and adopt the necessary changes in order to survive. This paper concludes that small businesses in Singapore who are able to adapt to changes inherent in the marketplace have the opportunity to derive a competitive advantage over those who resist change.

INTRODUCTION

Global financial disorder has been caused by what is known as the sub-prime mortgage crisis. The crisis occurred within the mortgage market following an increase in mortgage foreclosures, and collapsed mortgage lenders and hedge funds. The effect was felt in the credit market worldwide as risk premiums increased and capital liquidity was reduced. The dramatic increase in foreclosures and the resulting problems can be attributed to loose lending practices, low interest rates, a housing bubble, and excessive risk adopted by lenders and investors (Investopedia, 2009). Nations' governments have addressed the effects of the crisis as they attempt to stabilize the financial system.

The "credit crunch" poses several implications for businesses, among which small businesses have suffered substantially. Small businesses are struggling as access to credit is threatened and demand for products and services are decreasing. It is thus imperative that measures are adopted to help protect small businesses from the troubles that have arisen in the market.

Singapore, one of Southeast Asia's most developed and prosperous countries, has experienced a weakened economy as a result of the current economic crisis; the small business sector is one that has been hit particularly hard. The government of Singapore has been especially supportive, as they have provided numerous initiatives to support small businesses. Additionally, small businesses in Singapore have adopted strategies internally for coping with the hardships associated with the crisis.

The financial crisis threatens the stability of organizations in Singapore. However, those that adapt to changes inherent in the market will have greater potential to survive. To outline the impact of the crisis and the solutions available for small businesses within Singapore, the following topics are of significant importance to identify: how small businesses have been affected, what assistance the government has provided to support the small business sector, and what strategies small businesses should adopt in order to minimize risk and ensure profitable longevity.

SINGAPORE

Located off of the southern tip of the Malay Peninsula, the island of Singapore is a major center for business and commerce, and has been extremely successful in this sector. The country's population of 4.5 million people does not represent one dominant national identity, but is comprised of Chinese, Malay, and Indian ethnicities. Each ethnic group is perceived to be important to the diversity of the country. Thus, to be successful in conducting business in Singapore, one must consider the differing cultural values and traditions present (Warmstam, 2007).

Singapore's strategic location, hardworking and educated workforce, and stable political environment give it an economic importance in Southeast Asia. When Singapore separated from Malaysia in 1965, it lacked physical resources and had a small domestic market. Thus, the government introduced a pro-business, pro-foreign investment, export-oriented economic policy, and state-directed investments in strategic government-owned corporations. This proved to be largely successful, as the country displayed growth of eight per cent from 1960 to 1999. Following the Asian financial crisis, the economy improved further, producing a growth rate of 9.9 per cent for the year 2000. Today, Singapore boasts one of the highest gross domestic product (GDP) rates in the world (Wikipedia, 2009). A successful free-market economy, English as its main business language, and low levels of corruption make Singapore one of the easiest places to conduct business in Asia (Contact Singapore, 2007).

SINGAPORE'S BUSINESS ENVIRONMENT

Manufacturing and financial business services are the staples of the Singapore economy, accounting for 26 per cent and 22 per cent of the country's GDP. Electronics is the primary sector of the manufacturing industry, producing 48 per cent of total output. In an effort to remain competitive in the world market, the government is promoting higher value-added activities, specifically in the manufacturing and services sectors. The financial services, telecommunications, and power generation and retailing sectors have recently been opened to foreign service providers to assist in promoting competition (Wikipedia, 2009).

The World Bank Group and PricewaterhouseCoopers have ranked Singapore as number one for its ease of doing business in Asia. Additionally, KPMG has ranked the nation first for being the most cost-competitive place for business. Thus, it is of no surprise that Singapore is a popular destination for international business operations, such as multi-national corporations (MNCs) and start-ups, as well as entrepreneurs. These businesses thrive in this economy because of Singapore's highly skilled workforce, low tax regimes, simple application procedures and government funding (Contact Singapore, 2007).

