



COVID-19 and the Future of Doing Business in Asia Towards a Better Normal for SMEs and Workers





**COVID-19 and the Future
of Doing Business in Asia:**
Towards a Better Normal
for SMEs and Workers

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Table of Contents

Foreword	viii
Executive Summary	x
Key Findings	x
Policy Recommendations	xiii
1. The Philippines Case Study	1
Building Resilient Small Businesses in the Philippines Amidst Evolving Challenges	5
Strategic Crisis Response and Entrepreneurial Orientation	7
The Philippine Economy and SMEs Before the Pandemic	12
Findings	13
Policy Recommendations	26
2. Thailand Case Study	55
Thai SMEs and the COVID-19 Crisis: Agility and Resilience through Digitalisation	58
Business Performance Under the COVID-19 Crisis	64
Business Strategies Against the Pandemic	67
Policy Implications and Recommendations	73
3. Japan Case Study	81
Japanese SMEs and their Business Strategies in Response to the COVID-19 crisis	84
The Impacts of COVID-19 on Business Performance	89
Business Strategies in Response to the COVID-19 Crisis	93
Policy Implications and Recommendations	104

4. Singapore Case Study	113
Singapore SMEs: Regaining Momentum in the COVID-19 Crisis	116
COVID-19 Timeline	118
Economic and Business Support Measures	122
Impact of COVID-19 on SMEs	129
Business Resilience: Strategies to Mitigate the Challenges of COVID-19 and Identify New Business Opportunities	139
Recommendations	142
5. Multicountry Report	147
COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Their Workers	149
Government Response to the COVID-19 Pandemic	150
Strategic Response of SMEs During Crises	158
Findings	162
Policy Recommendations	171

List of Figures

Thailand Case Study

Figure 1.	Year-to-year growth of SME GDP and national GDP, 2016 – 2021 (%)	60
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Singapore Case Study

Figure 1.	Number of enterprises supported under financial schemes	127
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Multicountry Report

Figure 1.1.	COVID-19 stringency index	155
Figure 2.1a.	Distribution of SME respondents by industry	160
Figure 2.1b.	Distribution of firm age	161

List of Tables

The Philippines Case Study

Table 1.	SME respondent profile	10
Table 2.	Worker respondents profile	11
Table 3.	Government-agency respondents profile	11
Appendix Table 1.	Chronology of community-quarantine classifications in the National Capital Region	34
Appendix Table 2.	Summary of strategic responses to crisis	37
Appendix Table 3.	Business innovations	40
Appendix Table 4a.	Worker respondent profile	43
Appendix Table 4b.	Support measures extended by SMEs to their employees	44

Thailand Case Study

Table 1.	2019 definition of SMEs	59
Table 2.	Summary of key informants and their SMEs' characteristics	62
Table 3.	Summary of interviewed employees	63

Japan Case Study

Table 1.	Definition of SMEs	85
Table 2.	Summary of the basic characteristics of the respondents and their SMEs	87
Table 3.	The impacts of the COVID-19 on business performance	89
Table 4.	Online platforms and market-expansion strategies	96
Table 5.	Digital- and conventional-advertising channels	98

Singapore Case Study

Table 1.	Timeline of tightening/easing of measures on businesses	120
Table 2.	Summary of key COVID-19 support measures for SMEs	123
Table 3.	Singapore's GDP by industry, quarter-on-quarter growth rate, seasonally adjusted	130
Table 4.	Singapore manufacturing output by industry	131
Table 5.	Singapore retail sales index (2017=100), in chained volume terms, quarterly	132

Multicountry Report

Table 1.1.	COVID-19 lockdown restrictions and mitigating measures in select Asian countries	150
Table 1.2.	SME support in response to COVID-19 in Japan, Singapore, Thailand & the Philippines	156

Foreword

Small and medium enterprises (SMEs), and the workers they employ, are the economic lifeblood of Asia. However, the onslaught of the COVID-19 pandemic during the last two years has rendered the day-to-day operations of SMEs more complex and volatile, and has threatened the survival of many.

During the first height of the pandemic in 2020, the Konrad-Adenauer-Stiftung's (KAS) Regional Economic Programme Asia (SOPAS) together with the Asian Institute of Management Rizalino S. Navarro Policy Center for Competitiveness (AIM-RSN-PCC) published a comprehensive report on "COVID-19 and the future of doing business in Asia". The report discussed how SMEs in selected East and Southeast Asian countries had to improve their agility, innovation, and resilience in response to the pandemic. It also looked at how COVID-19 has changed the future of work; altered the state of globalisation; and, from the Asian-European perspective, reconfigured relations, institutions and economic regulations.

The current volume **"COVID-19 and the future of doing business in Asia: towards a better normal for SMEs and workers"** is a more in-depth, follow-up study to the 2020 report. The present study provides a more thorough discussion on the insights for policies, business strategies, and international relations. Material is drawn from our interviews with SMEs and workers in four Asian economies – Japan, Philippines, Singapore, and Thailand, supplemented by and triangulated with available quantitative and additional qualitative data. These four countries have varied levels of economic development, and have experienced fluctuating levels of severity of COVID-19 transmission.

Country teams with direct access to the four countries highlighted in the study were identified, which differs from the methodology of the previous study. Hence, in addition to the AIM-RSN-PCC in the Philippines, we also partnered with independent researchers in Japan, the Asian Trade Centre in Singapore, and the Thammasat University in Thailand.

The research's main questions centred on (1) understanding the situation faced by SMEs after the pandemic, focusing on SMEs' strategies for improving their business agility, innovation, and resilience through the crisis, (2) exploring whether the crisis has sustained, improved or damaged inclusive business practices and sustainability among SMEs, and (3) discussing the evolution of working habits in SMEs, and the growing implications on workers.

Although the country contexts differ, several common themes emerged from the research. First, the severity of COVID-19's impact on SMEs varies according to sector, nature of products and services, supply chains, and target markets. Second, the SMEs which endured and, in some cases, even thrived during the pandemic, employed a combination of strategic crisis responses and innovations, including: cost minimisation, resource prioritisation and optimisation, product modernisation, and a swift pivot to digitalisation. Third, and perhaps most importantly, swift and responsive government policies are essential in both helping SMEs to resolve short-term challenges, such as cash-flow issues, as well when reaching medium- and long-term goals, such as reaping the benefits of accelerated digitalisation.

The first set of chapters provides readers with a consolidated view of the study's main findings, recommendations, and conclusions. Comprehensive and grounded country case studies with corresponding policy recommendations are presented per chapter. These can be read as stand-alone segments, or as a cohesive whole. Whichever way the reader chooses to peruse the volume, it is our hope that you find the content useful and stimulating.

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Executive Summary

More than a year after the COVID-19 pandemic devastated most economies across the globe, recovery remains uncertain as surges of infections loom with the emergence of new variants, as inequitable access to vaccine supplies persists, and as varying degrees and forms of restrictions continue to be implemented. Correspondingly, this uncertain and fragile recovery continues to dampen demand, disrupt supply-chains, and weaken consumer and investor confidence. Small businesses, in particular, continue to bear the greater brunt as they endure the pandemic's negative impacts, while at the same time attempting to reposition themselves within such turbulent market environments, given increasing tight resource constraints. Their strategic responses to the prolonged pandemic crisis provide insight into the nature and timing of support needed from government to boost their recovery and reinvigorate economic and entrepreneurial activity.

This report provides a thorough assessment of how the COVID-19 pandemic crisis affected small and medium enterprises (SMEs) in Japan, Singapore, Thailand, and the Philippines and their corresponding strategic crisis responses as they sought to ensure business-continuity while concurrently protecting the welfare of their workers and adhering to the safety protocols imposed by government. In examining the identified strategic responses and how these affected SMEs' overall business performance and their workers, we highlight the agility, resilience, and innovation of SMEs and make recommendations for policy and government action.

Key Findings

Most SMEs interviewed in all four countries reported a slump in sales revenues, weakened market demand and firm output, and disrupted supply-chains as the immediate effects of the lockdowns and physical-distancing measures that hampered business operations. However, the severity of the pandemic's impacts across SMEs in the study varied across sectors and countries due in part to prepandemic differences in market conditions as well as differences in country government responses to the pandemic. SMEs that reported already-declining business performance before the pandemic experienced greater difficulties surviving the crisis. On the other hand, a small number of SMEs reported growth

in their sales revenues as the demand for their products and services increased. These SMEs were involved in the manufacturing of health equipment as well as in digital services and information technology products.

In responding to and overcoming the adverse impacts of the pandemic crisis, SMEs in all four countries adopted multiple strategies, which evolved over the course of the crisis. We summarize our key findings as follows.

1. SMEs significantly affected by lockdown restrictions adopted retrenchment strategies to safeguard liquidity and ensure immediate survival.

Cost-reduction strategies were implemented by SMEs primarily to address their liquidity issues as they experienced declines in their sales revenues due to movement restrictions and limited business operations, especially during the first several months of the pandemic. In countries where lockdowns were more severe, SMEs cut back on employee salaries by shortening work hours, forgoing bonuses and incentives, reducing the number of full-time staff, and downsizing.

2. SMEs demonstrated resilience in adopting telework and maximizing the use of digital communication tools to sustain productivity while strictly complying with government-mandated health and safety protocols.

With the government mandates on physical-distancing measures and public-health protocols, all SMEs in our study adopted flexible work arrangements, such as “work-from-home,” for job functions that can be performed remotely. To support the remote-work arrangement and sustain productivity as the crisis ensued, SMEs also accelerated their use of various digital technologies and e-commerce platforms. While some reported incurring additional expenses because of the shift to digital communication tools and technologies, the cost-efficiency gained encouraged some SMEs to continue using these tools even after some restrictions were relaxed.

3. SMEs quickly developed business-process innovations through digitalization.

All interviewed SMEs implemented process-innovation strategies, particularly digitalization in several aspects of their business, in response to the evolving market conditions. Majority shifted to or intensified their use of digital-marketing strategies as they witnessed a significant increase in online commercial transactions during the crisis. With this shift of core business

operations to digital platforms, SMEs reported lower operations costs, expanded market reach, and greater resilience in the face of constantly changing lockdown restrictions.

4. SMEs gained access to new customers and markets through e-commerce.

The shift to e-commerce platforms and adoption of different digital-marketing tools enabled SMEs to diversify their geographical reach, enabling them to tap new customers outside their traditional geographical market range. Other SMEs, especially those involved in manufacturing and wholesaling, expanded into retail as they shifted to e-commerce.

5. Uncertainty and challenges to adoption of digitalization and e-commerce persisted among some SMEs.

While digitalization of core business-processes and the immediate shift to e-commerce platforms were key strategies in surviving the crisis, implementing these was not smooth sailing for many SME respondents. Issues relating to lack of digital competencies among their workers, unwillingness to incur additional costs in shifting to digital platforms, apprehensions on the sustainability of digitalized business operations within the context of an ongoing crisis, and fear of losing their competitive advantage when shifting to e-commerce, were among the commonly cited concerns of the SMEs in all four countries.

6. SMEs demonstrated agility in responding to swiftly evolving market conditions through product innovation and diversification.

Concurrent with the business-process enhancements through digitalization and adoption of new marketing channels, many SMEs introduced new products, ventured into new businesses, and diversified their supply networks. SME owner-managers attributed their business agility to quick decision-making at the top—often involving a single decision maker for the enterprise—which in many cases, was due to the SME being a family business. This reflected their agility, which strengthened their resilience in enduring the crisis.

7. SMEs in Japan and Singapore leveraged on government support to bolster their resilience; SMEs in Thailand and the Philippines had to be more self-reliant, taking on greater risk in their strategic crisis response.

In Singapore and Japan, where government subsidies and assistance programs were readily available and easily accessible to qualified firms,

majority of SME respondents received some form of direct support from government. In some cases, firms adopted strategies specifically to meet eligibility criteria for government assistance or incentives. In contrast, none of the SME respondents in the Philippines received financial assistance or subsidized loans from government. In Thailand, where only a few SME respondents availed of government support, lack of information about available assistance programs and perceived difficulty of applying for support kept most respondents from seeking aid.

8. SMEs adopted an expanded role as employers in addressing social-safety-net gaps.

With or without support from government, SMEs in all four countries embraced employee welfare, health, and income security as part of their responsibility as employers. The provision of monetary and nonmonetary support of SMEs to their workers underpinned their expanded role as employers in attempting to fill in social-safety-net gaps that were supposedly have to be fulfilled by the government. Where large gaps in the government's social safety nets left vulnerable workers exposed, SMEs prioritized safeguarding employee welfare and income security despite facing immense liquidity pressures of their own. In all four countries, SMEs also spent resources on training and upskilling of employees on the use of digital technologies and on COVID-19 safety and health precautions. There was also a recognition among owner-managers interviewed that the pandemic crisis underscored the critical role that human resources play in the viability of their business.

Policy Recommendations

1. Improve access and awareness of ongoing programs for SMEs.

Access and awareness are critical areas of improvement when it comes to government support for SMEs. While subsidies and assistance programs were made available for qualified enterprises in all four countries, SME respondents reported difficulty in accessing information on government programs and going through the application process due to cumbersome requirements and confusing procedures.

2. Increase scope, coverage, and duration of assistance.

Despite demonstrated ability of firms to survive and protect their own employees' welfare, health, and income security during the pandemic, a

prolonged crisis may result in decreased long-term competitiveness due to suboptimal decisions intended for short-term survival. Existing financial-assistance programs must be expanded to accommodate more qualified small businesses as they survive and recover from the crisis. As SMEs in various sectors face challenges specific to their industry due to differences in restrictions and customer preferences, a one-size-fits-all approach to government support for small business is less viable. Governments should consider sector-specific assistance as the impact of the crisis and the pace of recovery vary across sectors.

3. Support innovation and digital transformation.

Digital transformation is essential to ensure the speed and quality of firm recovery. For many small firms, however, the additional costs and capital investments required by digitalization are major impediments to full adoption. To ensure the viability of SMEs postpandemic, policymakers should make digital-technology adoption a pillar of their industry roadmaps to support postpandemic transformation. If governments fail to incentivize and support innovation, the crisis would be a missed opportunity to help SMEs evolve. Thus, policymakers must examine possible incentives and support measures to encourage firms to continue innovating beyond the crisis.

4. Support workforce development and upskilling.

The pandemic crisis accelerated the adoption of digital technologies and e-commerce and the streamlining of operations alongside retrenchment among businesses big and small. However, since larger firms are more likely to invest in human-capital training and development relative to SMEs, workers in small businesses are at a disadvantage. SME workers must be given targeted and relevant support in continuing education and lifelong learning for them to remain competitive and ensure their future-readiness through vocational training programs directly offered to workers as well as subsidies provided to SMEs specifically for human-capital development and training.



The Philippines Case Study

List of Abbreviations

ACPC	Agricultural Credit Policy Council
ADB	Asia Development Bank
AIM	Asian Institute of Management
BCP	Business-continuity plan
BSMED	Bureau of Small and Medium Enterprises Development
CALABARZON	Cavite Laguna Batangas Rizal Quezon Administrative Region
CAMP	COVID-19 Adjustment Measures Program
CARES	COVID-19 Assistance to Restart Enterprises Program
DOLE	Department of Labor and Employment
DOLE ILS	DOLE Institute for Labor Studies
DOT	Department of Tourism
DTI	Department of Trade and Industry
EO	Entrepreneurial-orientation
GDP	Gross domestic product
GPS	Global positioning systems
HEROES	Helping the Economy Recover thru OFW Enterprise Start-ups
ILO	International Labour Organization
IT	Information technology
LGU(s)	Local government unit(s)
LSP-NSB	Livelihood Seeding Program - Negosyo sa Barangay
MSME(s)	Micro-, small-, and medium-sized enterprise(s)
NCR	National Capital Region
NERS	National Employment Recovery Strategy
NTF	National Task Force
OFW	Overseas Filipino worker
PPE	Personal protective equipment
PSA	Philippine Statistics Authority
ROI	Return of investment
SBCorp	Small Business Corporation
SME(s)	Small- and medium-sized enterprise(s)
SSS	Social Security System
SURE	Survival and Recovery COVID-19
TESDA	Technical Education and Skills Development Authority

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

TRAVEL	Tourism Rehabilitation and Vitalization of Enterprises and Livelihood
UN PRI	United Nations Principles for Responsible Investment
WHO	World Health Organization

Building Resilient Small Businesses in the Philippines Amidst Evolving Challenges

The COVID-19 pandemic has evolved into a prolonged crisis for the Philippine economy, as many firms continue to experience weak demand for their products and services more than 16 months since large-scale lockdowns were first implemented in March 2020. Various forms of lockdown have been implemented continuously in the country's most important economic regions, restricting business operations, trade, and movement of people and consequently dampening consumer spending and investor confidence. The Philippine government has had one of the most-stringent responses to the pandemic and for the longest, continuous period among its Asian neighbors.

Economists are often wary of prolonged periods of depressed demand due to the possibility of significant long-term damage on productive capacity, as some firms permanently shut down, physical capital is underutilized, and unemployed workers' skills deteriorate, important human-capital and infrastructure investments slow down, and new entrepreneurial activity declines.

In a tracking study¹ of small businesses conducted in the National Capital Region of Metro Manila and the adjacent CALABARZON region, which in total accounts for 47% of the Philippines' gross domestic product (GDP), about one-third of firms were still operating at limited capacity or were temporarily shut down in April/May 2021.

Considered the backbone of most economies (World Bank, 2019), providing employment especially among low-skilled workers and vulnerable groups (Fiseha & Oyelana, 2015), small- and medium-sized enterprises (SMEs) possess characteristics that make them particularly vulnerable to and more adversely affected by crises compared to larger firms (Freeman, Carroll, & Hannan, 1983). Crises-induced disruptions in the supply chain and decreased demand

1 Tracking survey of 700 micro-, small-, and medium-sized enterprises (MSMEs) from October 2020 to May 2021. Asian Institute of Management Rizalino S. Navarro Policy Center for Competitiveness. (2021) Journey to Recovery and the Next Normal for Philippine MSMEs. AIM RSN PCC Discussion Paper.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

for their products can create cash-flow problems that may severely hamper small-business operations even in the short run and undermine their long-term financial viability, resulting in temporary or even permanent closure. While businesses large and small tend to be affected by crises as far-reaching as the COVID-19 pandemic, SMEs face the additional “liability of smallness” (Freeman, Carroll & Hannan, 1983) and therefore tend to be disproportionately affected due to having limited financial resources of their own, fewer financing options, a smaller customer base, limited market information, and lack of necessary skills to adapt or make necessary strategic decisions, making them more at risk to internal and external shocks (Nugent & Yhee, 2002; Ates et al., 2013; Kim & Vonortas, 2014; Wehinger, 2014; Piette & Zachary, 2015; Karadag, 2016). SMEs, particularly in developing economies, also tend to have relatively weak business-continuity, risk-reduction, and crisis-management systems in place (Han & Nigg, 2011; Asgary et al., 2013; Yuwen et al., 2016; Kaya & Uzay, 2017).

