

# Summary on review of literature



Some Discussion of the Relevant Literature Several important studies have been conducted on the issue of Government intervention in relation to Singapore's SMEs survivability during the recession. According to the release from the Singapore's Prime Minister's Office, most of the categories of Singapore's SMEs have been seriously bashed by the recession, but which is mainly felt in its nascent furniture business (PMO 2009; Roach 2009, p. 65). This has been a disturbing scenario for this small Asian country as Bjerke (1998) strongly believed that SMEs are considered to be the backbone of any country's economy. Even with their limited resources, they do not only produce more jobs but are also more innovative than large firms. Chia (2009) undoubtedly reckoned that Singapore's SMEs play an important role in the country as they are a critical pillar to Singapore's economy, employing 60 per cent of the workforce. There are about 160, 000 SMEs, hiring 1. 7 million workers and contributing 40% non-oil foreign exchange to Singapore's GDP (MTI 2009; Shin and Soh 2009).

The major problems Singapore SMEs face as a result of the recession include loss of revenues that happens because their sales volumes have drastically been reduced as they could not export many of their products to overseas; insufficient capital to fund some of their operations due to the restraint on lending from banks and other lending institutions as the financial crisis bit harder; a drop in production as industries attempt to cut cost by firing some of their workers (OECD & APEC 2008, pp. 103-104).

Barton (2009) found out that Asian sub-continent might have found itself in this recession mess because of its over-dependence on Western economy, coming from the crisis spearheaded by the sudden demise of Lehman Brothers and other giants Western financial powerhouses. This condition,

according to Holland et al (2009) has caused contraction or shrinking of Asian economies. Even as a leader in private banking, Schuman and Chowdhury (2009) found out that all past efforts have meant little in the face of the current downturn. It is as a result of this that Singapore Government realized that prompt actions must be taken in order to salvage its SMEs while maintaining overall economy growth in the country (Chia 2009; Asia Monitor, 2009). While the recent global recession is receding (Economic Survey of Singapore Second Quarter 2009, 2009), declining GDP, competitiveness, new world order, soaring unemployment rate and long-term job losses are always the most politicized and demoralizing factor which requires the government to find short and long term solutions. The Business Asia (2009) reported that to expedite fiscal stimulus in the economy that would help SMEs, the Finance Ministry dug into its about \$200 billion reserves for the first time and was the biggest budget ever unveiled in Singapore (Gurría & Angel, 2009). The centrepiece of the budget is a “ Resilience Package” that involves spending S\$20. 5bn (US\$13. 7bn) on measures aimed at preserving jobs, stimulating bank lending, enhancing business cash flow and competitiveness, supporting families, and developing infrastructure. Not only that, it was also discovered that the Singapore Government realizes that the domestic markets have already been saturated with the products/services the SMEs produce in the country. There is need for exporting markets, and the Singapore Government has begun to engage in consortium with other countries in Asia with hope of creating foreign and bigger markets for the country’s SMEs. Singapore has been in touch with China, Malaysia and Indonesia to encourage their local buyers to import from Singapore. The Government is reportedly planning to extend business relationships into other regions like Middle East, India and

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Vietnam (OECD & APEC 2008, pp. 103-104; Ramsden and Bennett, 2005; Liu 2007).

UPS (2009) found out that these three key areas were identified by SMEs surveyed for long-term growth; exploring new markets, moving to higher value-added products and strengthen the workforce. To strengthen the workforce, the Singapore Government has made job credit available to the SME employers by subsidizing their wage bills (PMO 2009; Robson et al. 2009). The importance of this is to encourage that SME employers keep their workers and not fire them randomly and create both social and economic problem for the entire country; because if many workers are laid off, Government will have to make unemployment payment those who have lost their livelihoods. Besides setting up special committee and schemes, Singapore Workforce Development Agency (WDA) introduced a Skills Programme for Upgrading and Resilience, SPUR program. The aim of SPUR is to curb manpower challenges in Singapore helping company manage excess manpower, upgrade/re-train skills and prepare worker for the next upturn (WDA, 2008; Shanmugaratnam, 2009).

Joshi and Ganapathi (2008) found out that there is symbiotic relationship between the Government and Singapore's SMEs. Since the reduction in sales and productions has led to the reduction in the overall sales and revenues that come to SME industries in recent years. As a result of this, the small and medium industries have been faced with acute shortage of funds to run their production activities. Hence, with the creation of government-backed loans, the industries had received soft loans or capital which they could inject into their financially dry businesses. These Government loans reportedly helped the employers to keep afloat while working hard on expanding their

businesses, both locally and internationally (PMO 2009).

By the action of Singapore Government, small and medium industries are strongly encouraged to create “ brands” of high quality that would be able to compete with other products in the world (PMO 2009). By doing this, it will be possible for Singapore companies to hold off their international rivals in a stiff competition. Because if they happen to lose an edge against the other producers at the international level, it may be difficult to sustain the demand from the consortium which Singapore Government has been working hard on. Singapore Government has also helped the firms reduce the overhead cost of operation by establishing some programs for tax waiver, so that SME industries would be able to maximize the little funds in their coffers and produce enough goods/services that would keep the citizens at work while increasing their portions of exports to generate more funds from abroad. To ease businesses’ cashflow, the corporate income tax rate will also be cut to 17% from 18%. Meanwhile, the existing SME loan support program will be extended to more companies (Shin and Soh 2009).

Finally, it has become one of the Singapore Government slogans that the SMEs, like every other businesses in the country, must be “ strong and confident” in all their approaches. This psychological motivation is expected to give the industries confidence and the willingness to create brands that would be able to compete fairly with other products in the international markets; an issue which Singapore Government sees as a requirement to keep the SMEs in operation and save the country from unnecessary financial and social crises (PMO 2009). This global economic crisis will change the competitive landscape for Singapore.” (Lee, Hsien Loong, 2009).