SINGAPORE'S SMALL BUSINESS SECTOR

In Singapore, small and medium enterprises (SMEs) make up more than 95 per cent of the nation's total enterprises and contribute to nearly half of gross domestic product with roughly 180,000 small businesses present (F. S. Tong, personal communication, April 9, 2009). Between the years of 2002 and 2006, the number of businesses formed annually increased from 36,000 to more than 45,000. The small business sector in Singapore continues to grow at a fast pace as the number of businesses formed each year rises. Small businesses are responsible for employing about 60 per cent of Singapore's entire workforce, creating roughly 145,000 new jobs in the year of 2007 (H. A. Rahman, personal communication, March 27, 2009).

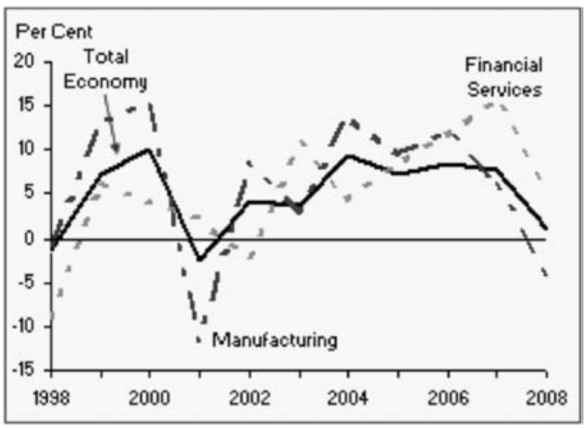
Family run businesses dominate the small business sector of Singapore. Of the 180,000 small businesses present, roughly 80 per cent are family owned. These businesses are characterized by centralized decision-making and the dominance of nepotism. As a single family controls ownership and management, many businesses in Singapore are better able to adopt a long-term view of their investment than that of a publicly owned company. Additionally, as employees are comprised of relatives, family businesses enjoy reliable and cheap labour, often demanding employees to work harder for less pay (F. S. Tong, personal communication, April 9, 2009). Fock Siew Tong, associate professor of banking and finance at the Nanyang Business School in Singapore, states that this "practice may [contribute] to such family businesses' resilience and competitiveness particularly in tough times," (Ibid).

SINGAPORE AND THE FINANCIAL CRISIS

Despite Singapore's flourishing business environment, it is not immune to the effects of the current financial crisis. The Singaporean economy's ability to manage its previously thriving economy is being tested as it faces its worst-ever recession since 2001. Due to government support in cutting business costs, Singapore was able to come out of the Asian financial and economic crisis with a strong rebound. During the downturn in world trade in 2001-2002, the government increased spending and boosted its efforts to restructure the economy (The Economist Intelligence Unit, 2009).

Presently, the Singapore economy is experiencing its "sharpest, deepest, and most protracted recession," said a ministry secretary of Singapore (France 24, 2009). In 2008, the economy grew by approximately 1.2 per cent, down from that of 2007, which reported 7.7 per cent growth (Fig. 1). Despite the nation's efforts to avoid falling into recession, Singapore was the first in Southeast Asia to officially enter into a recession in October 2008. Since January 2009, the recession has become more severe as forecasts of economic shrinkage proved to be underestimated for the fourth quarter of 2008 (Ibid).

Figure 1: Real Economic Growth
February 2009 (Government of Singapore)



The results were unfavourable, as based on a "seasonally adjusted, annualized quarter-on-quarter basis; the economy fell by 16.9 per cent, after a decline of 5.1 per cent in the third quarter and 5.5 per cent in the second" (France 24, 2009). The fourth quarter drop marked the largest since 1976. The Ministry of Trade and Industry have lowered the full year growth forecast for 2009 to roughly three per cent as the global economy and key domestic sectors experience a drastic slowdown (Agence France Press & MSN Singapore, 2009). Singapore is Southeast Asia's wealthiest economy with respect to GDP per capita; however, its dependence on trade makes it more responsive to economic instability in developed nations (France 24, 2009).