Nonetheless, some small firms, even with limited institutional support, have in past economic crises demonstrated their ability to survive on their own resources and quickly recover by finding cheaper alternative inputs, developing local niche markets, cooperating with other firms in reducing production costs, sharing new technologies, and forming wider sales networks to expand their market (Musa & Priatna, 1998; Shinozaki, 2012). However, the pandemic is uniquely challenging and different from past economic crises, such as the 1997 Asian Financial Crisis or 2007 Great Recession, in that the stringent lockdowns and health protocols have forced firms to deal with simultaneous demand-and-supply shocks, exacerbated by highly uncertain exogenous factors such as the emergence of new, more-contagious variants of the coronavirus and the slow, unequal vaccination rollouts across territories.

A number of recent studies have investigated the impact of the pandemic on small firms (Bartik et al., 2020; Bohn et al., 2020; Flaminiano et al., 2020; Kraus et al., 2020; Zou et al., 2020). Findings are similar across developed and developing economies: layoffs and business closures had occurred within a few weeks into the crisis, the risk of closure was directly related to the expected duration of the crisis, and most small firms were financially fragile and faced mounting liquidity concerns. The uniqueness of the nature, severity, and scale of the pandemic crisis invites further investigation on how small firms have coped with it and if the prolonged crisis is likely to have long-term impacts on business models, stakeholder relationships, and organizational behavior.

Strategic Crisis Response and Entrepreneurial Orientation

In their synthesis of contemporary research on the topic, Wenzel et al., (2020) described four types of strategic responses to crises observed among firms: retrenchment, persevering strategies, innovating strategies, and exit. Firms may find each of these types of response appropriate, depending on the total duration of the crisis and the specific stage in the crisis. In the short run, firms may find *retrenchment* necessary or unavoidable, particularly to address liquidity concerns. The aim of retrenchment is to reduce costs (Pearce & Robbins, 1993), narrow the scope of business (Pearce & Robbins, 1994), decrease complexity, and increase transparency (Benner & Zenger, 2016; Gartenberg, 2014). In the medium term, firms might adopt *persevering strategies* aimed at maintaining the status quo (Wenzel, 2015) and keeping activities as close as possible to “business as usual” by minimizing the adverse impacts of the crisis. This response becomes increasingly difficult to sustain due to resource constraints as the crisis persists over a longer period of time. In a prolonged crisis, firms may find themselves having to adopt *innovating strategies* in searching for alternative sources of revenue, widening or shifting the scope of business (Reymen et al., 2015), and opening up an opportunity space for strategic renewal (Wenzel et al., 2020). When these responses fail or could not be effectively implemented due to various constraints, *exit* and the discontinuation of all business activities may be the final recourse for a firm in response to the crisis.

The standard view is that the choice of strategic responses to crisis and the effectiveness of chosen strategies depend on resource constraints (Helfat, 1997; Wan & Yui, 2019; Wenzel et al., 2020). This motivates the adoption of government programs aimed at directly supporting firms affected by the pandemic, including financial packages, wage subsidies, and discounted loans. However, the strategic and, in particular, “entrepreneurial” orientation reflected in the decision-making activities and criteria that influences a firm’s processes, policies, and, ultimately, behavior may also determine the survival and success of firms going through the crisis and, therefore, could be an area for government support.

The extent to which entrepreneurs take risks and adopt strategies geared towards the long-term growth and competitiveness of their firms (Covin & Slevin, 1988; Schillo, 2011) may be an important factor behind a firm’s strategic response to a specific crisis (Boers & Henschel, 2021) since crises have been found to spur entrepreneurial activity (Ljungkvist & Boers, 2016; Doern, 2016).

A firm’s entrepreneurial orientation, or EO, is typically described in terms of three dimensions: innovativeness, proactiveness, and risk-taking (Miller, 1983). *Innovative* firms tend to engage in and support new ideas, experimentation, and

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

creativity that may result in new products or processes (Lumpkin & Dess, 1996). *Proactive* firms tend to seek new opportunities that may not be within the original scope of business, introduce new products ahead of the competition, and eliminate activities in mature or declining stages of the life cycle (Venkatraman, 1989). Finally, *risk-taking* firms tend to be willing to make large, strategic resource commitments to innovate or to seek opportunities despite such ventures having a reasonable chance of costly failure (Miller & Friesen, 1978).

In this study, we investigated the strategic responses of Philippine SMEs to the COVID-19 pandemic using a framework based on the four types of strategic crisis response—retrenchment, preserving, innovating, and exit—as distinguished by Wenzel et al., (2020), and analyzed these responses through the lens of entrepreneurial-orientation.

We established key insights on how SMEs have sustained or improved their business agility, innovation, and resilience throughout the ongoing crisis. We also investigated how the firms' strategic responses have affected their expectations from, commitments to, and relationships with their workers. Finally, we examined whether SMEs have adopted more inclusive or sustainable business practices as they underwent strategic renewal in response to the crisis. From the insights gained through our analysis, we explored the evolving role of local and national government in providing the necessary support and enabling environment for SMEs and their workers to successfully recover and build back better post-COVID-19.

Data and Methodology

We conducted qualitative expert interviews with small-business owners/managers to answer our research questions and better understand Philippine SMEs' strategic crisis response to the pandemic and its implications on the future of their business post-COVID-19 in terms of agility, innovation, and resilience. Employing qualitative interviews for data collection enabled us to closely capture the subjective experiences and insights of SME owners/managers (Graebner et al., 2012) and to gain insights into the similarities and differences among cases (Guest et al., 2006). We also conducted qualitative expert interviews with SME employees and government agencies (Department of Trade and Industry, Department of Labor and Employment - Institute for Labor Studies, and Taguig City Government) to triangulate with the qualitative data obtained directly from SMEs to understand more completely the emerging themes in their complexity (Dana & Dana, 2005).

Data were collected using semistructured interviews with focal topics of interest specified at the outset of the study as derived from the current literature (Perry, 1998). Interviews were conducted through Zoom between July and August 2021. All interviews took about an hour to complete and were conducted by a trained interviewer.

All respondents were from the National Capital Region (NCR) of the Philippines, a region that accounts for about a third of the country's gross domestic product. NCR is composed of 17 adjacent cities and municipalities with a total population of 13.5 million. We employed a purposive-sampling technique (Morse et al., 2002) to make sure that respondents were key informants representing top management or owners of the firm, that the firm was classified as an SME², and that the firm belonged to one of three major economic sectors: manufacturing, wholesale and retail trade, and other services. These sectors account for 37% of economic activity in the National Capital Region of the Philippines. Table 1 summarizes the profile of firms interviewed.

Carefully following recommended approaches to thematic analysis (Fereday & Muir-Cochrane, 2006), we iteratively analyzed the qualitative data to uncover themes in the strategic crises response of firms, their implications, and their entrepreneurial-orientation underpinnings.

2 An SME is defined by the Philippine government as any business enterprise engaged in industry, agri-business, and/or services with total assets (excluding land) valued from PHP 3 million (USD 60,000) to PHP 100 million (USD 2 million) and/or has between 10 to 199 employees (Republic Act 9501, or Magna Carta for Micro, Small and Medium Enterprises [MSMEs])

Table 1. SME respondent profile

Respondent*	Industry	Number of employees	Year established	Type of ownership	Position of respondent
M1	Manufacturing and sales of hospital equipment	<50	1951	Family business	Vice-president for human resources and building administrator
S2	Food service	Did not mention	2018	Family business	Owner
R3	Wholesale and retail of hardware and construction supplies	48	2001	Family business	Owner/manager
C4	Construction and real estate development	26	2017	Did not mention	Owner/internal operations manager
S5	Logistics	450-500 (riders alone)	2011	Family business	Owner
S6	Logistics	15 (not mentioned if these are the delivery riders or management staff)	2017	Family business	Owner
M7	Manufacturing and retail of motorcycles, parts and accessories	90-100	2010	Did not mention	Operations manager
C8	Construction	23-25	2016	Family business	Co-owner/general manager
M9	Manufacturing and sales of plastic-packaging products	Did not mention	2015	Family business	Owner
S10	Manpower services	15	2017	Did not mention	Owner/marketing director

R11	Wholesale and retail of GPS devices	30 (regular employees and sub-contractors)	2010	Family business	Operations and sales manager
R12	Wholesale and retail of roofing and construction materials	45 (regular employees and sub-contractors)	1996/1997	Family business	Owner/sales manager

**M - Manufacturing; R - Wholesale and Retail; C - Construction; S - Other Services*

Table 2. Worker respondents profile

Respondent*	Position of respondent	Years in the company
W1	General manager	Did not mention
W2	General manager/co-owner	5 years
W3	General manager	7 years

**W – Worker*

Table 3. Government-agency respondents profile

Respondent*	Position of respondent	Government-agency
G1	Bureau director	National government (DOLE-BSMED)
G2	Assistant director	Local government (BPLO Taguig)
G3	Supervising labor and employment researcher and acting division chief	National government (DOLE-ILS)

**G – Government-agency*

The Philippine Economy and SMEs Before the Pandemic

Before COVID-19, the Philippine economy performed robustly, with GDP growing steadily between 6-7% since 2012, unemployment at 5.3% in 2019, and declining poverty incidence since 2000 (Asian Development Bank [ADB], 2021; The World Bank, 2021; PSA, 2019). The country was also reported to be in a relatively competitive fiscal position given its stable BBB long-term sovereign credit rating since 2015 and high gross international reserves (Edillon, 2020; Bernardo, 2021). Against this backdrop of a highly favorable economic landscape, small businesses also thrived, contributing to an estimated 36% of the country's GDP in 2019 (PSA, 2020).

When the pandemic hit, the Philippine government implemented its first and strictest lockdown over the National Capital Region (NCR) between March and May 2020. It has since then relied heavily on continuous large-scale lockdowns at various levels of stringency across the country, particularly in major urban areas. These lockdowns have severely restricted the movement of people and have temporarily shut down or significantly scaled back operations of all but “essential” industries. As a result, the Philippine economy experienced its largest decline in GDP since World War II at -9.5% in 2020. This decline continued through the first quarter of 2021 (-4.2%) until the economy experienced a rebound in the second quarter, posting an 11.8% growth. However, the government imposed the strictest level of lockdowns over Metro Manila again in April, following a surge of new cases due to the Delta variant.

As in most countries, small businesses in the Philippines were severely affected by the huge drop in demand due to movement restrictions and supply-chain issues, resulting in cash-flow problems that pushed many to the verge of collapse. In a December 2020 World Bank survey of over 13,000 firms in the Philippines, 7% reported closing permanently. SMEs in wholesale and retail trade, manufacturing, transport/storage/communication, education, construction, tourism, and food services—all of which were high-growth sectors before the pandemic—were severely affected, especially during the first two months of lockdown (Abrigo et al., 2020; Shinozaki & Rao, 2021). More than 99% of registered firms in the Philippines are SMEs and microenterprises, accounting for 62% of jobs in the economy (PSA cited in DTI, 2019).

Major government programs for SMEs and their workers

As a response, the national government introduced several measures to cushion the impacts of COVID-19 on enterprises. The Department of Finance (2020) mapped out the administration's 4-Pillar Socioeconomic Strategies Against

COVID-19, including provisions on emergency and financing support for small businesses and their employees. The DTI (n.d.) formed strategic responses to enhance SMEs' access to finance, improve their supervision and labor capacities, encourage innovation and digital-technology adoption, and improve the overall business environment. In March 2020, the Bayanihan to Heal as One Act was passed to address the crisis (Tomacruz, 2020). Under the new law, measures to assist small businesses included the following: 1) Small Business Wage Subsidy Program, 2) credit guarantee program for loans, 3) tax relief, and 4) a loan facility (ADB, 2021). The Small Business Corporation (SB Corp.) also launched the COVID-19 Assistance to Restart Enterprises Program, providing collateral- and interest-free financing to MSMEs, cooperatives, and tourism-related enterprises. According to the corporation's latest report, 34,544 MSMEs were assisted, while the total amount approved is around PHP 5.54 billion (USD 110 million) as of September 20, 2021 (SB Corp., 2021).

Support programs for affected workers, such as the COVID-19 Adjustment Measures Program and the Tulong Panghanapbuhay sa Ating Disadvantaged/ Displaced Workers, were also covered in the said law (ADB, 2021). In the first initiative, one-time financial support amounting to PHP 5,000 (USD 100) and employment facilitation are provided to affected workers in the formal sector, while the latter program offers temporary-wage employment to workers in the informal sector. The Bayanihan to Recover as One Act, also known as Bayanihan 2, was also approved in September 2020 to extend the president's power in handling the COVID-19 crisis (Ranada, 2020). With an appropriation of PHP 165.5 billion (USD 3.259 billion), Bayanihan 2 allocated PHP 39.5 billion (USD 778 million) to government financial institutions to authorize them to extend lending services to SMEs and expand the COVID-19 Assistance to Restart Enterprises (CARES) program.

Findings

Immediate impact of COVID-19 on SME performance

All SME respondents reported having a profitable level of sales revenues, growing market share, and positive economic outlook before the pandemic. Many respondents had plans for expansion and capital investments in the next two years, given the increasing demand for their products and services. C4, a construction-services firm, was highly optimistic in late 2019 about their successful bids for government road projects and was ready to finalize orders for new equipment just before the first lockdown. S5 and S6, both in logistics services, were also planning to rapidly expand their fleet in 2020, as the demand

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

particularly during the fourth quarter of 2019 posted record highs for their business. R3, a motorcycle dealership, noted that the increasing popularity of online food-delivery services and on-demand passenger-motorcycle transport contributed to a boom in motorcycle sales, which led them to pursue vertical expansion of their business by manufacturing motorcycle parts and accessories. S2, a young firm in food service that recently started franchising their business, reported having opened four new branches in 2019, including two franchises.

When the first of what followed as a continuous sequence of lockdowns of varying degrees of stringency was declared in March 2020, almost all SME respondents experienced significantly diminished sales revenues for several weeks, which undermined their financial position in the second quarter of 2020. Restrictions on movement of people and business operations, coupled with fear and uncertainty on the spread of the new coronavirus, resulted in all SME respondents temporarily shutting down for a few days to a few weeks, whether voluntarily or in compliance with government directives. When operations were gradually allowed to resume at limited capacity, many SMEs found it challenging and costly to deal with the stringent health protocols and physical-distancing measures imposed by the government. Firms had to install physical barriers in their offices/stores, purchase hand sanitizers, disinfectants, and basic health equipment (e.g., thermometers), provide personal protective equipment (PPEs) for their workers, and shoulder the cost of diagnostic SARS-CoV-2 testing when required. These additional expenses, alongside significantly reduced sales, resulted in liquidity issues for most SMEs during the second quarter of 2020.

As restrictions began to ease further by the third and fourth quarters, most SMEs gradually regained momentum in their business by adopting various strategic responses to the crisis and emerging market environment. Most SMEs reported sales gradually picking up by the fourth quarter but still not to prepandemic levels. Some SME respondents, particularly those in the construction-services (which were allowed by the government to operate at full capacity even at the strictest lockdown level), reported total year-end revenues for 2020 to have exceeded the previous years'. Another firm in the business of manufacturing and sales of hospital equipment (M1) also reported having higher sales revenue in 2020 compared to the year before. However, these were notable exceptions, as most SMEs, even those that had a positive outlook by the third quarter of 2021 when the interviews were conducted, reported 2020 as having been a "bad" year for their business.

Crisis-Response Strategies adapted by SMEs

The COVID-19 pandemic was a crisis that none of the firms had previously experienced or anticipated. Adding to the novelty of the crisis was the severity and protracted consequences it had on mobility, supply chains, and customer behavior. It was evident from the interviews that SMEs viewed the pandemic, as Cater & Beal (2014) described a crisis: “A low-probability situation with significant consequences for the organization, a high degree of uncertainty, and a sense of decision-making urgency.”

A firm goes through the process of crisis-management following a sequence of stages—detection, occurrence, recovery, and resolution (Hong et al, 2012). If a firm is able to detect the early warning signs of an imminent crisis, it may successfully take preventive action to mitigate harmful effects. However, only one firm (C8) anticipated the adverse impacts from the COVID-19 situation in China, which was yet to be declared by the WHO as a pandemic, as early as January 2020—two months before the first lockdowns were implemented in the Philippines. Its owner anticipated delays in their construction projects due to possible delays in the shipment of supplies from China. The firm started making adjustments to their cash reserves to increase liquidity in anticipation of project delays. All other SMEs interviewed were taken by surprise when the lockdown started in March 2020 and had to take immediate action within a very short timeframe to safeguard their liquidity and the well-being of their workers.

1. Most SMEs adopted retrenchment strategies in response to urgent liquidity challenges.

Decreased sales, exacerbated by additional expenses from physical-distancing and health protocols, resulted in a liquidity crunch for all SME respondents at various stages of the crisis. Most SMEs experienced pressure on their cash flows particularly during the first three months of the pandemic. One SME (S6) from the logistics industry described the second quarter of 2020 as a “nightmare” for their business, despite being categorized as an essential industry by the Philippine government and thereby allowed to operate at full capacity. The firm reported being extremely cash-strapped during the first month of lockdown because although logistics companies were allowed to operate fully, the firm’s biggest clients were not. Two other firms (R3, M7) reported having zero sales for over a month during the second quarter of 2020, resulting in a major liquidity gap.

All firms adopted retrenchment or cost-reduction strategies especially during the first six months of the pandemic. For most SMEs, this was a direct

consequence of having to reduce their level of operations due to government restrictions. Most SMEs cut back on salary expenses (C4, S5, M7, S10, R11) and bonuses (S5, M9), while others put some employees on furlough (R3, S5, S6). All firms had to shorten operating hours in compliance with government-mandated curfews. One firm (R11) made the drastic move of letting go of its entire sales team, with the owner-manager taking full responsibility for marketing and sales primarily through social media platforms.

To bridge their liquidity gap, three out of 12 SMEs (R3, S6, C8) resorted to borrowing from the personal savings of their owner or owner's family members. Only one SME (S6) took out a commercial loan from the bank. None of the SMEs interviewed received financial assistance or subsidized loans from government.

2. Safeguarding employee welfare was a top priority for SMEs as they persevered through the crisis.

Despite the immense pressure to cut their losses due to the extremely unfavorable market conditions, all SMEs prioritized keeping as many or, if possible, all of their employees fully or partially employed. All firms also took concrete steps to keep their employees healthy, often shouldering additional expenses for health and sanitation equipment and supplies, SARS-CoV-2 testing, private shuttle services, and on-site accommodations to minimize their risk of infection. While some of these provisions were mandated by government, many SMEs went beyond what was required to safeguard employee health and well-being. One SME (M1) even started providing vitamin supplements to all employees and others (R3, C8) distributed free groceries for employee families during the height of the lockdown. One logistics firm (S6) invested in health-protocol training for all their "riders" and delivery staff. Another firm (C8) provided financial assistance to employees who got sick with COVID-19. These behaviors of SME respondents reflect the general observation among small family businesses behaving more responsibly towards their employees compared to larger nonfamily firms (Chrisman et al., 2005; Dyer & Whetten, 2006).

3. SMEs persevered by implementing alternative work arrangements and maximizing the use of digital productivity and communication tools.