The overall unemployment rate rose to 2.5 per cent as of December of 2008, which is up 0.3 per cent in just four months (Table 1). Fueled by the decline in output, labour productivity fell by 12 per cent in the fourth quarter of 2008 as compared to 0.8 per cent during the same period of 2007. This reflected slower GDP growth in the first half of year 2008. Employment growth has slowed down as a result of the weakened global economy. Businesses are also finding it difficult to maintain past levels of employment (Table 2).

Table 1: Unemployment Rates
Last updated: 16 March 2009 (Ministry of Manpower, 2009

	2005	2006	2007	2008
Unemployment Rate (%)				
Annual Average	3.1	2.7	2.1	2.2
Seasonally Adjusted as at				
Mar	3.2	2.5	2.8	2.0
Jun	3.3	2.7	2.3	2.2
Sep	3.3	2.8	1.7	2.2
Dec	2.6	2.7	1.7	2.5

Table 2: Retrenchment. Last updated 16 March 2009,
Source: (Ministry of Manpower)

	2005	2006	2007	2008
Retrenched Workers (Number)	10,290	12,600	7,680	13,920
1st Qtr	2,170	3,650	1,960	2,270
2nd Qtr	2,120	3,260	1,920	1,800
3rd Qtr	2,810	2,470	1,830	2,350
4th Qtr	3,200	3,220	1,970	7,500

The slowdown was experienced among many industries, with the manufacturing industry leading the way as it terminated 7,000 workers in the fourth quarter of 2008 alone. This was the first contraction experienced in the sector since 2003 (France 24, 2009).

Singaporean businesses have experienced several challenging periods including the recessions of the 1970s and 1980s, the SARS epidemic, the Asian financial crisis of 1997, and the 2001 dot com bubble. However, "because the Singaporean economy is small and extremely disciplined, it is easier to manage," said Dr. Fock, associate professor of banking and finance at Nanyang Business School (personal communication, April 9, 2009). Fock also stated that as a result of Singapore's size and the existence of vast government reserves, the Singaporean economy is expected to be one of the first to recover from the crisis (Ibid).

Singapore is not the only country experiencing economic crisis; the impact has been felt worldwide. The governments of the world's nations have implemented numerous initiatives including rescue, or bail out, packages to help mitigate the risks and hardships associated with the crisis. A specific focus of such initiatives is assisting small businesses in coping with the hardships currently experienced. Before delving into the descriptions of such initiatives, it is important to consider the effect that the financial crisis is having on small businesses.

SMALL BUSINESS AND THE FINANCIAL CRISIS

The situation faced by small businesses can be best explained by referring to the economic principles of supply and demand. Credit supply and/or access to credit may be affected by a decline in the willingness of banks and lenders to approve loans, and is created because of the current credit market disruptions and stresses experienced in the financial markets. Access to credit, for small businesses is, or can be, reduced by a decline in the creditworthiness of the business itself. This can be a result of depreciation, or decline, in the value of a business' collateral that they can post back to a loan. In contrast, a decrease in demand for small business' products and services, occurring as a result of weakening macroeconomic conditions, reduces current and forecasted sales and revenues (Kroszne, 2008). Governor Randall Kroszne of the United States has suggested that the "likely resulting pullback in expansion plans will reduce business' demand for credit over and above any effects coming from the supply side of the market" (Ibid).

Small businesses are struggling as commercial banks tighten their credit terms and increase the interest rate spreads and fees. Banks have become more reluctant to lend, not only because of the decrease in the creditworthiness of their customers, but also because banks have been impacted by the financial crisis themselves. As small business clientele hold less disposable income, demand for products and services has lessened and businesses are finding it difficult to raise the necessary capital to fund their daily operations. When combined with more stringent lending standards, this creates a difficult environment for small businesses to operate in. It can be concluded that the two most fundamental issues for small businesses in the face of the economic crisis are: receiving access to credit and creating demand for products and services.

In Singapore specifically, domestic banking lending fell by $1 billion, or 0.4 per cent, from November to December 2008. This sharp decline was intensified by a reduction in lending to businesses, which dropped by $5.4 billion, or 3.3 per cent, over a two-month period (Siew, 2009). This demonstrates that the supply of credit in Singapore is declining. "One of the primary issues for businesses, more importantly those in Singapore, is that it is difficult to withstand extended periods of crisis," said Dr. Fock (personal communication, April 9, 2009). The current financial crisis can be described as L-shaped, implying that the outlook for the economy is severe and future recovery is unknown (Ibid). Thus, another important issue arises: what can be done to help small businesses in the face of the crisis?