Although some firms (C8, R3, M7) completely stopped operations for over a month in March-April 2020, all SME respondents attempted to ensure business continuity by adopting persevering strategies aimed at sustaining their usual activities or returning to normal operations as soon as possible.

In compliance with government directives and to minimize risk of infections, all firms adopted remote-work arrangements for job functions that could be performed off-site immediately, following the first lockdown—mainly administrative and back-office functions at first and then gradually including sales and marketing functions. Some firms (C8, S2) had to invest in new computers and software to enable telework. All firms intensified their adoption and use of digital communication channels—email, SMS, instant messaging, and videoconferencing—for both internal and external communications. Instant messaging (e.g., Viber, Facebook Messenger, and WeChat) was the primary tool used by SMEs in the wholesale & retail sector (R3, R12) and manufacturing (M1, M7, M9) for receiving customer orders.

Most SMEs reported, however, that not all job functions could be performed remotely. One construction and architectural design firm (C8) provided accommodations and gave special allowances for workers required to be on-site and incentivized employees (architects and engineers) with additional pay to work on-site since they believed that this was more efficient than having them work on projects remotely.

Government-mandated curfews during the strictest levels of lockdown forced some SMEs to shorten their operating hours to ensure that their workers were able to return home before curfew. One plastic manufacturing firm (M9) noted that they had to shorten factory hours from 11 hours per day to just eight hours per day while having to meet increasing daily production quotas, as demand for their plastic-packaging products began to rise rapidly by the third quarter of 2020. The firm's owner-manager attributed their success in meeting their daily quotas despite the shortened factory hours to the streamlining of production processes and their workers' commitment to meeting the targets.

Most firms reported that they intend to keep some of the changes they made in their business activities to be permanent or semipermanent after realizing efficiency gains and from strategies that were originally aimed at simply coping with the crisis.

4. SMEs made short-term and long-term business-processes innovations through digital transformation.

All process improvements adopted by SME respondents during the crisis involved digitalization, and all SMEs reported increased digitalization in different aspects of their business. Some firms (R3, M7, S11) considered the changes they introduced in critical business processes to be semipermanent

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

at least until the end of the crisis, and even more firms (M1, S2, C4, C8, M9, R12) intended to keep their process innovations permanently postpandemic.

Digital transactions and e-commerce became a lifeline for SMEs during the crisis. Many firms shifted major elements of their core business online, particularly for marketing activities and establishing new distribution channels. Firms that previously reached their customers through physical channels, typically retail storefront or in-person sales, quickly adopted a multichannel approach in marketing and distributing their products and services as they sought alternative ways to reach their customers, whose movement was severely restricted by lockdowns or who were hesitant to transact in person. All firms saw an increase in transactions over alternative channels—email, website, telephone/SMS, instant-messaging, and online-marketplaces or on-demand delivery services. For SMEs that were initially hesitant about using digital channels, the move of customers into the digital space forced them to adapt reactively. One hardware and construction materials wholesaler/retailer (R3) was surprised to start receiving many inquiries and orders through SMS and instant messaging through the owner's and store manager's personal social media accounts a few days after the first lockdown was implemented. Regular clients in need of supplies searched for ways to reach them and place orders while the physical store remained closed. Even after their physical store had reopened, most new orders continued to be transacted digitally through instant messaging and email.

Half of SME respondents (S2, C4, M7, C8, R11, R12) began extensive use of social media for promotion and sales. One firm (S2) selling milk-tea across nine company-owned and five franchised kiosks was active on social media since they started the business in 2018, using Facebook and Instagram to promote their products and to encourage customers to post and share their photos online. When the pandemic started, the firm tripled their social media advertising budget as 70% of orders continued to be placed through online food-delivery services even when restrictions were eased. A construction-services firm whose main client prepandemic was an LGU, turned to social media to market their services to private customers and has since then tapped a new market for home renovations. Another SME that sold global positioning systems (GPS) devices to other businesses completely let go of their small sales team as the business owner/manager took control of all sales and marketing efforts mainly through targeted social media campaigns directed at trucking and delivery-service companies.

Firms (S2, M7) that shifted to e-commerce through online marketplaces also had to make substantial changes in other operations, including accounting and payments management. Most firms also began accepting electronic fund transfers and other forms of digital payments. The need to be able to manage inventory remotely also forced some manufacturing firms (M1, M9) to finally shift from analog manual paper ledgers to digital inventory-management systems.

The process innovations that SMEs introduced—the use of digital productivity and communication tools, the expansion of multichannel marketing strategies, the shift to online platforms for sales and distribution, the digitalization of accounting and inventory-management systems, and the adoption of digital payments—whether proactively or reactively, have made their businesses more resilient to frequently changing lockdown levels in the short term and consequently more resilient to future crises in the long term.

5. Some SMEs remained apprehensive about full digitalization and e-commerce due to uncertainty about costs and the transferability of their core competencies.

While the increased utilization of digital communication tools and adoption of remote-work arrangements helped SMEs sustain operations through the crisis, some firms explicitly expressed their intention to return to in-person and on-site work even for teleworkable job functions such as sales and marketing. One manufacturer and retailer (M7) of motorcycle parts and accessories insisted that the interpersonal skills and savvy of their sales team was a competitive advantage that they felt they could not maximize through e-commerce. Similarly, another manufacturer (M8) said that they were able to showcase their packaging products and discuss customization with clients more effectively through in-person sales calls than through videoconferencing or product catalogues. The firm intends to prioritize in-person sales and client meetings again as soon as these are allowed.

One SME (R3) in the business of wholesale/retail of hardware and construction materials decidedly minimized digitalization of sales and marketing activities (i.e., only welcomed email and instant messaging/SMS for receiving orders and confirming bank-transfer payments from regular clients). While the firm recognized the potential of e-commerce and was aware that some competitors were already active in online marketplaces, they felt that a shift to e-commerce would fail to leverage on the social capital and trusted network of regular customers/contractors they had built over time. The family business's second-generation owner-manager was also reluctant to

incur anticipated costs of setting up an online store and producing digital promotional materials. “There are a lot things we need to learn and prepare for before we go online...We are not yet ready, and not yet in the right mindset for this,” the owner-manager explained.

6. SMEs became more agile in the face of uncertainty.

Tahmasebifard (2017) described the essence of agility as being able to sense changes and respond to them quickly. As various forms of lockdowns and a repeated series of tightening and easing restrictions were implemented in the past 16 months, firms have had multiple cycles going through the crisis-management process of detection, occurrence, recovery, and resolution, with each new lockdown representing a mini-crisis within the larger crisis of the ongoing pandemic. With every change in lockdown status, firms had to adapt quickly to new operating hours and on-site capacity limits, which had implications on manpower requirements, workflow, and site layout. As a result, firms learned to become more responsive and quicker to adapt. They have also become more proactive in gathering market information, coordinating with local-government units, and closely communicating with customers and suppliers in order to respond quickly to changes in the business environment.

With each easing and tightening of restrictions, SMEs reported having been able to prepare better each time to ensure that business operations are sustained and that necessary adjustments based on revised government protocols are made with minimal disruption to their operations. One SME (M1) particularly noted that they were no longer concerned with the frequent shifting of lockdown levels and changing guidelines as they already had a “proof of concept” of operating at each level of lockdown from their experiences in the past year.

SMEs attributed their agility and responsiveness to rapidly and frequently changing market conditions to quick decision-making at the top (M1, C4, R11) and transparency with their workers regarding important business decisions affecting them (C4, M9).

7. Some SMEs proactively sought new market opportunities and customers through business model innovation and product innovation.

Despite turbulent market conditions, a number of SMEs adopted proactive (i.e., opportunity-seeking) and risk-taking behavior during the crisis. Some SMEs actively pursued new markets or customer segments by shifting to

new marketing and distribution channels (S2, C4, R7, C8, M9, R11, R12), expanding their geographical service area (R3), or approaching new high-ticket B2B customers (M1, S6, C8). For most SME respondents, e-commerce significantly provided a platform to increase their customer base and open new geographical markets.

Encouraged by increasing demand for their products despite the pandemic, some SMEs (S2, R3, M9) increased capital expenditures and invested in physical assets such as delivery vans/trucks, equipment, and even physical stores. All three SMEs that invested in new physical assets successfully tapped new markets or customer segments for their products. One SME in the milk-tea-beverage business (S2) partnered with on-demand food-delivery services (i.e., Grab and Foodpanda) and invested heavily in social media marketing and ad campaigns to increase product awareness. The firm, whose customer base before the pandemic was composed of mall-goers and commuters passing through transportation hubs, also introduced new products targeted at their customers who were now ordering from home for themselves and their families. The firm introduced new do-it-yourself milk-tea-beverage kits and larger serving sizes good for sharing, as well as snack-food items to complement their beverages. Another firm, a hardware and construction materials wholesaler/retailer, gained new customers through referrals from their regular contractor clients. The new contractors had construction projects outside the NCR and were facing supply shortages in their areas, which local suppliers could not address. Finally, the plastic-packaging manufacturer (M9) found a rapidly growing new customer segment among restaurants with high demand for food-safe packaging for take-out and delivery services.

Innovations in core business-processes and products in pursuit of new markets or customer segments transformed the business model of some SMEs. The milk-tea-beverage firm (S2) not only experienced strong sales growth during the crisis as they shifted to e-commerce, partnering with on-demand food-delivery services, but also successfully sold three new franchises in the past year. The owner-manager of the firm attributed the success of their franchising model to the fast return of investment (ROI) that their franchise model promised, especially given the shift from on-site (full-sized store/restaurant with dine-in facilities) to on-demand food-delivery sales (kiosk or cloud kitchen), which drastically reduced the initial capital investment required. Another firm in construction services (C8) had to acquire new equipment and adopt new project design and implementation systems and strategies for residential-property development and renovation, which the owner-manager noted to be very different from the government

road-construction projects they focused on before the pandemic. One logistics firm (S6) that served mainly as a document-courier service provider for banks pre-pandemic reported it was in the process of updating standard operating procedures and upgrading equipment to meet the requirements of e-commerce companies in their bid to become authorized third-party package-delivery service providers. The firm experienced a drastic decline in demand from their primary clients due to the rapid shift to online banking.

The changes in business models adopted by SMEs during the crisis were mostly intended to be permanent. However, one firm (R11) in the business of wholesale/retail of GPS devices transformed part of their business into a subcontractor service for an on-demand food-delivery service temporarily while sales and installation activities for the GPS devices they sold remained low. "Through this, we were able to keep our workers employed; this was better than having to let them go," explained the firm's owner-manager.

8. SMEs cultivated their organizational resilience with the goal of building back better.

Although most SMEs grappled with the unprecedented impact of the pandemic and the strict mitigating measures adopted by government, especially during the first two months of lockdown in 2020, all SME respondents were optimistic about their recovery and the potential to bounce back in the last quarter of 2021 or early 2022. Most firms quickly adopted cost-cutting and liquidity-preserving strategies early in the crisis, often with significant short-term consequences such as salary cuts and employee layoffs, but firms remained committed to ensuring the sustainability of their businesses in the long term. None of the owners/managers interviewed considered exiting the business, and almost all respondents expressed a determination to keep their businesses running for "those who depended on them" (i.e., employees and their families).

SMEs either quickly adopted or accelerated digitalization to complement the alternative work arrangements that they had to implement following strict government guidelines on physical-distancing and group gatherings. Many SMEs innovated their business processes, introduced new products, or changed their entire business models with the primary intention to survive the crisis and the twin pressures of decreased demand from customers and a tighter supply of resources. However, as the crisis continued for months and firms began to find their footing in the new market landscape or became more agile in response to frequently changing conditions, many SMEs have made these innovations permanent or semipermanent: the adoption of

e-commerce, the shift to multi- or omnichannel marketing, the digitalization of inventory-management systems, and the diversification of their customer base.

Realizing the efficiency gains and increased potential for value creation brought about by these changes, most owner-managers (M1, S2, R3, C4, S6, C8, M9, R11) have started making plans for the future after the pandemic with the intention of pursuing the new business direction they had started during the crisis. These firms all demonstrated a strong entrepreneurial-orientation, characterized by their proactive opportunity-seeking behavior (S2, R3, C4, S6, C8, M9), innovativeness (M1, S2, R11), and willingness to take risks (M1, R3, C4, M9).

9. SMEs are embracing an expanded role as employers.

With little or no direct support from government for their workers, SMEs prioritized employee health, welfare, and income security as part of their expanded responsibility as employers. SMEs took it upon themselves to ensure that their workers were protected from infection, educated about COVID-19, received vaccinations as soon as possible, and earned subsistence income to survive the crisis. Most firms made financial adjustments to safeguard liquidity, mainly to pay worker salaries with as little delay or reduction as possible.

Given the lack of government unemployment benefits and social-assistance programs, SMEs knew their workers would find it very difficult to survive if they lose their jobs and incomes. One SME (S6) that was facing extreme liquidity constraints and had to place several workers on furlough used its local business network to help find temporary jobs for their displaced workers. Another firm (R11) ventured into a new line of business temporarily in order to keep their workers employed.

As the pandemic ensued, all SMEs incurred additional expenses for safeguarding employee health and protection from COVID-19 as required by government, but many SMEs did more than what was required—providing vitamin supplements (M1, M9) and groceries (M1, S2, R3, S6, M7, C8).

These initiatives started during the pandemic may become permanent features of what SMEs do for their employees and what workers expect from employers postpandemic. The owner-manager of a manufacturing firm (M1) pointed out that his firm intended to continue the enhanced occupational safety and health practices and support they had provided their workers

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

postpandemic: “COVID-19 taught us that without our workers, we really could not get anything done. And if anyone gets sick, it hurts our operations. Even after COVID-19, we will continue these health-protocols, requiring them to wear masks when making deliveries in hospitals and providing vitamin supplements to keep them healthy.” The firm also intended to continue its general health and safety awareness campaigns for employees.

Some firms provided cash assistance to all employees (C8, M9) or those who got sick from COVID (R11) and others provided cash advances and salary loans to regular employees (M1, C4, S5). Recognizing that their workers, especially minimum-wage earners, had very limited access to finance from banks and other financial institutions to borrow for medical bills of family members who got sick, some SMEs took it as their responsibility to provide loans to employees in need despite their own liquidity constraints and limited access to financial capital.

These behaviors were consistent with observations from other studies that small firms, especially those that were family-run, tended to behave more responsibly toward employees compared to larger firms (Chrisman et al., 2005), kept their employees engaged through a favorable work environment and psychological climate (Azouri et al., 2013), and aligned their strategic decisions with values that may not be purely economic or profit-seeking (Dyer & Whetten, 2006).

To enable and support remote work in compliance with government directives limiting operations in the workplace, SMEs incurred additional expenses to provide employees with computers and mobile devices (C8, W3). Some SMEs also reimbursed their employees for electricity consumption and internet subscriptions (W2). SME workers generally accepted the strategic response of their companies to the pandemic, recognizing that external factors have made it necessary for the company to make significant changes in operations and to adopt certain cost-cutting measures (W2, W3).

The pandemic forced SMEs to take larger responsibilities for their workers. Although it seems that SMEs have taken this role willingly, such expanded role puts additional pressure on SMEs, which may negatively impact their viability and growth in the long run.

10. SMEs call for better coordination among national and local government units in their pandemic response.

Many SMEs cited lack of coordination among different local government units and non-uniform implementation of national government directives as major source of confusion especially during the first two months of lockdown. The lack of clear and complete information from government resulted in different interpretations of the community-quarantine guidelines adversely affecting SME operations and supply chains, and also dampening business and consumer confidence.

One hospital-and-medical-equipment manufacturer (M1) reported experiencing supply-chain issues due to delays in deliveries that persisted for several months, as delivery vehicles were subject to multiple road checkpoints whenever they crossed local-government boundaries, especially outside the NCR. Inconsistent interpretation among local government units of what deliveries were permitted according to the current level of lockdown resulted in unnecessary delays. Other SMEs also noted that some cities and municipalities implemented local ordinances in addition to and sometimes contradictory to national-government directives. Some SMEs (M1, R12) took advantage of the potential cost savings by applying only the minimum requirements depending on the city or municipality they were doing business in (whether for deliveries, installations, or branch operations). However, in general, inconsistencies in protocols and their implementation adversely affected operations as well as decision-making among firms, as strategic decisions could not be made without complete information on government directives.

While repeated tightening and easing of lockdowns was an expected consequence of having multiple surges of COVID-19 cases due to new SARS-CoV-2 variants, the frequently changing rules for each level of lockdown was another source of uncertainty for SMEs. Establishing medium- to long-term strategies was made difficult by the lack of predictability as to what operations would be allowed at different levels of community quarantine. These policy-induced uncertainties exacerbated the risk perceptions of SME owner-managers and undermined entrepreneurial activity and thwarted innovation during the crisis. SMEs (M1) with pre-pandemic expansion plans put these on hold amidst lingering uncertainty.

Policy Recommendations

Government support for SME crisis recovery

Despite several programs launched by national and local-governments aimed at supporting SMEs during the pandemic, none of our SME respondents reported receiving direct assistance or financial aid from local or national government agencies, although a few firms reported that some of their employees received cash aid through the government's social-amelioration program.

Having persevered through 16 months of the pandemic crisis, SMEs survived mostly on their own while taking on greater responsibilities over the welfare of their workers. Faced with immense pressures on their financial health due to disrupted operations and limited demand, some SMEs were forced to tap alternative sources of finance, including the personal savings of their owners (R3, S6, C8). Typically, SMEs face tighter credit conditions such as higher interest rates even for short-term borrowings since banks perceive them as presenting higher-risk during periods of crises (Piette & Zachary, 2015; Nugent & Yhee, 2002). Many SMEs had already exhausted all sources of financial capital available to them in the past 16 months. One logistics firm owner-manager (S6) lamented that she already had to take out a mortgage on their family home to keep their business afloat and that there were no other viable sources of finance left for the firm if the situation worsened any further.

Current government initiatives aimed at lending to micro-, small-, and medium-sized enterprises (MSMEs) must be expanded to accommodate more firms. At the same time, government must increase awareness among firms about available programs and support and facilitate access to subsidized loans by minimizing requirements and expediting the loans process. In a survey of 677 MSMEs in the National Capital Region and neighboring CALABARZON region (which is comprised of the provinces of Batangas, Cavite, Laguna, Quezon, and Rizal) by the Asian Institute of Management conducted in April 2021, 61% of firms reported needing more than PHP 100,000 (USD 2,000) to return to or sustain full operations (Flaminiano et al., 2021). The same study also showed that the financial situation of surveyed firms had gotten worse, comparing their situation in April 2021 versus September 2020 (six months after the first lockdown was implemented), when only 32% of firms reported needing more than USD 2,000 to return to normal.

Given that many SMEs have already taken out loans to ease liquidity constraints, government may consider provisional tax relief or credit for firms with new or outstanding debt. Although a brief mandatory grace period for all outstanding

loans to MSMEs was mandated at the beginning of the pandemic, loan repayments plus new loans acquired after the grace period put heavy pressure on SME finances through the prolonged crisis.

In addition to direct financial aid, SME respondents suggested the deferral of tax payments for the current fiscal year. Government may also consider adoption of simplified procedures or exemptions from business-permit renewal and other non-health-related compliance requirements during the pandemic. Savings on time and money costs for regulatory compliance can help ease tight resource constraints for SMEs.

Government support for building crisis resilience and sustaining innovation

Most SMEs did not anticipate the magnitude and duration of the adverse impacts of the pandemic crisis on their business. Only 17% of small businesses in the NCR and nearby CALABARZON region surveyed by the AIM RSN Policy Center for Competitiveness in 2021 had a complete Business-continuity Plan (BCP) in place before the pandemic hit. Lack of management support, technical knowhow, and resources was cited as the top reason for not having a BCP in place (Flaminano et al., 2021). Government must develop clear policies to encourage the nationwide use of BCPs and conduct public campaigns and seminars to increase BCP awareness. Additionally, the government can also provide financial incentives for BCP adoption.

In response to the crisis, many firms proactively sought new commercial opportunities, diversified their customer base, and introduced new products in order to offset decreased demand in their traditional markets. Some firms successfully innovated key business processes and activities, especially in sales, marketing, and inventory management through the adoption of digital tools and online services. While many of these innovations were primarily introduced to sustain operations and revenue generation in the short run amidst lockdown restrictions, efficiency gains and access to new markets have encouraged most SMEs to make at least some of their recent innovations permanent.

Most of these innovations involve digitalization of business processes. For many small firms, however, the additional costs and capital investments required by digitalization are major impediments to full adoption. Future government subsidies and loans may be shifted towards directly supporting or sustaining innovation and digitalization among firms. We recommend this shift in focus, as it is likely that the period for government support for mere survival or recovery may have already passed for many firms that have successfully endured the

crisis thus far on their own devices. Therefore, support will bring greater value if directed towards building back better.

Innovation is supported by the entrepreneurial orientation of a firm and its managers (Majdouline et al., 2020). In other words, when a firm is proactive in seeking new opportunities, open to experimenting with new ideas that may lead to new products or new markets, and willing to take considerable risks in the process, it tends to innovate more. Such entrepreneurial orientation evolves with changing behaviors and contexts (Boers & Henschel, 2021). The pandemic forced many firms to become more innovative, more proactive, and more willing to take risks than they may have ever been before this unprecedented crisis. Government must take action to nurture the invigorated entrepreneurial orientation of SMEs by supporting an enabling environment for entrepreneurial activity. Government must support access to finance for SMEs in need of liquidity for survival and for SMEs ready to invest in new business, expansion, or digital transformation.

The development of entrepreneurial mindsets and an entrepreneurial culture that supports innovation and risk-taking is one of the most challenging and time-consuming aspects of entrepreneurship policy. The pandemic has jumpstarted this process for many firms, and government must maximize the opportunity to leverage the “creative destruction” effects of the crisis and support productive entrepreneurship towards a renewed upward trajectory.

Government support for digital transformation and e-commerce adoption

The use of digital communications and productivity tools and the shift to e-commerce were important enablers for SMEs in persevering through the crisis. Empirical studies suggest that wider adoption of e-commerce and internet advertising among businesses can have positive effects, such as improved business performance (Zhu & Kraemer, 2005; Beshesti & Salehi-Sangari, 2007; Salwani et al., 2009), higher sales (Harfoushi et al., 2013), and increased worker efficiency and firm profits (Jahanshahi et al., 2012). However, although some SMEs have successfully begun the digital transformation of their businesses, others continue to struggle in the digitalization of even basic processes due to lack of financial and human capital. Digitalization and e-commerce adoption requires investment in computers and smart mobile devices, software, and training of employees. Some SMEs have also remained apprehensive due to lack of information regarding e-commerce and the perceived costs and lack of transferability of core competencies in going digital or going online.

Government support towards enabling digital transformation among SMEs should include knowledge dissemination and basic training for entrepreneurs

on e-commerce, social media marketing, digital productivity tools, and cloud services. Financial support through subsidized loans for small businesses making investments in IT equipment should also be considered.

A critical enabler of e-commerce that supports greater financial inclusion in developing countries (Uzoma et al., 2020) is adoption of digital payments. Government must foster an efficient regulatory environment supportive of digital financial innovations while safeguarding consumer welfare and data privacy.

Clarity and transparency of the regulatory framework behind digital payments, internet marketing, and e-commerce can reduce apprehension among SMEs about the digital transformation of key business activities and encourage them to leverage new digital channels and applications that can improve business outcomes in the long run.

Government support for SME workers through broader social-protection systems and skills upgrading

Between the lack of social safety nets and weak worker-protection policies, workers in SMEs are at risk of facing severe employment shocks during a crisis. The lack of appropriate support for workers in small businesses, such as occupational health and safety benefits and access to financial aid, also have rippling adverse effects on markets (UN PRI, 2020). Government support is vital to preserve the momentum gained by SMEs in recovering from the crisis.

The safety and health of the workforce is central to keeping local communities safe and businesses resilient (ILO, 2020). Unfortunately, the pace of COVID-19 vaccination rollout in the NCR in the Philippines has left some workers, particularly those in industries requiring face-to-face interaction such as construction, still unvaccinated. As a result, some SMEs are unable to resume full operations, while others are forced to operate despite not having their workforce vaccinated. In addition to ensuring that health and safety protocols are still being strictly followed almost two years into the pandemic, the local government units must ramp up their COVID-19-vaccination efforts, especially for workers engaged in face-to-face interaction.

As the crisis unfolds as a catalytic event of “creative destruction” for firms, human-capital development is more valuable than ever for the workforce to remain competitive. The accelerated pace of digitalization primarily attributed to the COVID-19 pandemic has ripple effects on the job market (Zahidi, 2020). Consequently, the decline in demand for routine manual jobs such as data entry and various administrative clerical work will also be expedited (World Economic

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

Forum [WEF], 2020). Since larger firms are more likely to invest in human-capital training and development relative to SMEs, workers in small businesses are at a disadvantage, especially during crises (Almeida & Aterido, 2015).

Aside from providing more support to workers through wage subsidies and unemployment benefits, the government should also lead programs to ensure the retraining and reskilling of employees, especially those employed in SMEs. Aside from conducting its own training programs, the government can fund or incentivize the reskilling and retraining of employees to help those endangered from being retrenched due to digitalization (WEF, 2020) and encourage more SMEs to adopt digital technologies into their operations.

Conclusion

The rapidly evolving COVID-19 situation, the mitigating measures adopted by government to control it, and the ensuing impacts of both on markets and confidence have resulted in persistent challenges for SMEs. SMEs that were able to withstand the crisis in 2020 faced a new set of challenges in 2021. While mobility restrictions began to ease by the third and fourth quarters of 2020, threats from deadlier and more contagious COVID-19 variants and the prolonged lockdowns have taken their toll, resulting in the persistence of weak demand and decreased consumer activity.

The accumulation of financing constraints, a drop in sales, and liquidity challenges have forced SMEs to employ retrenchment or cost-reduction strategies, notably during the first six months of the pandemic. For most SMEs, these cost-reduction strategies came in the form of reducing salary expenses and bonuses, while some SMEs put their employees on furlough. Despite the tremendous challenges they faced, most SMEs still prioritized keeping as many employees as possible and providing some level of protection and safety net for their workforce. All firms took steps to keep their employees healthy, often shouldering additional expenses for health and sanitation equipment and supplies, SARS-CoV-2 testing, private shuttle services, and on-site accommodations to minimize their risk of infection, with most firms going beyond government-mandated health and safety protocols. Many SMEs provided financial or nonfinancial aid to their employees even without government support. Most SMEs took on a larger role as employers during the crisis, seeking to address welfare and productivity gaps experienced by their workers using scarce private resources amidst increasing liquidity pressures on firms themselves.

The use of digital and communication productivity tools and alternative work arrangements was instrumental in helping SMEs persevere through difficult times

and enabled business-continuity. SMEs' financial and operational investment in equipment to allow telework and facilitate digital communication will still be useful beyond the pandemic, as most SMEs expect to keep the organizational changes to sustain their momentum and maximize efficiency gains even after the crisis.

Technology-driven business-process innovations in various channels, from e-commerce, digital marketing, and the use of digital-payment systems, have also been critical in enabling the operations of SMEs given the changing market conditions and business landscape. Firms whose nature of business allowed them to do so shifted vital functions of their operations online, while others maximized their social media presence and engaged in e-commerce and digital-payment systems. Although the degree of digitalization varies among SMEs, partly depending on their industry and nature of business, digital-technology adoption has made their businesses more resilient, while also expanding their customer base and improving operational efficiency. Despite the benefits of digital-technology adoption, some SMEs remain apprehensive towards full digitalization because of several factors such as the transferability of skills, the perceived challenge of building trust and social capital through online interactions, and other limitations associated with virtual communication. However, the general receptiveness of most SMEs to digitalization has made markets more efficient and helped more small businesses remain afloat during the crisis.

Uncertainties surrounding changing lockdown levels and the shifting business landscape have forced SMEs to become more agile and adaptable to evolving market conditions. SMEs that intended to remain in operations had to reposition themselves quickly and reorganize their processes to comply with external shocks and government-mandated protocols. Additionally, some SMEs were more deliberate in seeking new market opportunities and customers through business-model and product innovation. Most SMEs explored other distribution and marketing channels to pursue new markets and customer segments, exhibiting risk-taking and opportunity-seeking behavior in the face of the crisis. In general, SMEs demonstrated strong entrepreneurial orientation, proactiveness, innovativeness, and willingness to take risks, with most owners/managers intending to pursue the new business paths forged during the crisis.

Although both national and local governments have ramped up their efforts to help tide SMEs and workers through the crisis, the SME owners and workers interviewed cited gaps in government support. A few firms reported that some of their employees received cash aid through the government's social-amelioration program. However, many SMEs stepped in to fill welfare gaps and

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

expanded their role as employers to ensure that their workers had access to financial aid and were kept safe and healthy during the pandemic. Most SMEs provided both cash and non-cash assistance in the form of groceries, vitamins, SARS-CoV-2 testing, transportation, and other means to promote workplace safety. Extending additional workforce protection, especially in the absence of government intervention, may become a permanent feature of SMEs beyond the pandemic and has vast implications on the labor force moving forward.

Despite several programs launched by national and local governments to support SMEs during the pandemic, none of our SME respondents reported receiving direct assistance or financial aid from local or national government units. In addition to direct financial assistance, SME respondents suggested deferring tax payments for the current fiscal year. The government may also consider the adoption of simplified procedures or exemptions from business-permit renewal and other non-health-related compliance requirements during the pandemic. Savings on time and money costs for regulatory compliance can help ease tight resource constraints for SMEs.

Better coordination between national and local-governments in terms of implementation and enforcement can also improve the crisis response. The lack of coordination and communication makes interpreting policy directives more complex, resulting in supply-chain issues and other unnecessary mobility restrictions. Additionally, it has also led to less-efficient enforcement of regulations, including health and safety protocols.

Quicker and more efficient vaccination rollout will also help SMEs operate at full capacity sooner while keeping their workers safe and healthy. The staggered pace of vaccinations has kept some workers in front-facing roles in industries such as construction and food services unvaccinated.

The COVID-19 pandemic has been a catalytic crisis for SMEs. Firms accelerated the digitalization of business processes and communications, diversified their customer base and expanded markets through e-commerce, and experimented with new products and business models. To sustain the momentum of innovation and digitalization catalyzed by the crisis, policy options that nurture the reinvigorated entrepreneurial mindset of SME owners-managers and support new and recent entrepreneurial activity among firms, old and new, must be pursued alongside traditional policies and assistance aimed at a return to “business as usual” and mere survival of firms.

On the other hand, while some SMEs have successfully begun the digital transformation of their businesses, others continue to struggle in the digitalization

of even basic processes due to lack of financial and human capital. Government must consider policies and support programs aimed at enabling laggard firms to catch up.

The pandemic demonstrated how SMEs can innovate amidst resource constraints and unfavorable market conditions, highlighting the value of their entrepreneurial activity and their contribution to communities by providing and sustaining jobs, income, and, increasingly during the pandemic, worker welfare and protection. While the crisis has also resulted in the premature closure of many businesses, the entrepreneurship landscape has evolved significantly over the past two years. This innovation momentum can be preserved in ecosystems that foster entrepreneurship, supported by policies that encourage resilience and allow systems to truly bounce back better.

Appendix

Appendix Table 1. Chronology of community-quarantine classifications in the National Capital Region

Classification	Government guidelines
<p>Enhanced Community-quarantine (ECQ)</p> <ul style="list-style-type: none"> • March 17 - May 15, 2020 • August 4-18, 2020 • March 29 - April 11, 2021 	<ul style="list-style-type: none"> • Essential business establishments or activities under Category I were allowed to operate at 50-100% capacity, subject to government approval. These included manufacturing of essential goods such as food, beverages, (excluding alcoholic drinks) and retail services such as groceries, markets, and drugstores. Priority public and private construction projects, business-process outsourcing (BPO), and export-oriented companies were also allowed to operate. • Nonessential business establishments or activities (e.g., manufacturing and wholesale/retail of nonessential goods, malls and commercial centers, barbershops and salons, gyms and sports facilities, internet and computer shops) under Category II, III, and IV were not allowed to operate. • Most companies adopted telework and skeletal-workforce arrangements for their employees. • Curfew hours were imposed from 8:00 PM – 5:00 AM.
<p>Modified Enhanced Community-quarantine (MECQ)</p> <ul style="list-style-type: none"> • May 16-31, 2020 	<ul style="list-style-type: none"> • All essential business establishments or activities under Category I were allowed to operate at full capacity conditional on compliance with safety protocols. • Nonessential business establishments under Categories II and III were allowed to partially operate at 50% capacity. For instance, nonleisure establishments in malls and commercial centers were permitted to operate at 50% venue or workforce capacity. Restaurants with food take-out and delivery services were permitted to operate at 50% workforce capacity. Indoor dining was not allowed. Other nonessential business establishments under Category IV were not allowed to operate. These included personal-care services, barbershops and salons, gym and fitness, and tourism-related activities. • Curfew hours were imposed from 10:00 PM – 4:00AM.

<p>General Community-quarantine (GCQ)</p> <ul style="list-style-type: none"> • June 1, 2020 - March 21, 2021 	<ul style="list-style-type: none"> • All business establishments or activities under Categories I, II, and III were allowed to operate at full capacity upon strict compliance with safety protocols. • Restaurants were allowed to operate at 50% or more capacity, depending on their local government unit guidelines. • Selected business establishments or activities under Category IV were allowed to operate at a limited capacity. For instance, gym and fitness centers were allowed to open at 30% venue capacity. Meanwhile, personal-care services such as massage parlors and establishments serving alcoholic beverages were still not allowed to operate. • Public and private transportation were allowed to operate at a limited capacity.
<p>GCQ with “heightened restrictions”</p> <ul style="list-style-type: none"> • March 22 - April 4, 2021 • May 15 - June 15, 2021 • July 23 - August 15, 2021 	<ul style="list-style-type: none"> • Indoor dining was permitted at 20% capacity and at 50% for al fresco or outdoor dining. Additional 10% capacity was given for establishments with Safety Seal³. • Other business establishments or activities under Category IV were allowed to operate partially. Personal-care services were permitted to operate at 30% capacity provided that the masks would not be removed and an additional 10% if they have a Safety Seal. Outdoor tourist attractions were allowed to operate at 30% capacity. Entertainment and recreational venues such as bars, theaters, and arcade halls were not permitted to operate.
<p>MECQ (2021)</p> <ul style="list-style-type: none"> • April 12 - May 14, 2021 	<ul style="list-style-type: none"> • All business establishments or activities that were allowed to operate at limited capacity during ECQ were now permitted to operate at full capacity.

3 Safety Seal is a certification scheme that proves that a business establishment is compliant with minimum public-health protocols set by the national and local governments. The Department of Trade Industry (DTI) issues the Safety Seal.

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

<p>GCQ with “some restrictions”</p> <ul style="list-style-type: none"> June 16, 2021- June 30, 2021 	<ul style="list-style-type: none"> All business establishments or activities that were allowed to operate at limited capacity during ECQ were now permitted to operate at full capacity. Selected business establishments or activities under Category IV were allowed to partially operate. Gyms and fitness centers were allowed to operate at 40% capacity. Indoor dining was allowed at 40% capacity, while outdoor dining was allowed at 50% capacity.
<p>GCQ Alert Level 4⁴</p> <ul style="list-style-type: none"> September 16, 2021- onwards 	<ul style="list-style-type: none"> Business establishments or activities deemed as high risk for virus transmission are not permitted to operate. These included indoor tourist attractions, entertainment and recreational venues, and amusement arcades, among others. Outdoor dining is allowed at a maximum of 30% seating capacity, while indoor dining was at 10% seating capacity but for vaccinated individuals only. Personal-care services are permitted to operate at a maximum of 30% capacity, provided that the services are conducted outdoors.

4 This is a new classification of GCQ status piloted within the NCR last September 2021. Under this new scheme, areas under GCQ will be further classified as Alert Levels 1, 2, 3, and 4 based on the case transmission and utilization rates of hospital beds and intensive care units (ICUs) of localities.