GOVERNMENT INTERVENTION IN SINGAPORE

It has been suggested that there is little that the government can do to aid the economic situation, except cushion the impact of the recession through its budget (Kroszne, 2008). A "resilience package," which includes a US$13.7 billion budget, will be implemented to support the Singaporean economy. This resilience package includes initiatives to protect jobs, stimulate bank lending, enhance business cash flow and competitiveness, support families, and develop infrastructure (The Economist Intelligence Unit, 2009). This plan has obvious benefits to small business; however, as the government strives to protect jobs, small businesses must strive to retain employees. During a time when businesses are attempting to cut costs or are in a position where they must relieve employees resulting from a lack of workload, small businesses may find it difficult to maintain staffing levels and protect employee's jobs.

The government has introduced a multitude of funding and relaxed criteria in an effort to support small businesses during the current economic crisis, including: loans and loan insurance, grants, start-up capital, tax rebates and relief, training grants, and other initiatives.

Loan and Loan Insurance

The effectiveness of the pro-business measures in the year's budget is yet to be determined. The Special Risk-Sharing Initiative (SRI) has been introduced with the intention of stimulating lending to companies by the nation's banks. However, this still means that the banks make the ultimate lending decision. Therefore, there is no guarantee that bank lending to small businesses will improve. It has been suggested that some banks may fulfill their responsibility in proactively dealing with SRI loans; however, that they may only provide loans to strong customers, while declining loans to smaller companies (Siew, 2009).

In an effort to eliminate the possibility of bank failure to increase loan approval rates, it has been suggested that the government consider setting up an interim agency to issue loans to local businesses. Such an agency would administer the loans; however, the government would have the final say as to which companies are credit worthy (Siew, 2009). The government, however, will not engage is such activities as it is believed that banks possess direct relationships with their clientele that assist in contributing to their knowledge and understanding of businesses. In addition, banks possess the expertise in credit assessment among a diverse range of businesses. Thus, the SRI has been introduced and contains two primary initiatives: a new Bridging Loan Program and Trade Financing (Anastacio & Min, 2009).

The Bridging Loan Program includes relaxed criterion and higher loan quantum. The initiative enables businesses to receive a loan of up to S$5 million to fund the daily operations of a business, also know as a working capital loan (Government of Singapore, 2009a). Trade financing assistance has been provided as a means to share risk, which includes 75 per cent responsibility for trade loans. This is of significant importance to companies that have existing orders or who require a loan to fulfill their orders. The government also provides insurance against risk of buyers defaulting on payments (Anastacio & Min, 2009).

When the government accepts a portion of the perceived risks to lenders, businesses will be more easily able to receive loan support as lenders are more likely to approve a greater number of loans. This is based on their knowledge that the government, which is seen to be more secure, will take on responsibility should a borrower be unable to meet loan obligations.

Beyond the two initiatives mentioned under the SRI loan, the government has introduced many others. The initiatives of particular importance for the purpose of this paper apply specifically to small businesses.

Firstly, the Micro Loan Program and the Loan Enterprise Finance Scheme are two loan assistance programs provided by the government. Under these two loans, the government provides funding to businesses, accepts a bigger share of loan default, and offers lower interest rate on new and existing loans. The purpose of these programs is to fund daily operations as well as automate and upgrade equipment and factory (Government of Singapore, 2009b; Government of Singapore, 2009c).

The Loan Insurance Scheme provides relaxed criteria to businesses, lower insurance premiums, and higher loan amounts. This loan can be used for a large variety of initiatives ranging anywhere from establishing a viable new business to supporting and funding majority-owned overseas subsidiaries (Government of Singapore, 2009d).

These loan initiatives have three primary benefits to small business including improved access to loan support, in larger amounts, and at a lower rate. During a time when businesses find it difficult to locate sources of cash, let alone receive a loan, these assistance offerings become invaluable.