Appendix Table 2. Summary of Strategic Responses to Crisis

Policy or initiative title	Description	Implementing agency or LGU
<i>COVID-19 Assistance to Restart Enterprises (CARES) Program</i>	<ul style="list-style-type: none"> • CARES is a collateral and interest-free financing program for MSMEs. The loanable amount provided by the program ranges from PHP 10,000 (USD 200) up to PHP 5 million (USD 100,000) for MSMEs that have been operating for one year. The program also offers a grace period of six to 12 months. MSME borrowers shall only be required to pay a one-time service fee of 4-8%, depending on the loan term. • PHP 10 billion (USD 200 million) from the Bayanihan to Recover as One Act was allocated to SB Corporation to develop the initiative. 	Small Business Corporation (SBCorp) - Department of Trade and Industry (DTI)
<i>CARES for Tourism Rehabilitation and Vitalization of Enterprises and Livelihood (TRAVEL)</i>	<ul style="list-style-type: none"> • Of the PHP 10 billion allocation for the CARES program of SB Corp., PHP 6 billion (USD 120,000) is appropriated for the tourism sector, aimed to aid tourism-related enterprises accredited by the Department of Tourism (DOT) and Local-government Units (LGUs). The collateral- and interest-free program offers a loanable amount ranging from PHP 10,000 (USD 200) to PHP 5 million (USD 100,000). It also provides a grace period of up to 24 months. 	SBCorp, in partnership with DOT
<i>Helping the Economy Recover Thru OFW Enterprise Start-ups (HEROES)</i>	<ul style="list-style-type: none"> • HEROES is a program that offers financing support to the displaced, repatriated, or returning OFWs by assisting them in starting their businesses. • The collateral- and interest-free program offers a loanable amount that ranges from PHP 30,000 (USD 600) to PHP 100,000 (USD 2,000). It also provides a grace period of up to 12 months. 	SBCorp

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

<i>Small Business Wage Subsidy Program</i>	<ul style="list-style-type: none"> Under this measure, the government, through the Social Security System (SSS), shall provide a subsidy amounting from PHP 5,000 (USD 100) to PHP 8,000 (USD 160) each month per eligible employee. 	Department of Finance, SSS, & Bureau of Internal Revenue
<i>I-RESCUE Lending Program</i>	<ul style="list-style-type: none"> The I-RESCUE Lending Program is an assistance program for SMEs, cooperatives, and microfinance institutions troubled by the economic impact of COVID-19. The program offers a loanable amount of PHP 100,000 (USD 2,000) or up to 85% of the actual permanent working-capital requirement but not exceeding PHP 3 million (USD 60,000), at a lower fixed interest rate, with no hard collateral requirements, and payable for up to three years. 	Landbank
<i>Survival and Recovery (SURE) COVID-19</i>	<ul style="list-style-type: none"> The Agricultural Credit Policy Council (ACPC) financing program provides working-capital loans to agri-fishery SMEs. The loanable amount is up to PHP 10 million (USD 200,000) for working capital, with five years to pay at 0% interest. 	ACPC
<i>Livelihood Seeding Program - Negosyo sa Barangay (LSP-NSB)</i>	<ul style="list-style-type: none"> The allocated budget for the program is PHP 203 million (USD 4 million) to supply livelihood packages and business advisory support, amounting from PHP 5,000 (USD 100) to PHP 8,000 (USD 160). This program targets MSMEs affected by calamities and health crises. 	DTI

<p><i>COVID-19 Adjustment Measures Program (CAMP 1 and 2)</i></p> <p><i>*part of Active Labor Market Programs of DOLE</i></p>	<ul style="list-style-type: none"> • CAMP, a safety-net program spearheaded by DOLE, targets the formal sector's affected workers. It includes one-time financial support amounting to PHP 5,000 (USD 100) and employment facilitation. • CAMP 1: It is temporary financial assistance intended for workers in the formal economy who were displaced during the COVID-19 pandemic (e.g., employees who were retrenched, furloughed, or those who adopted flexible work arrangements). It was implemented from March to April 2020. Application for this program was through the company's HR. Although it ideally covers all employees affected by the pandemic, it exempted those in the managerial position and only focused on minimum-wage earners. It was stopped due to lack of funds. • CAMP 2: This is similar to CAMP 1, but the application is filed by the workers themselves, and employees in supervisory or managerial positions are allowed to file. Program is still ongoing. 	DOLE
<p><i>Allowing MSMEs to buy COVID-19 vaccines</i></p>	<ul style="list-style-type: none"> • The government allowed private entities, including MSMEs, to buy COVID-19 vaccines through a Joint Memorandum Circular approved on June 3, 2021, by the Department of Health (DOH) and National Task Force (NTF) Against COVID-19. With this, MSMEs will have to enter into a multilateral agreement with the above agencies and the vaccine supplier. 	DOH & NTF

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

<p><i>National Employment Recovery Strategy (NERS) 2021-2022</i></p>	<ul style="list-style-type: none"> NERS serves as the country's master plan for employment recovery. It aims to restore the country's labor market "through (1) the creation of a policy environment that encourages generation of and improved access to employment, livelihood, and training opportunities; (2) the improvement of employability, wellness, and productivity of workers; and (3) the provision of support to existing and emerging businesses, ensuring the preservation of employment." 	<p>DTI, DOLE, and TESDA</p>
<p><i>We Live Livelihood Assistance</i></p>	<ul style="list-style-type: none"> This program is a livelihood-assistance program for workers in the informal economy. 	<p>DOLE</p>

Appendix Table 3. Business innovations

SME respondent*	Type of innovation		
	Process	Product	Business model
<p>M1</p>	<p>Digitized inventory- and accounting-management systems</p> <p>Use of digital productivity and communication tools</p>	<p>None</p>	<p>Expanded customer segment to include private companies</p>
<p>S2</p>	<p>Extensive use of social media platforms (e.g., Facebook and Instagram) for the promotion, marketing, and sale of their products</p>	<p>Introduced new do-it-yourself milk-tea-beverages kit, good-for-sharing serving sizes, and other snack items in their menu</p>	<p>Pursued new market segments (i.e. they are now catering to families and/or groups);</p> <p>Partnered with on-demand food-delivery services</p>

R3	Use of digital productivity and communication tools for the sales of their products	None	Expanded their geographical service areas; Invested in new trucks for their provincial deliveries
C4	Extensive use of social media platforms (e.g., Facebook) for the promotion, marketing, and sale of their products	None	Pursued new market segment (i.e. from old-aged Filipinos living in the Philippines to middle-aged overseas Filipinos workers (OFWs) in the Middle East countries)
S5	Use of digital productivity and communication tools	None	
S6	Use of digital productivity and communication tools	None	Submitted applications for e-commerce companies in a bid to become among their third-party package-delivery service providers
M7	Extensive use of social media platforms (e.g., Facebook) for the promotion, marketing, and sale of their products	Added motorcycle parts and accessories as well as after-sales repair/installation services	

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

C8	Extensive use of social media platforms (e.g., Facebook) for the promotion, marketing, and sale of their products	None	Pursued new market segment (i.e. from doing government infrastructure projects pre-pandemic, they are now doing mostly residential improvements and construction projects)
M9	Use of digital productivity and communication tools for the promotion and marketing of their products (i.e. establishing own website)	Added packaging items for small businesses (e.g., food-safe packaging for takeout and delivery)	Invested in new truck and machine equipment; Currently expanding their factory; Pursued new market segment (i.e., they now cater to small businesses)
S10	Use of digital productivity and communication tools	None	
R11	Extensive use of social media platforms (e.g., Facebook) for the promotion, marketing, and sale of their products	None	Embarked on a new line of business (i.e. food delivery) to support furloughed employees
R12	Extensive use of social media platforms (e.g., Facebook) for the promotion, marketing, and sale of their products; Use of digital-payment systems	None	

***M** - Manufacturing; **R** - Wholesale and Retail; **C** - Construction; **S** - Other Services

Appendix Table 4. Worker perspectives

Appendix Table 4a. Worker respondent profile

Worker-respondent*	Support measures received during the crisis		Aid needed from the government	Perceptions of their company's crisis response
	From the employer	From the government		
W1 General manager	None mentioned	Did not receive any financial assistance (" <i>ayuda</i> ")	Financial aid for all employees regardless of their position in the company	Respondent perceived the COVID-19 response of his company as "very poor." Re-adjustments on their operations were slow. No drastic or innovative changes were made. Given the current financial difficulties of the company, the respondent is already seeking job opportunities elsewhere.
W2 General manager; 5 years in the company	To support the work-from-home arrangement, the company shoulders 50% of their employees' internet subscription and 25% of their electricity bill.		Fast-track the vaccination rollout	The respondent is satisfied with the company's pandemic response despite cutting back on their incentives and salary due to a drop in clients during the pandemic.

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

<p>W3 General manager; 7 years in the company</p>	<p>COVID-19 testing fees are shouldered by the company.</p> <p>Medical expenses due to COVID-19 infection can be reimbursed through the company's medical insurance.</p> <p>Staff were provided with ICT equipment (e.g., laptop and printer) to support their work-from-home setup.</p> <p>One-time cash assistance worth PHP 3,000.</p>	<p>One-time cash assistance of PHP 5,000-8,000 (CAMP)</p>	<p>Wage/salary subsidies</p>	<p>The respondent perceived the company's response as "okay" since no employees were retrenched in 2020 despite having liquidity issues at that time.</p> <p>The respondent is willing to remain with the company, hoping that they could recuperate from their losses soon.</p>
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Appendix Table 4b. Support measures extended by SMEs to their employees

SME respondent	Support measures for employees	
	Financial assistance	Nonfinancial assistance
M1	<ul style="list-style-type: none"> Advanced the 13th month pay in 2020 Salary advances Salary loans with light payment terms 	<ul style="list-style-type: none"> Food packs Vitamin supplements Personal protective equipment (PPEs) Increased paid leaves
S2		<ul style="list-style-type: none"> Food packs and other relief goods

R3		<ul style="list-style-type: none"> • Food packs and other relief goods
C4	<ul style="list-style-type: none"> • Salary advances for construction workers 	<ul style="list-style-type: none"> • Regular SARS-CoV-2 testing for employees who report on-site
S5	<ul style="list-style-type: none"> • Salary loans with light payment terms 	
S6		<ul style="list-style-type: none"> • Food packs and other relief goods • Facilitated SSS loans of employees
M7		<ul style="list-style-type: none"> • Food packs and other relief goods
C8	<ul style="list-style-type: none"> • Cash assistance worth PHP 2,000-3,500 for each employee during the first lockdown in 2020 • Salary loans 	<ul style="list-style-type: none"> • On-site accommodations for workers (e.g., construction workers) with food allowances and beddings • Regular SARS-CoV-2 testing for employees who report on-site • ICT equipment (e.g., laptops) for employees who work-from-home • Food packs
M9	<ul style="list-style-type: none"> • Cash assistance during the lockdown in 2020 	<ul style="list-style-type: none"> • Vitamin supplements
S10		
R11	<ul style="list-style-type: none"> • Cash assistance for employees infected with COVID-19 	<ul style="list-style-type: none"> • PPEs
R12		<ul style="list-style-type: none"> • Regular SARS-CoV-2 testing for employees who report on-site

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COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers



2

Thailand
Case Study

List of Abbreviations

GDP	Gross domestic product
OECD	Organisation for Economic Co-operation and Development
OSMEP	Office of Small and Medium Enterprises Promotion
OSS	(SME) One-Stop Service Centre
SDGs	Sustainable development goals
SME(s)	Small- and medium-sized enterprise(s)
UN	United Nations
WFH	Work-from-home

Thai SMEs and the COVID-19 Crisis: Agility and Resilience through Digitalisation

Small- and medium-sized enterprises (SMEs) are significant contributors to economic activity and employment in Thailand, representing most firms and domestic employment. In 2020, SMEs accounted for three million companies, or approximately 99.8% of the total number of companies in Thailand, growing 1% over the last year (Office of SMEs Promotion [OSMEP], 2021a). They also hosted 12.7 million jobs, equal to 72% of the total labour market in the same year, with an annual growth of 5.4%. Overall, SMEs contributed significantly to the national gross domestic product (GDP), accounting for 34.2%, or approximately USD 161 billion. OSMEP categorised SMEs based on sector, annual revenue, and the number of employees. Table 1 illustrates the SME criteria.

Table 1. 2019 definition of SMEs

Sector	Micro-sized enterprise		Small enterprises		Medium-sized enterprises	
	Annual revenue	Employees (no. of persons)	Annual revenue	Employees (no. of persons)	Annual revenue	Employees (no. of persons)
Manufacturing	≤ ฿1.8 million (≤ \$53.5 thousand)	≤ 5	≤ ฿100 million (≤ \$2.97 million)	≤ ฿50 million (≤ \$1.48 million)	> ฿100 and ≤ ฿500 million (≤ \$2.97-\$14.88 million)	> 50 and ≤ 200
Services, wholesale, and retail	≤ ฿1.8 million (≤ \$53.5 thousand)	≤ 5	≤ ฿50 million (≤ \$1.48 million)	≤ ฿30 million (≤ \$0.89 million)	> ฿50 and ≤ ฿300 million (≤ \$1.48-\$8.92 million)	> 30 and ≤ 100

SMEs: Small- and medium-sized enterprises.

Exchange rate: Calculated from the average rate in October 2021 (฿33.6 = \$1)

Notes:

If the number of employees meets the criterion of one enterprise category but annual revenue meets the criterion of another enterprise category, the criteria of annual revenue determine the enterprise category.

Micro-sized enterprises are part of small-sized enterprises.

Source: Korwatanasakul & Paweenawat (2021).

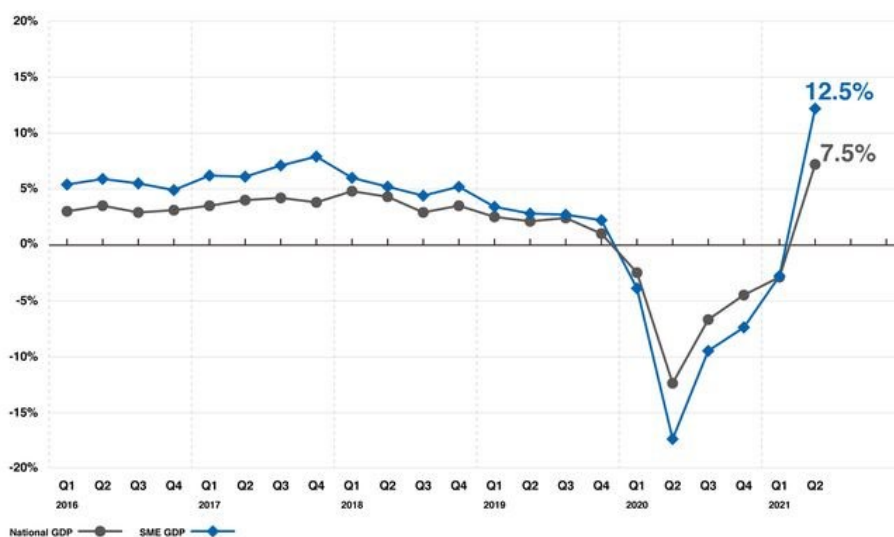
The COVID-19 crisis hit the Thai economy severely, particularly in the second quarter of 2020, showing a -17.1% of year-on-year GDP growth among SMEs (Figure 1). However, despite a negative growth, gradual recovery among SMEs could be observed over time since the third quarter of 2020. The second quarter of 2021 marked the first positive growth after the outbreak (12.5%). According to OSMEP (2021b), small enterprises were the slowest to recover from the crisis due to the direct impact of the lockdown. Small enterprises faced challenges such as a sharp reduction in revenues and financial liquidity, resulting in a minimal positive growth of 0.3% in the first half of 2021. On the other hand, during the same period, micro- and medium-sized enterprises would gradually recover from the

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

crisis, with a growth of 11.1% and 6.1%, respectively. In addition, OSMEP (2021b) reported a forecast of faster economic recovery among SMEs in the second half of 2021. Nevertheless, the recovery may slow down again, depending on the COVID-19 situation and the vaccine rollouts in the third and fourth quarters. Therefore, the quickest that the full recovery of the Thai economy may happen is in the last quarter of 2021.

Even though the overall SMEs' GDP growth was low regardless of industries, SMEs' growth in agriculture, properties, and education industries improved significantly from last year, showing positive growth in the first quarter of 2021 (OSMEP, 2021b). In contrast, those belonging to the hospitality industry (e.g., hotels and restaurants), logistics industry, and information & communication industry, performed the poorest, with a growth ranging from -5.4 to -17.2%.

Figure 1. Year-to-year growth of SME GDP and national GDP, 2016 – 2021 (%)



Source: OSMEP (2021b)

Policies for SMEs under the COVID-19 pandemic

The Thai government implemented various instruments to support SMEs during the crisis, such as subsidies for workers and self-employed persons, tax exemptions, direct lending, and capacity-building support (OECD, 2020). First, the government approved a series of stimulus packages to provide financial

support to self-employed persons and vulnerable wage earners, such as those who are not under the social-security fund and those at risk of job loss, reduction of working hours/days, and work cessation. These vulnerable wage earners are usually those working for SMEs where welfare (e.g., unemployment insurance and health insurance) is relatively limited compared to large enterprises. Other commonly utilised instruments were deferrals of payments, such as taxes, social security, debt, rent, and utilities. Furthermore, the government used financial instruments such as soft loans or direct lending through commercial banks to help increase SMEs' financial liquidity during the crisis. It also supported innovation development and capacity-building programmes. For instance, the Ministry of Higher Education, Science, Research and Innovation organised training programmes targeting 40,000 unemployed persons losing their jobs due to the pandemic, while the National Innovation Agency supported local technology start-ups, especially public services in healthcare.

Data and research methods

This study examines the impacts of the COVID-19 crisis on Thai SMEs' business performance and strategies through qualitative in-depth interviews with the owners and executive staff members of SMEs located in Bangkok. It employs an interpretivist approach to assess SMEs' agility, innovation, and resilience while observing changes in work practices because of the COVID-19 pandemic. It also looks at issues of diversity and inclusiveness, which were possibly affected by the crisis. The interpretivist approach helps us understand the social world through the perspectives of respondents and their experiences embedded within wider sociopolitical structures (Bryman, 2016). This research primarily relies on interviews as the main data source, supplemented by policy reports of government agencies and international organisations, research articles, and news articles. Based on the qualitative analysis, the study provides policy implications and recommendations addressing revealed issues and challenges encountered by Thai SMEs during the crisis.

The study adopts a purposive-sampling method to guarantee the heterogeneity and representativeness of the sample, particularly in terms of an economic sector. The sampling is based on three identification criteria: (1) respondents are either an owner or an executive staff member of SMEs (priority is given to micro and small enterprises rather than medium-sized enterprises), (2) their businesses were established before 2020, and (3) their businesses belong to either the manufacturing sector, the services sector, or the trading sector (wholesale and retail). We followed the SME definition and criteria specified in Table 1. In

addition, we also considered the gender and sector balance of respondents to ensure the diversity of interview answers.

Semistructured interviews with 12 SME owners and executive staff members and four employees in SME businesses were conducted between June 1 and August 31, 2021. Adhering to the government restrictions in response to the COVID-19 outbreak, most interviews were conducted online and lasted approximately 60 to 90 minutes. Before the interviews, we also asked all respondents to fill in a questionnaire to ensure the accuracy of basic information, including gender, age, position, business type, product, year of establishment, and the number of employees (Tables 2 and 3). During the interview, we followed the semistructured interview guide, developed together with researchers from the *COVID-19 and the Future of Doing Business in Asia: Towards A Better Normal for SMEs and Workers* project. The interview guide for SME owners and executive staff members includes questions relevant to SMEs' business performance before and after the COVID-19 outbreak, strategies in response to the crisis, changes in decision-making, work practices, and inclusiveness (e.g., gender and people with disabilities). On the other hand, the interview guide for SME employees covers questions such as the impact of the crisis on employees and how they managed to make a living during the crisis.