Grants

The SME Management for Results Program, also known as SMART, is a grant created to support businesses during the economic crisis by providing higher funding. The objective of the grant is to expand and reinforce SME's management systems and processes in a systematic manner. The SMART initiative is specifically designed to assist businesses in the development of a "roadmap" to help build their capabilities with respect to specific areas of priority. A consultant is provided for the business who works with the management team for five days over a period of two to three months. Standards, Productivity and Innovation for Growth (SPRING), formerly the Standards, Productivity and Innovation Board, backs businesses by providing up to 70 per cent of the qualifying consultancy costs incurred (Government of Singapore, 2009e).

Start-up Capital

Two initiatives exist to assist in providing businesses with start-up capital. This includes the Business Angels Scheme and the SPRING Start-up Enterprise Development Scheme. The former includes S$2 for every S$1 invested in start-up with the maximum investment amount increased to S$1.5 million and the latter exhibiting the same terms except the maximum investment increased only to S$1 million. The objective of the stated initiatives is to promote proactive business angel investments in innovative seed or early stage start-up companies (Government of Singapore, 2009f).

Tax Rebates and Relief

A substantial number of tax rebates and relief initiatives have been introduced to businesses throughout Singapore for a broad range of business activities (Government of Singapore, 2009f). Providing such rebates or discounts frees up cash for small business that otherwise would have been indebted.

Training Grants

The Skills Program for Upgrading and Resilience (SPUR) boosts funding support for employee training in Workforce Skills Qualifications, which are nationally or industry recognized courses. This initiative is designed to assist companies in saving "manpower cost" and improve their ability to manage their excess manpower; upgrade the skills of local workers and transfer employees into new jobs; and strengthen manpower capabilities in an effort to improve Singapore's position to upturn its workforce. Currently, there are 800 courses offered through SPUR and the number of programs available is being expanded. If the necessary courses cannot be found, a company can receive SPUR funding to pay for in-house training programs (Government of Singapore, 2009g).

The Jobs Credit Scheme provides cash grants for local employees on Central Provident Fund (CPF) Payroll. CPF is a social security savings plan that assists Singapore's citizens in their retirement, healthcare, home ownership, family protection, and asset enhancement needs (Lan, 2007). The objective of this initiative is to encourage businesses to retain jobs during these rough economic conditions (Government of Singapore, 2009h).

Other Initiatives

Finally, the Ministry of Manpower and its tripartite partners have provided guidelines on managing excess manpower and assist companies in coping with the economic downturn. These guidelines encourage companies to consider reduction of expenditure as a last resort. In order to avoid such actions, companies need to examine potential alternatives (Government of Singapore, 2008).

One could conclude that the Singaporean government is deeply concerned about the problems that small businesses are facing and is prepared to provide assistance through a broad range of programs. Many other assistance programs exist to help businesses both through the government and external sources. One such program is the EnterpriseOne Business Information Services, also known as EBIS. This organization is partnered with SPRING, a government entity, the National Library Board Singapore and International Enterprise Singapore (EnterpriseOne, 2007). EBIS "aims to empower businesses by offering Customized Business Intelligence & Leads, Business Learning & Networking Opportunities and Business Information Resources to equip them with the knowledge and skills to compete effectively both in the local and global marketplace" (Ibid). EBIS is an excellent source for businesses to contact when in need of information or assistance, and is utilized by many businesses in Singapore. As small businesses are struggling, it is extremely important that business owners seek assistance and support from external sources; however, it is also critical that business owners examine and make adjustments to their business operations internally.

BUSINESS SOLUTIONS

As previously mentioned, Singaporean businesses are facing a number of challenges. The global economic crisis will have an ongoing and substantial effect on the means by which business is conducted. The main concern for businesses at this point in time is their cash flow and profitability, both of which are integral to a firm's survival and success (*The Business Times,* 2009).