Table 2. Summary of key informants and their SMEs' characteristics

Code	Gender/age	Position	Business type	Goods/services	Year of establishment	Number of employees
SME 1	Male/35	Marketing manager	Manufacturing	Wood factory	1980s	15
SME 2	Male/ 42	Manager	Manufacturing	Printing service → packaging products & services	2000s	12
SME 3	Male/ 55-60	Manager	Manufacturing	Acrylic manufacturing	1994	13 permanent; 15-20 out-sourced
SME 4	Male/40-45	Manager	Manufacturing	Iron	1995	40

SME 5	Male/ 37	Manager	Services	Export-import service provider	2009	7
SME 6	Female/29	Manager and AE	Services	Event agency	2000s	8 permanent; 5-10 freelance
SME 7	Male/ 40-45	Managing director	Services	Marketing agency	2014	10
SME 8	Female/ 35	Manager and founder	Services	Restaurant	2019	7 permanent; 2-5 part-time
SME 9	Female/ 39	Manager	Retail	Online shoe store	2018	10
SME 10	Female/ 35	General manager	Retail	Bag and luggage authorised distributor	2012	2 permanent; 3-4 freelance
SME 11	Female/ 30	Manager	Retail	Pharmacy	1995	15
SME 12	Male/39	Co-founder and CEO	Retail	Cosmetic branding/marketing	2014	30

Table 3. Summary of interviewed employees

Code	Gender	Age	Position	Business	Education
Worker 1	Female	35	Customer relations (online)	Restaurant	Junior high school
Worker 2	Female	29	Graphic designer	Tutorial school	Bachelor's degree
Worker 3	Male	27	Fitness trainer	Fitness centre	Bachelor's degree
Worker 4	Female	31	Teacher	Elementary school	Bachelor's degree

Business Performance Under the COVID-19 Crisis

The COVID-19 outbreak led to sudden changes in consumer behaviours and firm operations, posing critical challenges to SMEs. For instance, demand for some goods and services sharply dropped to nearly zero, such as hotel accommodations, services for on-site events and exhibitions, and travel goods. Furthermore, lockdown policies limited the market accessibility of consumers and businesses, resulting in changes in consumers' purchasing patterns and platforms, (e.g., growing usage of online-purchasing platforms, e-commerce).

The crisis significantly impacted small businesses in every sector, particularly the services sector. During the lockdown period, the government forced service providers such as restaurants, entertainment complexes, fitness and sports centres, and spa and beauty salons to temporarily close their businesses. These sudden changes affected businesses, most likely SMEs, that could not promptly respond to the market due to limited financial and human resources. As a result, some small enterprises in the services sector closed down after an unprecedented decline in sale volume and, in turn, the lack of cash flow and financial liquidity. In 2020, there were 20,920 enterprises that closed down, of which 38.6% were from Bangkok and 94.9% were micro and small firms (Department of Business Development, 2021).

Our interview results manifest that almost every respondent has been significantly affected, particularly the services sector, experiencing a severe and drastic decline in income. However, the effects were unequal within and across sectors. The following sections discuss SMEs' business performance under the crisis.

Services sector

In general, the revenues of most respondents (SMEs 6, 7, and 8) from the services sector sharply dropped due mainly to a lockdown policy measure. The sales volume of SME 6 (event organiser and production) and SME 7 (marketing agency) drastically declined after the first wave of the COVID outbreak. Their customers, primarily big corporations and government agencies, cancelled all the on-site or physical events because of the lockdowns. Moreover, they also minimised their budget for public-relations and promotional marketing. Thus, SMEs 6 and 7 changed their services to focus more on graphic design and digital production, such as e-commerce marketing, digital advertising content and materials, and video production, to maintain their business, particularly cash flows. Nevertheless, their sales level was not as high as the prepandemic level.

Unlike other service providers, SME 8 (restaurants) depended solely on one source of income, indicating a lack of risk-diversification strategy. Restaurants' revenues drastically dropped when the government implemented lockdown policies but gradually recovered after the lift of lockdowns. The lockdown measures forced restaurants to close their dining areas, leading to zero revenue. Moreover, the persistence of social-distancing policies after the lift of lockdown measures (e.g., limiting the number of customers in a restaurant) contributed to a slow recovery within this sub-sector. SME 8 stated that it was difficult to manage its cash flow, worker shifts, and raw-ingredient procurement, notably when the government implemented lockdowns on an ad hoc basis with short notice. On the other hand, other respondents from the services sector reported that they adjusted and diversified their services to meet the current market demand and, therefore, had multiple sources of revenues.

SME 5 (trading-service provider) showed a different pattern as the industry was already a sunset industry before the crisis. Due to the widespread digital technologies, customers could directly contact suppliers without using trading services or intermediaries. SME 5 stated that COVID-19 was not the core disruptive factor, but it was a catalyst that aggravated business performance, particularly in conservative companies. Therefore, the drop in sales came from decreasing pre-pandemic demand for trading services, and it was difficult to gauge the real impact of the COVID-19 pandemic on its business.

Manufacturing sector

Three out of four respondents (SMEs 1, 2, and 4) from the manufacturing industry showed strong resilience towards the COVID-19 crisis. They had concerns over labour shortage during the crisis rather than a reduction in revenues due to declining market demand. However, manufacturing companies (e.g., SME 3) could also experience a sharp drop in sales depending on industries. Thus, the critical factor to business success during a crisis potentially lies in agility in response to emerging market demand and implementing product diversification.

SME 1 (wood factory) and SME 4 (iron factory) were closely related to the construction industry, as they mainly fed their products to construction companies. COVID-19 did not induce a fall in demand for construction, including state projects and private construction plans (Mahattanalai, 2021). Thus, the number of orders and, in turn, revenues of SMEs 1 and 4 remained constant after the crisis. However, they expressed concern over the risk of labour shortage, possibly leading to a delay in production and higher labour costs. In late June 2021, the government announced a policy measure to shut down construction

camps in risky areas in response to the sharp increase in the COVID-19-infected cases (Bangkok Municipal, 2021). Consequently, labour had no other choice but for workers to move back to their respective hometowns in rural areas, leaving limited labour supply in Bangkok and the metropolitan area.

Similarly, SME 2 (printing services) did not experience a drop in revenues. It could profit from the crisis by promptly adjusting its products in response to the emerging market demand. The company turned its core business from paper-printing services to packaging products and services before the COVID-19 crisis. At the early stage of the outbreak, it received a large volume of orders to produce facial-mask packages. It also diversified its product lines to include packaging boxes of a local skin-care brand due to a rise in demand for skin care in the e-commerce market. It invested in a new printing machine to meet the demand for all product lines.

In contrast, SME 3 (acrylic factory) faced a serious challenge during the crisis. Its main products are stationeries and acrylic sign holders for restaurants and department stores. Even though SME 3 seemed to diversify its products, the demand for its products was dependent on the markets of services industries (i.e. restaurants, department stores, and education), all of which were affected the most from lockdown measures. As a result, its sales performance dropped significantly and, in turn, its cash flows.

Retail sector

According to the interview results, retailers' revenues largely depended on product type during the crisis. Respondents selling fashion items (SME 9) and travel goods (SME 10) reported a drastic drop in their revenues, whereas SME 11 (pharmacy) and SME 12 (skin care) experienced an increase in their revenues. The COVID-19 pandemic changed consumer behaviours significantly, as consumers could not travel abroad and socialise amid lockdown restrictions. As a result, they bought fewer products related to banned activities, particularly international travel and outdoor events. These products include fashion items and travel goods, which is consistent with the declining trend of clothing sales worldwide (BBC, 2021; Bianchi, 2020; McIntosh, 2020). In contrast, everyday life and indoor products (e.g., medicines and skin care) could maintain or boost sales. For instance, SME 12 sold skin-care products addressing the problems of skin redness, pimples, and sensitive skin caused by mask-wearing, a necessary behaviour during the pandemic, directly responding to the emerging market demand.

The interview results also indicated that digital technology, namely e-commerce and digital marketing, could help SMEs improve their revenues regardless of

sector. SME 12 manifested a successful case in utilising digital technologies to boost its sales continuously. It combined online and off-line platforms to effectively reach its target market and expand the market further. Moreover, SMEs 10 and 11 could regain revenues after adopting e-commerce and digital marketing platforms like Facebook, Line, and Instagram.

Despite the adoption of digital technologies, SME 9 could not maintain its precrisis level of sales. SME 9 explained that its target market (low-income customers) cut their expenditure on unnecessary products (e.g., fashion items) because of the pandemic. However, this did not apply to the case of SME 10, who targeted upper-medium- to high-income customers. Thus, the target market possibly played an essential role in supporting the success of digitisation in maintaining and raising business performance.

Business Strategies Against the Pandemic

This section examines the strategies adopted by small Thai enterprises during the crisis. The enterprises responded to the crisis quickly, reflecting their agility in adjusting their operation in terms of goods and services, general operation, and technology adoption. Our analysis summarised their strategies into two areas: operational efficiency (cost optimisation, efficient resource use, and product-diversification) and digitalisation & e-commerce.

Operational efficiency

1. Cost optimisation.

In general, firms optimise their costs in terms of employment. Service sector companies promptly decided to reduce costs in internal administration and supplier management. They adjusted employment contracts from full time to part time and used more freelancers on a job basis. Similarly, retail firms cut fixed costs such as sales representatives or general employees and on-site stores. However, manufacturing firms could not reduce their employees as they were one of the leading production factors in factories. In connection to the number of workers, SMEs 1, 2, 3, and 4 addressed the difficulties in implementing social distance measures in their factories due to limited spaces and irreplaceable work positions.

2. Efficient resource use.

In addition to employment, Thai firms adopted leaner business operations during the crisis to maximise resource-usage efficiencies such as time,

people, budget, and inventory. Among all sectors, the services sector manifested the most adjustment and transformation in reducing redundant work processes. During the prepandemic period, SME 7 allocated specific tasks to subcontractors. It opted to upskill its human resources and operate those tasks by itself to save costs. Consistently, SME 9 encouraged employees to engage in multiple tasks, including on-site sales representatives and online-sale administrators. In contrast, SME 6 redesigned its business model and operational management from organiser to media production while outsourcing part of its work to freelancers. This strategy helped SME 6 cut operating costs and have a higher chance of winning bids for large-scale events and marketing campaigns.

SME 2, 5, and 8 focused on strategies regarding supply chains and logistics. SME 5 rearranged its logistic process and schedule to maximise operational efficiency and minimise operating costs. Similarly, SME 8 researched and found a new way to import its food supplies from Japan, significantly cutting the costs. On the other hand, SME 2 expanded its suppliers to improve the quality and increase the volume of its products. In addition to employment and supply chains, the manufacturing enterprises adjusted their operating system to improve efficiency. For instance, SME 3 switched to a paperless firm, while SME 2 adopted wasteless-design products.

3. Product diversification.

Besides cost and operational optimisation, small entrepreneurs reacted to the crisis through a product-diversification strategy to increase their cash flows. SMEs 3, 8, 9, 11 and 12 adopted a product-diversification strategy to promptly respond to emerging markets due to the COVID-19 crisis. For instance, SME 9 imported more products for home use, while SMEs 3, 11, and 12 sold COVID-19 preventive products such as alcohol gel and transparent plastic partition. SME 7 planned to turn the crisis into an opportunity by transforming the core business from a marketing agency to an innovative product provider (e.g., Down syndrome test kits and healthcare products).

Digitalisation

The COVID-19 pandemic, particularly the resulting lockdown and social-distancing measures, accelerated digital transformation among firms and digital-technology adoption and utilisation among consumers (Accenture, 2020; McKinsey & Company, 2020). According to Electronic Transactions Development Agency (2021), the growth of e-commerce value in Thailand rose by 6.11% in 2021,

worth THB 4,013,399 (USD 119,446). The data from established e-commerce platforms, including Lazada, JD Central, and Shopee, indicated that online merchants increased over 50% in 2020, of which 46% are brand official stores (Eukeik, 2021). In general, most business sectors went through a certain degree of digitalisation and adopted online-shopping platforms, such as e-commerce or social commerce. Dominant e-commerce platforms grew in revenue, while alternative online marketplaces such as Facebook, Instagram, and Line gained more popularity. Furthermore, logistic service providers, consumers behaviours, and electronic payment systems developed in a way that favoured e-commerce.

1. E-commerce and digital marketing.

In response to the crisis, small entrepreneurs in the retail sector utilised e-commerce and social-commerce platforms. Open-access platforms, particularly e-commerce applications, provided small enterprises opportunities to increase sales volume. Moreover, social commerce allowed enterprises to manage customer relationships while reducing marketing costs. SMEs 10 and 11 partially adopted online platforms but maintained their on-site stores as a primary marketplace even after the outbreak. On the other hand, SME 9 initially sold products online, but after the crisis, it decided to adjust its marketing strategy to direct sales through social-commerce platforms.

Live selling through social-commerce platforms is an effective channel for contacting customers directly and socially forming customers' relationships and loyalty. It also helped reduce customers' stress and loneliness caused by lockdown and social-distancing measures (Decharin, 2021; Serafini et al., 2020). SMEs 9 and 10 invested in digital equipment and programmes for live selling to boost customers' satisfaction and, in turn, sales performance. SME 9 firmly stated that digital technology and live selling helped improve sales.

Moreover, small firms in the services sector utilised digital technologies to boost sales during the crisis. The popularity and necessities of online activities, especially e-commerce and digital marketing, created a new market for firms in the services sector. Instead of on-site marketing and events, SMEs 6 and 7 (event organiser and marketing agency, respectively) opted to provide online-marketing services to their customers, which became the primary source of their income. In the meantime, SME 8 invented a new menu to sell its food through online food-delivery platforms (e.g., GrabFood).

The interview results further revealed that Thai e-commerce and social-commerce platforms were mainly driven by price competition. SME 2

stated that the price of printing services offered online by its competitors was impressively low. Thus, it opted not to join the price competition but developed other products and services. Similarly, SME 9 reported that online marketing focusing on low- to middle-income customers provided a slight margin due to the price competition.

2. Digital technology in general operation and production.

Digital communication technology was an inexpensive and effective tool to enable remote-working during the crisis. Zoom application suddenly became one of the main communication tools between firms and their customers and suppliers, while Line application improved internal communication and management within firms. For instance, SME 11 (drugstore) adopted online communication (i.e. Line) to chat with customers, responding to customers' demand for face-to-face counselling. The customers preferred to consult with a pharmacist directly and pick up products at the store. Hence, the firm had to adopt digital communication and maintain a traditional store to serve customers' needs.

Furthermore, digital communication technology helped firms ensure social-distancing measures within firms and with customers and suppliers. Respondents reported using Line, Facebook, and Zoom to replace face-to-face and in-person activities (e.g., meetings and communications) and to promote work-from-home (WFH) practice. However, some respondents, particularly those in the manufacturing sector, reported having difficulties implementing social-distancing and WFH measures due to the high costs of investment in digital technology and the nature of their work and production. For instance, even though SME 9 is a complete online store (no physical store), the stocking and delivering process still require workers to perform their tasks physically in a warehouse. SME 8 (restaurant) could not implement a WFH practice due to its services nature, while facing difficulties maintaining social distancing due to limited working space (i.e. kitchen and back office).

Higher digital technology and operational programmes positively affect firms' financial performance and product quality, particularly manufacturing firms. The manufacturing sector is the least affected in terms of demand and customers. Thus, the enterprises in this sector adopted digital marketing at a minimal level, primarily to maintain consumer awareness. Instead, digital technology played a significant role in upgrading and improving production and operation among manufacturing firms. For instance, SME 2 (printing firm) expanded its production line to include packing products by importing a printing machine with higher capacity and better technology. SME 3

(acrylic factory) was in the digital-transformation process, aiming for a digital production line and paperless office. Acknowledging the rapidly changing technology, the firm also cooperated with foreign suppliers in designing a new product.

In addition to digital communication, small firms could benefit from digitalisation through online business networking and online tax payments. Small enterprises worked closely with the OSMEP to prepare for digital transformation and connect with other SMEs through online business networks. Moreover, they also prepared to alter their accounting systems to comply with the government's e-tax and e-withholding tax project¹ to enjoy tax privileges or exemptions.

Social issues during the pandemic

1. Employment uncertainty and impacts on employees.

In response to the COVID-19 crisis, small entrepreneurs minimised the company's fixed costs, particularly employment expenditure (Kapilakarn et al., 2021). In the second quarter of 2021, the number of unemployed workers (including those who work under four hours a day) was 3.2 million, while the number of long-term unemployed workers (those who did no work over one year) was 0.15 million, threefold higher than the pre-COVID-19 figure (49,427 persons in the second quarter of 2019) (Office of the National Economic and Social Development Council, 2021). These statistics indicate the vulnerability of workers who are on a temporary contract.

Except for the manufacturing firms, most respondents decided to minimise their business costs by reducing workers or adjusting employment contracts. SMEs 5 and 9 reduced employees' wages and commissions during the lockdown period. Instead of wage reduction, SME 8 (restaurant) reduced the working hours of part-time workers. It also temporarily closed the restaurant under the second lockdown in July 2021 to cut employment and other costs. After restructuring and rebranding its business, SME 6 (digital-marketing

1 The Revenue Department of Thailand promoted the electronic tax documents (e-tax invoice, e-receipt and e-withholding tax). The system requires a specific software and digital signature to electronically deliver e-tax documents to customers and the Revenue Department. The incentives for participation are twofold, including reductions of tax and service expenses from January 1, 2020 to December 31, 2022 (Revenue Department of Thailand, 2021).

production) opted to hire fewer full-time workers and outsource part of its work to freelancers. Other respondents utilised different strategies such as pausing the recruitment of new employees and adjusting existing employees' contracts (e.g., employment type, period of employment, entitled welfare and benefits, and job description).

Due to the crisis, employees, especially those who worked for small enterprises and were under a part-time contract, faced significant job uncertainties and other issues, such as work-life balance and psychological problems. Job uncertainties included job losses, redundancy, and unguaranteed wage subsidies and compensations. For instance, Worker 1 was forced to resign with compensation or take redundancy without compensation but still hold her workplace position. She decided to take redundancy but could not afford a day without pay. Thus, she had to migrate to Bangkok to find a new job during her redundancy. Worker 3 was in a similar situation where his workplace was temporarily closed during a lockdown period, losing significant income. The loss of his income and frustration with his employer's ad hoc management and business strategies drove him to quit the firm and establish his own.

Apart from job uncertainties, psychological issues during the pandemic emerged as one of the social concerns (ILO, 2021). In general, WFH during the pandemic negatively affected workers, causing extreme exhaustion and other psychological risks. However, these adverse effects of WFH could be disproportionate, depending on gender (Meyer et al., 2021). Worker 2 felt the imbalance between work life and private life due to unclear working hours.

The interviews with workers revealed that small enterprises' agility does not always positively impact employees. As discussed (See "Cost optimisation"), small enterprises could quickly adjust their employment structure and contracts by terminating part-time workers' contracts, changing job descriptions, and reducing wages and entitled benefits during the crisis. Workers 1 and 3 experienced redundancy, while Workers 2, 3, and 4 were frustrated with their employers' ad-hoc business strategies with no backup plans or supports for employees. Worker 2 and 4 reported that they had to invest in equipment for WFH without support from their companies.

2. Gender perspectives.

The United Nations (UN) set *gender equality* as goal 5 of the Sustainable Development Goals (SDGs). Gender equality, particularly at the workplace, has been discussed and promoted for decades, but inequality still exists in every economic sector. Gender equality ensures equal opportunities for and

eliminates discrimination against women in any work position, enhancing organisations' performance. The legal advancement on gender equality in Thailand shows significant progress (e.g., the launch of the Gender Equality Act in 2015). In the private sector, the share of women in senior work positions in midmarket companies in 2019 is remarkable (32%), compared to other countries (27%) (UN Women, 2020). Consistently, our interview results manifested that female senior staff members with decision-making power existed in nine out of 12 small enterprises. However, these enterprises were family-oriented and, therefore, may have less gender bias towards their family members.