As a business owner, one's goal is to maximize profit. A lender is unlikely to approve a business loan unless they consider a business to be profitable; otherwise, a lender could conclude that a business owner is not assuming their role and the business is not being managed effectively. (Tong, personal communication, April 9, 2009). Thus, if businesses wish to improve upon their chances for loan approval, they need to focus on profitability.

A lender is interested in two important aspects of a business when determining its eligibility for loan approval: first is the examination of the nature of the borrower's business with respect to its industry, and second is the analysis of cashflow. The most important concern for a lender to consider is "whether a business in performing its regular operating functions can continue to generate cash in sufficient quantity and in satisfactory time to meet all operating and financial obligations" (Hale, 1983). In other words, a cash flow statement is intended to provide a basis for estimating the future ability of a business to generate cash. Thus, it is imperative that businesses focus on cash flow as a major priority when seeking approval for loans, and is of particular importance during a time when banks are tightening their lending terms.

Cash is an integral aspect to the operation of a business and, if not managed effectively, will create problems with respect to a business' ability to meet its obligations. As businesses cannot depend on approval for short-term financing, they cannot expect that shortfalls in cash will be covered. Businesses must unlock hidden cash by increasing efficiency and improving their cash position, instead of relying on external sources for financing (*The Business Times*, 2009). As previously mentioned, business owners cannot rely on approval from banks for financing because banks have become reluctant to lend. Therefore, it is extremely important that businesses focus on finding, or creating, internal sources for financing.

There are several steps that small businesses should take in order to improve upon, or protect, their current position, the first being adopting a risk management mindset (*The Business Times*, 2009). In doing so, businesses will identify new opportunities that may emerge with greater ease. A business owner should do the following:

Conduct Research. Specifically, a business should examine why customers buy their products or services, and why consumer spending on their product is decreasing (*The Business Times*, 2009). These answers could help businesses identify areas to create or improve upon demand for a given product or service.

Determine Key Indicators. These indicators will inform an owner of how their business is doing and could include: tracking daily sales, cash balance, debtors' balance, and quantity of key stock purchased (*The Business Times*, 2009).

Outsource. Doing what has been effective in the past may not be desirable during these current economic conditions. A business may consider hiring an external professional or consultant to review business operations (*The Business Times*, 2009). A business owner should employ the assistance provided by the government through the SMART program, whereby the business would receive support from an external consultant in ensuring that their business is on track, establishing priorities, and planning for the future. Additionally, a business should utilize the 70 per cent rebate of the consultancy fees incurred through SPRING.

Develop Financial Management Strategies. The strategy should seek to improve cash position and/or profitability without capitalizing the business' ability for future growth (*The Business Times*, 2009). A business owner could consider any one, or combination, of the loans offered by the Government of Singapore as a means for assistance with loan responsibility. Such loans would include the following: either of the two loans offered under the Special Risk-Sharing Initiative, the Micro Loan Programme, and Loan Insurance Scheme, or the Local Enterprise Finance Scheme.

During a time of financial crisis, the importance of cash cannot be disregarded, as it is cash that ultimately determines a firms' survival. If a business is experiencing cash flow difficulties, they should adopt the following steps:

Prepare/Monitor Cashflow Statements Regularly. Monthly forecasts should be conducted to ensure that expenses and planned expenditures align with accounts receivables. Financial statements should be timely, relevant, and accurate. Additionally, business owners should prepare forecasts and be able to project where they will stand in three months' time (U.S. Small Business Administration, 2009).

Focus Marketing Initiatives. A business should focus on promotions which have lower costs or that can sell products or services that can be converted into cash quickly (*The Business Times*, 2009). It has been shown that businesses that maintain or increase advertisement outlays during slowdowns end-up outselling competitors who cut back. Thus, businesses should focus on short-term tactical techniques such as sales and promotions, and modify advertising in response to the economic climate. Promotions could be as simple as cents-off coupons and rebates (U.S. Small Business Administration). To provide an example, Cakes History, a local Singaporean cake and pastry company, displayed a large sign outside their establishment stating that as a result of the economic crisis they are giving a special offer to their valued customers by selling bread for $1. Cakes History acknowledges that during a time of economic slowdown, customers are looking for low cost options, and has recognized the value in offering their customers a discount on their product. In return, Cakes History receives improvements in demand for their products, which ultimately increases revenues for the company.