Despite the COVID-19 crisis, small enterprises in Thailand perceived, interpreted, and implemented policy measures to enhance gender equality differently. First, the manufacturing firms did not comply with gender equality due to work characteristics requiring strength. SME 1 (wood factory) admitted that there were no job opportunities for women in this industry; at least in his firm, only one female staff member was an accountant and one of the shareholders. SME 4 employed female workers without the awareness of gender equality. It hired the whole family of workers to reduce turnover risks. We also observed gender discrimination in terms of labour division, as female workers tend to be concentrated in cooking, cleaning, serving, and packaging jobs. Even though most respondents expressed that they were not concerned about gender during the recruitment process, none of the respondents had explicit policies regarding enhancing gender equality and inclusiveness at the workplace. Thus, small Thai enterprises seemed to lack awareness of gender equality and inclusiveness, which possibly hinders their business performance in the long run.

Policy Implications and Recommendations

Firm level

From our analysis, the most important characteristic of small enterprises to survive during the crisis was agility in adjusting operation, marketing strategy, products, and technology. First, small firms can adjust the overall operation to cut unnecessary costs while improving work efficiency within firms and with customers and suppliers. Depending on products and industries, the operation adjustment can be internalising operational tasks or outsourcing the tasks to a third party.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

Second, small firms can improve marketing strategies by combining traditional- and digital-marketing platforms to meet various consumer demands. The conventional-marketing platforms serve customers who are slow to adjust to changes. In contrast, digital marketing platforms (e.g., e-commerce and social commerce) meet emerging market demands and changes in consumer behaviours due to the pandemic, such as WFH and social-distancing practices.

In connection with the second recommendation, small firms can adjust their products or services in response to the crisis as threats and opportunities are two sides of the same coin. During the crisis, changes in consumer behaviours create new market opportunities. Moreover, product diversification reduces firms' losses and risks during the crisis. To ensure complete diversification, entrepreneurs need knowledge of the overall market, industry, and supply chain. For instance, some products may sell in completely different markets but share the same supply chain, putting firms' risks in the same basket.

Lastly, our analysis emphasised the importance of digitalisation. Small firms can integrate digital transformation into their core business strategies and use digital technologies to adjust their operations, marketing strategies, and products. Our respondents reported a wide range of benefits from digitalisation, such as improved revenues, effective channels for contacting customers and maintaining customer relations, enhanced communication with low costs, and promotion of WFH and social-distancing practices.

Country level

The first section (See "Policies for SMEs under the COVID-19 pandemic") shows that the government supports small firms and workers through various stimulus packages and capacity-building programmes. However, as reflected from our interviews, these support programmes did not sufficiently address problems and issues emerging from the crisis nor reach all SMEs and workers in need. The interview results also reveal market mismatches, particularly between labour demand and labour supply across different sectors. Against this backdrop, this section proposes five areas of policy implications and recommendations derived from our analysis: tailored stimulus packages addressing specific industries, strengthened social welfare for vulnerable workers, enhancement of SMEs' financial liquidity and capacity, mobilisation of labour supply to match labour demand across sectors, and promotion of gender equality.

First, the government needs to recognise the disproportionate impacts of the crisis and its policy measures (e.g., lockdown measures) and tailor stimulus packages to help specific industries or subsectors. Our analysis manifests that

the crisis affects firms across sectors differently. The services sector is the most hit by the crisis and the government policy measures, whereas the manufacturing sector is the most resilient, showing no drop in customer demand and revenues. In addition, the effects of the crisis also vary within a particular sector. For instance, in the services sector, firms where physical services or human touch are necessary (e.g., restaurants, hotels, entertainment complexes, fitness and sports centres, and spa and beauty salons) are the most vulnerable. In contrast, online service providers, such as banking, marketing agencies, and education, are rising during the pandemic.

Second, the government needs to strengthen the social welfare system, such as job security and healthcare services, for part-timers and freelancers. The crisis revealed the high risk of unfair treatment of these workers, mainly small firms. They were subject to abrupt changes in employment contracts, including wages, entitled compensations, number of working hours, employment status, and redundancy. Under the pandemic, part-timers and freelancers are also exposed to health-related risks. Nevertheless, without a stable income, they may not have access to necessary healthcare services. To minimise the impacts of the crisis, a better social-welfare system for unstable income earners is essential.

Promoting the government's one-stop services for SMEs and workers can be another solution to help SMEs and workers affected by the crisis. The respondents addressed the inconveniences of communicating with government agencies. As a result, even though the government initiated promotion and support programmes for SMEs (e.g., a programme for innovation-driven enterprises) only a few firms participated in government campaigns. For instance, in 2021, only 6% of SMEs utilised the SME One-Stop Service Centre (OSS, OSMEP 2021). Moreover, public communication and information distribution of government campaigns were inadequate. Therefore, the relevant state agencies should concentrate more on connecting with small entrepreneurs and workers.

Third, despite their agility and resilience, the crisis emphasised the vulnerability of SMEs in terms of limited financial and human resources, urging the government to increase SMEs' financial liquidity and offer capacity-building programmes even before the crisis. The government may provide reskilling and upskilling training programmes such as e-commerce, social commerce, digital marketing, and digital technology to enhance SMEs' technological capacity since digitalisation potentially helps improve SMEs' business performance, particularly during the crisis. Moreover, new digital innovation (e.g., crowdfunding platforms) can raise SMEs' financial liquidity, contributing to greater SMEs' resilience against crises.

The government should urgently establish an accessible innovation and digital-technology training centre for SMEs and individual workers to enhance digital literacy and capacity. Despite the growing global digitalisation trend, Thai SMEs cannot afford to invest in advanced digital technology and rely only on free and simple digital technology such as digital communication and marketing platforms. The government may also subsidise SMEs for digital transformation or offer an incentive programme for SMEs taking the initiative in this area.

Fourth, the government can mediate and mobilise labour supply to match labour demand across sectors. Our analysis highlights the mismatch between demand and supply of labour. Workers in the services sector tended to lose their jobs during the current crisis, while SMEs in the manufacturing sector faced a labour shortage. To smooth our labour mobilisation, the government may also facilitate the job transition of workers across sectors through short training programmes so that they can acquire the necessary skills to work in a particular sector.

Fifth, the government must raise awareness of gender equality and inclusiveness at the workplace among SMEs and general citizens. The interview results point out that small Thai enterprises lack awareness and understanding in this area. None of the respondents had a concrete policy regarding gender equality, while gender segregation based on job types still existed. It is crucial for all stakeholders, especially policymakers, to mainstream gender into relevant economic and social policies to promote gender equality (Korwatanasakul, 2020).

Conclusion

The COVID-19 crisis caused adverse impacts on Thai SME business performance together with the sudden changes in consumer behaviours, posing both opportunities and challenges to small enterprises. After the outbreak, small enterprises reported a sharp decline and slow recovery in their income, particularly those in the services sector. The analysis shows that the effects of the crisis are disproportionate across different sectors, subsectors, product types, and target markets.

This chapter also illustrated that agility is the most important characteristic of small enterprises to survive during a crisis. Firms that quickly adjusted their operations, products and services, marketing strategies, and technologies in response to emerging market demands and changes in consumer behaviours due to the crisis demonstrated favourable business performance. Furthermore, this chapter draws Thai SMEs' business strategies from the interview results and summarises them into two areas, operational efficiency and digitalisation. Operational efficiency primarily involves cost optimisation, efficient resource

use, and product diversification; while digitalisation covers e-commerce, social commerce, digital marketing, and digital innovation for production. These strategies improve small enterprises' operational efficiency, market expansion, and customer relations.

Even though SMEs' agility is the key to business success, it may negatively affect employees, especially those with part-time or project-based contracts. During the crisis, SMEs commonly resort to a cost-optimisation strategy to reduce operational costs, largely from employment. Thus, when small firms have difficulties maintaining their businesses, part-time employees are the most vulnerable group subject to layoff or redundancy.

Finally, based on our analysis, this chapter proposes policy implications and recommendations at the firm and country levels. At the firm level, in response to the crisis, small enterprises are encouraged to adjust their overall operations, improve marketing strategies, develop products and services, and adopt digital technologies in their core businesses. On the other hand, the government must focus on the following five policy areas to help SMEs survive the crisis: tailored stimulus packages addressing specific industries, strengthened social welfare for vulnerable workers, enhancement of SMEs' financial liquidity and capacity, mobilisation of labour supply to match labour demand across sectors, and promotion of gender equality.

This chapter is an initial stepping stone for contributing to more solid findings on the impact of the COVID-19 crisis on Thai SMEs' business performance and their responding strategies. Future research may complement our findings with a larger pool of quantitative data and rigorous quantitative analyses. Moreover, research on specific firm-level employee and gender policies potentially benefits SMEs in the long run and, in turn, economic and social development in the postpandemic world.

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COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

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3

Japan
Case Study

List of Abbreviations

GDP	Gross domestic product
ILO	International Labour Organization
JETRO	Japan External Trade Organisation
OECD	Organisation for Economic Co-operation and Development
SMEs	Small- and medium-sized enterprises
WFH	Work-from-home

Japanese SMEs and their Business Strategies in Response to the COVID-19 crisis

This chapter looks at the evidence of the impacts of COVID-19 on Japanese small- and medium-sized enterprises (SMEs). It illustrates differing degrees of agility, resilience, innovation, and digitalisation depicted from 13 interviews conducted with Japanese SMEs across Japan, with most respondents based in metropolitan areas such as Tokyo. Given the fast-changing nature of the pandemic rules and circumstances, this research concludes that flexible SMEs that act fast, particularly in terms of digital-technology adoption and transformation, can regain the business momentum and even grow in the time of crisis. This chapter concludes by proposing a set of firm-level and country-level policy implications and recommendations to prepare Japanese SMEs for the new normal era.

Importance of SMEs in Japan

According to the Small and Medium Enterprise Agency (2021b), roughly 99.7% of the companies in Japan are SMEs. They contribute to over 60% of the national gross domestic product (GDP) and 70% of the regional GDP, considered one of the Japanese economic driving forces. SMEs also support over 30 million employees—nearly 70% of the entire workforce. Small and Medium Enterprise Agency (2021a) defines SMEs based on industries, the amount of capital, and the number of employees. Table 1 illustrates the SME criteria.

Table 1. Definition of SMEs

Industries	SMEs		Small-scale enterprises
	Capital (million JPY/ USD)	Full-time employees (persons)	Full-time employees (persons)
Manufacturing, construction, transport and others	Below 300/2.64	Below 300	Below 20
Wholesale	Below 100/0.88	Below 100	Below 5
Services	Below 50/0.44	Below 100	Below 5
Retail	Below 50/0.44	Below 50	Below 5

Note: Amounts in USD are estimated.

Source: Small and Medium Enterprise Agency (2021a).

The magnitude of business concerns in Japan has escalated, particularly among SMEs. The Bureau of Industrial and Labour Affairs (Tokyo Metropolitan Government) revealed that the pandemic affected 63.5% of SMEs in Tokyo. Among the industries, the most negatively affected in the business operation continues to be retail at 73.3% in October 2021 (9% reduction from the previous month), followed by wholesale (68.3%), manufacturing (57.4%), and services (56.8%). The repayment burden, debt divided by core business profits, worsened at the end of March 2021 to a level not seen since the Lehman crisis of 2008 (Nikkei, 2021). The debt of small businesses exceeded JPY 50 trillion, and the majority of interest-free and unsecured institutional loans will begin to be repaid by the end of 2022.

Policies for SMEs under the COVID-19 pandemic

The Japanese government announced a series of support measures financing SMEs in tourism and other industries significantly affected by the outbreak. The range of support measures specific to labour included partial redundancies, wage subsidies, and subsidies for the self-employed. Secondly, it allowed deferred payment for income tax, rent, and utilities. Thirdly, it provided three types of financial support from loan guarantees, direct lending, and grants to subsidies. Structural policies in place were for new markets, teleworking and digitalisation, innovation and training, and redeployment. In particular, the initiatives by the private sector also came in tandem, as fintech companies providing crowdfunding

platforms in Japan began to support credit to pandemic-hit SMEs, and makers of office equipment also helped SMEs with the process of digitalisation (OECD 2021; Sato et al., 2020). The government's measures for SMEs during the pandemic assisted corporate bankruptcies to remain minimal (Nikkei, 2021). As of October 20, 2021, the Japanese government provided seven welfare schemes and 19 support schemes for sustaining business operations and employment (Cabinet Secretariat, 2021).

Data and Research Methods

This study explores the pandemic impact as well as the immediate and long-term strategies of SMEs in Japan. Thus, it aims to address three main research questions: (1) assessment of the business agility, innovation and resilience of SMEs 12-16 months into the pandemic, (2) the shift in the way SMEs work, and (3) the extent of diversity and inclusiveness impacted by the pandemic. To answer these questions, this study uses quantitative and qualitative data drawn from interviews with 13 leaders (founders, managing directors, and board members) of small enterprises aged 30-69 years between July to October 2021. We interviewed all respondents online due to the COVID-19 situation. Each interview lasted for 40 - 90 minutes, with a semistructured questionnaire enabling them to share their narratives that encompass qualitative aspects of data needed in the research. Respondents were sourced based on the professional network of researchers, while, where necessary, snowball sampling was employed. Interviews were recorded with the interviewees' permission, transcribed, and analysed manually. Respondents were predominantly from the Tokyo Metropolitan Area, with a few cases from other large cities, including Nagano, Ishikawa, and Hiroshima, where SMEs considerably support the local economies. This research relies on interviews as the data source, supplemented by government whitepapers, documents, reports, and news articles available online. The analysis proposes possible policy formulation relevant and appropriate to the current economic circumstances of SMEs as well as the national economic landscape in Japan. Table 2 provides a summary of the basic characteristics of the respondents and their SMEs.

Table 2. Summary of the basic characteristics of the respondents and their SMEs

Code	Gender	Age	Location	Year of establishment	Business type	Goods/ services	Number of employees	Current position
SME 1	Male	46	Tokyo	2019	Services	Videography	10 (4 permanent)	Representative director
SME 2	Male	41	Tokyo	2012	Services	Karate ground	5	Head of dojo
SME 3	Male	45	Tokyo	2000 (Ikebukuro) 2007 (Iidabashi)	Services	Language school	80 (8 permanent)	Representative (Iidabashi) /Headmaster (Ikebukuro)
SME 4	Female	31-40	Tokyo	2017	Services	Restaurant	6 (1 permanent)	Managing Director
SME 5	Male	61-	Nagano	2002	Manufacturing	Coffee roastery	4 (3 permanent)	Founder/ Executive director
SME 6	Male	61-	Ishikawa	1914	Manufacturing	Pottery	5 (2 permanent)	Managing director
SME 7	Male	47	Tochigi	2020	Manufacturing	Eggs and related products	40	Managing director
SME 8	Female	31-40	Tokyo	2018	Manufacturing	Garment and bags	3 (1 permanent) + out-sourced staff	Founder/ Executive director

SME 9	Female	41-50	Tokyo	2006	Wholesale and retail trade	Clothes	5	Founder/ Board member
SME 10	Male	45	Hiroshima	1983 (Personal business) 2002 (Company)	Wholesale and retail trade	Agricultural products	30	Executive director
SME 11	Female	51-60	Hyoko (Kobe)	2019	Wholesale and retail trade	Fashion and jewellery	2 + outsourced staff	Representative director
SME 12	Male	38	Hyoko (Kobe)	1997 (Personal business) 2004 (Company)	Wholesale and retail trade	Beads	6 (5 permanent)	Representative director
SME 13	Female	41-50	Chiba	2016	Wholesale and retail trade	Natural stones accessories	1	Representative director

The Impacts of COVID-19 on Business Performance

This section describes the effects of COVID-19 on business performance. The initial interview question asked the respondents to compare their current business situation with the prepandemic situation. We allowed the respondents to freely respond to the questions while later requesting them to report on a set of key performance indicators, including revenues, assets, customers, and suppliers.

Overall, we found that the effects of the COVID-19 on business performance are uneven within and across sectors, depending on the nature of product and services, pre-COVID-19 target markets, level and timing of digitalisation, location of suppliers (domestic versus overseas), and government policies. Moreover, Japanese SMEs are resilient and agile, potentially due to the adoption of digital technology in response to the crisis. Table 3 summarises the impacts of the COVID-19 on the business performance of our respondents, and the detailed discussion of our six findings is as follows.

Table 3. The impacts of the COVID-19 on business performance

	Services		Manufacturing		Wholesale and retail trade	
Revenue	1	Increase	5	Increase	9	Decrease
	2	Decrease → increase	6	Decrease	10	Decrease
	3	Decrease	7	Decrease	11	No change
	4	Decrease	8	n/a	12	Decrease
					13	Decrease
Customer	1	Increase	5	Increase	9	Decrease
	2	Decrease → increase	6	Decrease	10	Decrease → increase
	3	Decrease	7	Decrease → increase	11	n/a
	4	Decrease → increase	8	n/a	12	Decrease
					13	Decrease

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

Asset	1	Increase	5	No change	9	No change
	2	Increase	6	No change	10	No change
	3	No change	7	No change	11	No change
	4	No change	8	No change	12	No change
					13	No change
Worker	1	Increase	5	No change	9	No change
	2	Increase	6	No change	10	No change
	3	Decrease (only part time)	7	No change	11	No change
	4	No change	8	No change	12	No change
					13	No change
Supplier	1	n/a	5	No change (foreign)	9	New (domestic)
	2	n/a	6	No change (domestic)	10	No change (domestic)
	3	n/a	7	No change (domestic)	11	No change (foreign)
	4	No change (domestic)	8	No change (foreign)	12	No change (domestic)
					13	New (domestic)

Note: *n/a* = not available; → **increase** = increase to the level that is almost equal to or greater than the pre-COVID-19 period

First, regardless of sector, most SMEs explained their struggles started either during the second wave or even before the COVID-19 pandemic and reported that they experienced a drop in sales or losses. In response to the second wave, the government declared a state of emergency on April 7, 2020, encouraging people to stay home and keep social distancing, resulting in limited economic activities, especially those in the services sector. Nevertheless, the pandemic's impacts are uneven across different sectors. Initially, SMEs in the services sector seem to suffer the most due to lockdowns and social-distancing policies (Iwamoto et. al, 2021; Japan Research Institute, 2021; Nomura Research Institute, 2020). During the pandemic period, the government strongly requested service providers such as restaurants, sports clubs and gyms, educational centres, and other recreational facilities to temporarily close their businesses and, later, shorten business hours, resulting in a sharp drop in their revenues (JETRO, 2020).

Second, against general notions, three respondents (SMEs 1, 2, and 5) declared that their sales increased during the COVID-19 pandemic. Even though SMEs 1

and 2 are from the same sector (the services sector), their revenues patterns are somewhat different due to the timing of digitalisation introduced in their operation. In contrast, like other SMEs in the services sector, SME 2 first experienced a drop in sales as it had to close its karate school temporarily. While it maintained on-site classes, it quickly adopted digital technology (e.g., Zoom application) to offer a new service, online karate classes. The new service partly contributed to an increase in its sales after the school resumed its operation.