Measure and Reward the Right Behaviour in Staff (*The Business Times,* 2009). A business owner should not allow staffing decisions to undermine their firm's service quality or cut back on training budgets. Periods of slow business represent an opportunity for businesses to conduct training activities. Thus, businesses can implement low cost training strategies such as on the job training and skills acquisition (U.S. Small Business Administration).

The Government of Singapore has provided two major grants to encourage businesses to retain jobs and promote better employment practices. As an employer, a business owner should use this time to enhance the quality of their workforce. As suggested by the Ministry of Manpower, companies should take advantage of the SPUR program by sending employees for training, and allocating employees to alternative areas of work. A business owner in Singapore has received funding from the Jobs Credit Scheme to promote businesses to retain employees. Strategies to employ to retain employees could include: introducing a shorter week, flexible work schedules or work arrangements, managing wage costs through a flexible wage system, and, finally, temporarily laying-off workers (Government of Singapore, 2008). If a business is having problems employing their current staff, they many consider hiring freelancers, consultants, and/or part-time employees.

Create Full Use of Terms of Trade (*The Business Times*, 2009). This could translate to an interest free loan. A business should not pay suppliers late, if anything, a business should attempt to negotiate better repayment terms (U.S. Small Business Administration). Many suppliers offer discounts if buyers are willing to pay early; for example, within 10 to 20 days. A business should take advantage of early repayment discounts to help save cash. The Trade Financing initiative offered through the government should be examined. A business owner is able to receive assistance with their trade loans as the government accepts 75 per cent of the responsibility for such loans. Thus, it may be easier for businesses to receive financing from lenders if need be.

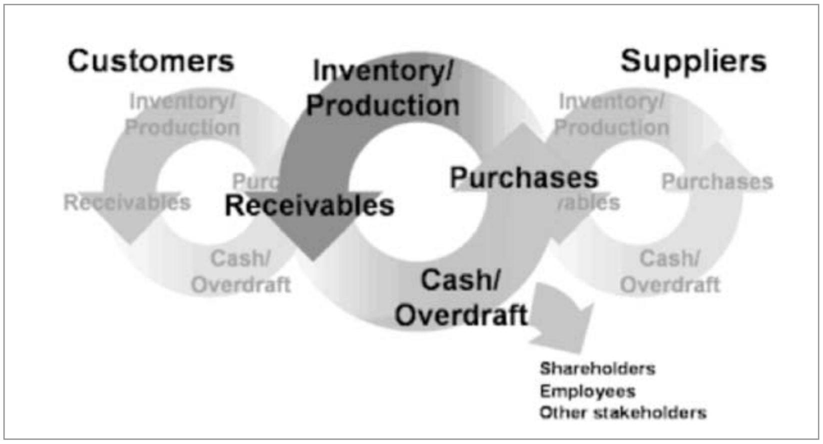
Strengthen Banking Relationships. A business must focus on being transparent, ensuring that the bank is aware of their current financial position and disclosing any problems. An owner should demonstrate how on top of their business they are, that they understand their cash position, and have a realistic strategy for recovery (*The Business Times*, 2009). When a business is being considered for a loan, one of the aspects upon which they are evaluated is management's ability to run the business effectively. If a lender has faith that management is taking a pro-active, well-planned approach, a business will be more likely to receive approval for a loan.

Alternative methods for improving cash position and profitability include the following:

Control Costs. By separating must-haves from nice-to-haves, a business can eliminate nonessential expenses. Capital spending initiatives should be examined and a business owner should consider delaying high cost purchases and expansion initiatives that take long to pay off (U.S. Small Business Administration, 2009). However, cost reductions must not jeopardize areas that are integral to success of the business, such as marketing (*The Business Times*, 2009).

Reduce Customer Debt (*The Business Times*, 2009). A business should focus on maintaining relationships with existing customers, ensuring that a close eye is kept on their credit-worthiness and position in the economic downturn. Engaging in contact with customers also assists in protecting against competitors. A business owner could try to establish long-term contracts with its most important customers and offer prepayment incentives, such as discounts on long-term buys. These actions assist in creating opportunities for generating cash (U.S. Small Business Administration, 2009). Additionally, a business must be aware of their industry's average receivables collection period. If a business finds that their collection period exceeds that of their competitors', it is necessary to tighten and enforce their credit terms as a means to protect itself against the risk of non-performing receivables. The ability of a business to issue and collect upon receivables is part of what is known as the asset, or cash conversion cycle (Fig. 2).This cycle is important to lenders as it enables them to effectively determine the reasoning behind a business' need for a loan, and the time and methods by which it will be able to repay the cash. A lender's decision to finance a company's short-term lending needs, which is generally known as asset conversion lending, is largely dependent upon a business' ability to successfully complete the asset conversion cycle (F. S. Tang, personal communication, April 9, 2009). Thus, if a business wishes to qualify for a short-term loan, they must be able to successfully collect on their receivables within a reasonable time frame.

Figure 2: Asset Conversion Cycle (gtnews, 2009)



Control Inventory. It is extremely important to remove or reduce slow moving, low-margin, and obsolete stock during a period of economic slowdown (*The Business Times*, 2009). Inventory, in the form of raw materials, work in progress, or finished goods, comprises the first three stages in the asset conversion cycle. Each aspect of the cycle represents an area of risk. As consumers decrease their spending, businesses could potentially be left with excess inventory. This can be very costly to a business, as it ties up cash in inventory, thereby affecting the business' cash flow and profitability. A business must pay critical attention to this issue so that it is able to free up cash for use elsewhere.

Improve Sales. A business should focus on profitable sales that will improve the cash position of the company faster (*The Business Times*, 2009). During the economic downturn, businesses are having a hard time generating the level of sales that they were previously able to enjoy, and must make sales a major priority. For example, a business may look into tapping into new markets, or focus on improving their sales in an existing market.

The challenges that businesses face are vast and complex. It is recommended that businesses use the experiences of other organizations during previous financial crises to help identify mistakes and learn from them. For example, one could look at the dot com bubble, or even more closely related to Southeast Asia, the Asian financial crisis. There is evidence that during episodes of financial crisis, an increased fluctuation among companies with respect to market share and sales volume exists. A study was conducted during the 2001 crisis that showed a 24 per cent increase in the number of companies that developed into industry leaders. Alternatively, of the 20 per cent of businesses seen as market leaders, 25 per cent dropped to the bottom of their sector as a direct result of the crisis. Those organizations that are willing to adapt to these changes have a greater chance of survival; however, with change comes risk. Businesses that are prepared, perform the necessary adjustments, and exploit the opportunities inherent in the market will outperform their competitors. Businesses should not expect a fast turnaround, as recovery is not expected for several years. Thus, businesses must stay strong and fight for their survival. Those who refuse to adapt and to avoid change may find that they not only forego the opportunities available, but could also suffer, as they fall behind their competitors (Propper & Strul, 2009).

CONCLUSION

The Singaporean economy has been severely impacted by the sub-prime mortgage crisis, and small businesses within the nation are once again being tested in their ability to cope. However, due to the abundance of assistance programs available, small businesses are not neglected. The government initiatives provided in Singapore are some of the most comprehensive available worldwide, made possible through extensive government reserves and recognition of the strategic importance of the sector.

In Singapore, the small business sector plays a critical role in the country's economy, contributing to a significant portion of the nation's GDP and providing the primary source of employment opportunities. Thus, as small businesses can be seen as playing an integral role, Singapore cannot afford to allow them to falter.

The government of Singapore and alternative external sources provide an extensive selection of assistance programs that target small businesses. However, seeking assistance from external sources does not guarantee that a business will survive. Businesses must also be accountable for themselves and cannot afford to have relaxed management practices. They must look internally for changes or improvements that can be implemented in their daily business operations in order to remain competitive, or even afloat. Businesses in Singapore are well positioned to survive the financial crisis; those willing to adapt and take advantage of the opportunities available to them may experience gains in market share, improved profitability, and could ultimately become industry leaders.

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