On the other hand, SME 1 was transitioning from an analogue-services provider to a digital-services provider just before the COVID-19 pandemic began. The pandemic accelerated the transition process, resulting in the firm's readiness to serve the current market demand, such as online-meeting services and seminar broadcasting. Thus, SME 1 could enjoy higher sales three to four times greater than before COVID-19. Similarly, SME 5 adopted an online-sale platform several years before the pandemic. Thus, it could keep the business running even under lockdowns. The lockdowns and work-from-home (WFH) regime induced a sudden change in consumer behaviours (ILO, 2020; McKinsey & Company, 2020a). People stayed home longer and spent more time online shopping, seeking products that offered relaxation and satisfaction at home, such as quality coffee, food delivery, room fragrance, and WFH-related products (Accenture, 2020; McKinsey & Company, 2020b). The product of SME 5 (roasted coffee beans) responded to the surging market demand due to the lockdowns and WFH. Therefore, the timing of digitalisation or innovation and agility in responding to the current market demand (e.g., online services and products used at home) potentially determine SME business success during a crisis.

Third, most respondents also reported a drop in the number of customers. Similar to revenues, the pandemic also affected the number of customers across sectors differently. The decline was temporary for over a quarter of respondents (SMEs 2, 4, 7, 10, and 13) but long lasting for others. SMEs 2, 4, 7, 10, and 13 have been targeting domestic customers since the pre-COVID period. Even though the number of customers has not returned to the pre-COVID level, SME 13 stated that the sales figure was improving. We also observed SMEs (SMEs 1 and 5) that experienced more customers during the COVID-19 pandemic. Therefore, half of the respondents could draw customers back to the level that could sustain their business or surpass the precrisis level, demonstrating resilience during the crisis. In contrast, SMEs 3, 6, and 12 were still facing challenges regaining customers. Their target market were foreign tourists looking for Japanese souvenirs (SMEs 6 and 12) or people planning to study or work abroad (SME 3). Under the travel bans, the SMEs found it challenging to secure the same targeted customers, forcing them to search for a new target market.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

Fourth, despite a drop in sales, most respondents revealed their resilience through the constant assets and employment levels before and after the COVID-19 outbreak. Two of three SMEs (SMEs 1 and 2) that generated positive revenues increased their fixed assets in terms of digital equipment. The new equipment served the purposes of either meeting the increasing market demand or expanding the target market. No respondents reported an increase in financial and intangible assets. Regarding employment, SMEs with a reduction in sales maintained the same number of permanent staff members but reduced the number of working hours or days (SMEs 6 and 12) or part-time workers (SME 3). In contrast, SMEs (SMEs 1 and 2) with increased sales hired more permanent and part-time workers to meet the sharp increase in the market demand.

Fifth, the COVID-19 pandemic seems to aggravate the business performance of SMEs in a particular sector. SMEs 10, 11, and 12 from the wholesale and retail trade sector did not perform well before the pandemic. They attributed economic stagnation and natural disasters affecting suppliers to be behind their poor performance, manifesting a high degree of vulnerability compared to other sectors. The Japanese economy has been in a period of economic stagnation for the past three decades, known as “Lost Decades,” while experiencing a series of natural disasters since 2011, namely earthquake and tsunami in Tohoku and Kumamoto and heavy rains and mudslides in Hiroshima and Shizuoka (Fukao, 2010; Yoshino & Taghizadeh-Hesary, 2015).

Sixth, SMEs dealing with foreign suppliers faced more supply-chain disruptions than those utilising domestic suppliers. Respondents using domestic suppliers reported no delay and disruptions of their supply chains and, therefore, no change of their suppliers. However, SME 4 pointed out that it requires more effort than before to secure food ingredients. For instance, during the pre-COVID period, SME 4 could buy ingredients at a market without prior requests to its suppliers, but because of the COVID-19, it had to inform its suppliers in advance to get ingredients.

Despite higher costs, two respondents using foreign suppliers (SMEs 9 and 13) reported gradual shifting from foreign suppliers (e.g., China, Indonesia, and the Philippines) to domestic suppliers (Japan) due to disruption of goods. In contrast, SMEs 5, 8, and 11 claimed no issues (e.g., delay and disruption) dealing with foreign suppliers from Indonesia and Thailand and, therefore, continued sourcing from the same foreign suppliers as before. SME 8 explained that the COVID-19 pandemic in Indonesia did not affect its suppliers as they implemented a remote-working strategy, allowing workers to produce goods (hand-made garments and bags) from home. SME 11 positively viewed the pandemic as an excellent

opportunity to work with Thai suppliers more efficiently. Communication technology allows it to connect with Thai suppliers anytime and to expand a supplier network. However, SMEs 8, 11, and 13 (fashion retailers) expressed difficulties with product inspection through online communication. Generally, fashion products (e.g., clothes and accessories) require physical checks, such as colour, shape, texture, and other small details, but online communication is inadequate to convey these aspects so as to ensure product quality.

Business Strategies in Response to the COVID-19 Crisis

This section discusses the interview questions about business strategies in response to the COVID-19 crisis through the basic marketing-mix framework, 4Ps: product, price, place, and promotion. It further explores how SMEs make decisions during the crisis, including their reactions towards various government support, changes in work practices, and perceptions towards diversity and inclusiveness in the workplace, particularly gender and people with disabilities.

Marketing mix

1. Product: Implementing digitalisation and product enhancement.

Through product and services development, Japanese SMEs promptly responded to the current market demand emerging from the COVID-19 pandemic and government policy responses against the pandemic. SMEs' business strategies varied among different sectors, depending on the nature of their products (tangible versus intangible). On one hand, digitalisation of services and internalisation of COVID-19 prevention into services were the most commonly used strategies among SMEs in the services sector. On the other hand, SMEs from the manufacturing, wholesale, and retail sectors focused on their products' quality, experience, and value enhancement.

In addition to existing physical services, SMEs 1, 2, and 3 started offering online services to serve the newly emerging market demand (e.g., online classes and virtual meetings) induced by the pandemic and the government policy responses. In response to the government's requests for social-distancing, individual and corporate consumers adopted preventive behaviours, such as WFH and refraining from going out to, and conversing in, public spaces. Compared to physical services, online services occupied a larger share in SMEs 1 and 3. In contrast, SME 2 still provided a minimal level of online services, as it had limited capacities to follow the unexpected rise in market demand. However, after the pandemic, all respondents planned to expand their online services while maintaining the physical ones.

Even though SME 4 (restaurant) could not provide online services due to its services nature, it employed a different product-development strategy (i.e. internalising COVID-19 prevention into services). Rigorous sanitisation, setup of partitions between tables, placement of hand sanitisers on each table, and suspension of serving alcoholic drinks allowed SME 4 to offer services that guaranteed *safe interactions* among customers. Likewise, SME 3 (language school) also utilised similar measures to internalise COVID-19 prevention into its services. In addition, SME 3 digitalised their textbooks, allowing students and teachers to use them online to reduce physical contact and enhance social distancing within the school.

In contrast, quality, experience, and value enhancement were the primary product-development strategies among manufacturing, wholesale, and retail trade respondents. SMEs 5, 7, and 10 emphasised the quality of their existing and new product lines. They stated that the key to business success was superior product quality that differentiated their brands from competitors and, in turn, yielded word-of-mouth publicity. On the other hand, more than half of respondents enhanced customers' product and supplementary-services experience. SME 9 added a new product line of loungewear, responding to the emerging trend of WFH. SMEs 5 and 8 improved their logistic system and prioritised prompt delivery of goods, avoiding the global supply-chain disruption. Better logistics guaranteed customers' satisfaction, which is highly associated with product experience (Jie et al., 2015; Zhang et al., 2005). Furthermore, SMEs 5 (roasted coffee beans), 10 (agricultural products), 12 (beads), and 13 (accessories) allowed a certain level of product customisation, enhancing customers' product experience.

2. Price: Raising functional and monetary values.

SMEs viewed a price strategy as the least relevant strategy during the time of crisis. According to the interview results, none of our respondents *explicitly* implemented pricing strategies, such as discounts and flexible payment terms. SME 6 *implicitly* adopted a price strategy under its promotion strategy. It developed an online-shopping platform offering a membership subscription that benefits members, including new promotions and point-based discounts. SMEs 3 and 10 expressly stated that they did not consider adopting a price strategy during the crisis. Instead, most respondents focused on other marketing-mix elements (i.e. product, place, and promotion), a cost-cutting strategy (e.g., reduction of fixed costs), and acquisition of government subsidies to maintain their profits.

Nevertheless, a scope of a price strategy may include considerations of customer perceived value (Sánchez-Fernández & Iniesta-Bonillo, 2007). As discussed in the previous section, SMEs in the manufacturing and wholesale- & retail-trade sectors highlighted the importance of quality, experience, and value enhancement, raising their products and services' functional and monetary values. For instance, SME 10 expressed that increasing the value of its brand would determine business success.

3. Place: Balancing off-line and online businesses.

Japanese SMEs' place strategy mainly pertained to creating and utilizing virtual space for domestic and international market expansion, facilitating customer access to products and services during the COVID-19 pandemic. In addition, online retailing or e-commerce helped manufacturing SMEs cut costs incurred in managing intermediaries (Chircu & Kauffman 1999; Andonova, 2003). According to Table 4, SMEs 1, 2, and 3 delivered their services through the Zoom application, while the rest offered an online-shopping experience through their websites or other digital platforms, including Line, WhatsApp, and WeChat. Most respondents (12 out of 13 SMEs) adopted online platforms to either expand their domestic market or penetrate overseas markets (e.g., Germany and Taiwan). Even though all respondents adopted digital marketing before the COVID-19 outbreak (see Section 4. "Promotion"), three-fourths of respondents employed online services and shopping platforms *after* the COVID-19 outbreak, indicating the role of the pandemic in accelerating SMEs' level of digital-technology utilisation. Through online shopping platforms, SMEs could also focus on a particular segment within the domestic market. For example, SME 9 aimed to expand its target market to a rural area in Japan, as it saw the growing online shopping trends in the rural areas of China and Taiwan). Due to a sharp drop in demand from retailers, SME 12 tried to reposition itself to somewhere between a wholesaler and a retailer to attract more individual customers.

Table 4. Online platforms and market-expansion strategies

	Platform	Before/after the COVID-19 outbreak	Continuation after COVID-19	Market-expansion
SME 1	Zoom	Before	Yes	Domestic
SME 2	Zoom	After	Yes	Domestic & foreign (Germany)
SME 3	Zoom	After	Yes	Domestic
SME 4	n/a	n/a	n/a	n/a
SME 5	Online shopping	Before	Yes	Domestic
SME 6	Online shopping	After	Yes*	Domestic & foreign
SME 7	Online shopping	After	Yes	Domestic
SME 8	Online shopping	Before	Yes*	Domestic
SME 9	Online shopping	After	Yes	Domestic (rural) & foreign (Taiwan)
SME 10	Line	After	Yes	Domestic
SME 11	Online shopping	After	Yes	Domestic
SME 12	Online shopping & Line	Before	Yes	Domestic (Wholesaler → retailer)
SME 13	WhatsApp & WeChat	After	Yes*	Domestic

Note: *n/a* = not available; **online shopping** = online shopping website; * = prefer physical distribution channel

SMEs implemented a place strategy of cyberspace and a digital promotion strategy that utilised the mixed use of conventional and digital advertising channels (see Section 4. "Promotion"). Except for SMEs from the services sector (SMEs 1-4), all respondents combined their digital advertising channels with online-shopping platforms, accelerating customers' decision-making process, particularly during the pandemic (Gu et al., 2021). More than three-fourths of respondents promoted and sold their products on their websites, while SMEs 10 and 13 advertised their products through social networking

services (SNS), namely Line, WhatsApp, and WeChat, and allowed their customers to order the products through these applications. In addition to online-shopping platforms, SMEs 10 and 12 still utilised traditional communication channels such as fax and voicemail for order taking, implying the importance of combining conventional and digital platforms to serve Japanese consumers.

In the post-COVID-19 world, SMEs are likely to maintain their off-line and online businesses. All respondents firmly resolved that they would continue adopting e-commerce despite high uncertainty during the crisis. They saw changes in consumer behaviour favouring online shopping, contributing to the growing market demand in e-commerce. However, a few firms (SMEs 6, 8, and 13) preferred having more physical contact with their suppliers and customers since their products (i.e., pottery and fashion items) require physical experience that online shopping cannot offer.

Nevertheless, four SMEs (SMEs 2, 3, 4, 12, and 13) still adopted a place strategy dealing with physical locations since they could not fully provide their services through online platforms. Most service providers (three out of four respondents) continued offering their services in person due to the services nature and customers' preferences. SME 2 (karate school) opened two new dojos in physical locations to respond to the increase in demand and offer better customer access. SMEs 3 and 4 set up preventive tools (e.g., partitions and alcohol-based sanitisers) and modified their places' layout to provide a COVID-safe environment to their customers, improving customer access and convenience. On the other hand, SME 12 plans to create a small creative space in its store for individual customers to display their products made from SME 12's materials. With its promotional strategy, this distribution (place) strategy enhances SME 12's distribution channels by reducing SME 12's image as a wholesaler and expanding its target market to include more individual customers. Similarly, SME 13 planned to take advantage of opportunities such as physical expo to provide the experience of physical "touch" on their accessory products for customer satisfaction.

4. Promotion: Utilising digital marketing.

In general, digital advertising was the primary promotional strategy among SMEs since the pre-COVID-19 period. They also employed digital innovation for customer engagement and customer-relation management, highlighting the importance of digital technologies. Even though SMEs have been using digital technologies in promotional strategies prepandemic, the COVID-19 crisis significantly accelerated SMEs' level of digital-technology utilisation.

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

The pandemic also escalated consumers' adoption and utilisation rates of digital technology, shaping what we call the "new normal" (Accenture, 2020; McKinsey & Company, 2020b). According to Statista (2021), 79.7% of the Japanese population used e-commerce in 2021, while the e-commerce market itself grew 10.5% in 2021 (GlobalData, 2021). McKinsey & Company (2020b) found that Japanese consumers expect to shop online more than they did in the precrisis period, with the estimated maximum growth of 14% for food and grocery, apparel, household, and entertainment products and services. This new normal, in turn, influenced SMEs' future behaviour to continue utilising digital technologies in their business activities.

Table 5 shows that SMEs shifted their advertising channel from conventional to digital ones. All respondents claim that they have used digital technologies in promotional strategies since the pre-COVID-19 period and will continue using these in the future, even after the pandemic ends. Digital advertising, together with their place strategy, helped SMEs expand their target market domestically and internationally during the crisis. Moreover, some respondents revealed their concerns over the costs of conventional advertising, which comprised a significant portion of fixed costs. For instance, SMEs 3 and 4 substantially reduced the number and frequency of conventional advertisements under a cost-cutting strategy in response to the current crisis. Therefore, market expansion and cost reduction were the main motivations to raise the proportion of digital advertising channels in SMEs' promotional mix.

Table 5. Digital- and conventional-advertising channels

	Digital advertising						Conventional advertising
	Web-site	Insta-gram	Face-book	You-tube	Twit-ter	Online direct message	
SME 1	✓	✓	✓	✓	✓		
SME 2	✓	✓	✓				Flyer & newspaper
SME 3	✓		✓	✓	✓		
SME 4	✓	✓	✓		✓		Window display
SME 5	✓						
SME 6	✓					Email	
SME 7	✓	✓	✓	✓		Email	Newspaper & TV commercial

SME 8	✓	✓	✓				
SME 9	✓	✓	✓			Line	
SME 10		✓					
SME 11	✓	✓					
SME 12	✓	✓	✓	✓		Line	
SME 13						WhatsApp & WeChat	

Depending on a target market, SMEs used different promotional mixes varying in the ratio of digital- and conventional-marketing channels. In general, SMEs employed at least one kind of digital advertising, of which websites were the most common (digital) channel (ten out of 13 respondents). However, SMEs 2, 4, and 7 showed the mixed use of digital and conventional channels (e.g., flyers, store-window displays, newspapers, and television commercials). They utilised conventional-marketing channels to reach targeted customers in their neighbourhood or the same local area. Salathong and Korwatanasakul (forthcoming) found that localised conventional-communication tools, such as local newspapers, local television programmes, and bulletin boards, are more effective in reaching local people than digital-marketing tools. As a result of the current promotional mix, SME 2 reported an increase of approximately 30 students after the lift of the first state of emergency. Similarly, SMEs 4 and 7 recently experienced a gradual rise in the number of customers (Table 3).

Apart from websites, SMEs advertised their products and services through a combination of social media platforms, such as Instagram, Facebook, YouTube, Twitter, Line, WhatsApp, and WeChat. SMEs could link these platforms to their online-retailing (place) strategy (Section 3. Place), allowing customers to make a direct purchase through online-shopping platforms. Instagram and Facebook were the most used platforms (three-fourths of respondents), whereas social network services delivering online direct messages, such as Line, WhatsApp, and WeChat, were the least favoured. Table 5 also manifests that SMEs from the services sector were the tech-savviest. They could fully utilise a wide range of digital-advertising channels, with an average of 4 channels. In contrast, SMEs' average number of digital media in the manufacturing sector and the wholesale and retail sector were 2.8 and 2.6, respectively.

SMEs' decision on a promotional mix also depends on their production and human-resource capacities in response to the market demand. Despite the growing popularity of digital marketing, a quarter of respondents (SMEs 5, 6, 10, and 13) kept the number of digital-marketing channels at the minimum level (1 to 2 channels). The common characteristics of these SMEs were small-scale businesses with limited production and workforce capacities. SMEs 5, 10, and 13 only focused on existing customers who already knew their website or had direct contacts such as email, WhatsApp, and WeChat. SME 5 stated that 90% of its customers were regular customers, and it was impossible to receive more customers and deal with a higher volume of orders.

Decision-making

In general, most respondents were sole decision-makers, utilising the benefit of being small to act fast in a time of crisis. They agreed that agility and resilience were the keys to success as the crisis caused sudden changes in consumer behaviours as well as government regulations. Nevertheless, all respondents reported that the COVID-19 crisis did not change the manner of decision-making and informal and formal business consultation. They developed and maintained an ability to make ad hoc decisions in responding to uncertainties despite the crisis. As to availing consultation, respondents made decisions about business strategies in consultation with either a business association, a consulting firm, a family member, a government agency, a management team, their staff members, or a combination of them.

We also observed common entrepreneurial mindsets among the respondents of SMEs that were relatively successful in terms of revenues and the number of customers during the COVID-19 pandemic (SMEs 1, 2, 5, 7, and 10). Apart from being agile and resilient, the successful entrepreneurs were forward looking. SMEs 1 and 5 could constantly raise sales during the crisis. Their success possibly came from the precrisis digitalisation of their businesses, implying forward-looking decision-making. With this characteristic and mindset, they were well prepared for adverse unforeseeable circumstances and positive future trends. Forward-looking entrepreneurs (SMEs 1, 2, 5, 7, and 10) also put their efforts into product and service improvement rather than worrying about government support and other issues related to the current crisis. Furthermore, the successful entrepreneurs possessed other entrepreneurial traits, such as open-mindedness, persistence, and self-motivation. They repeatedly went through trial and error while building their business upon their personal work experience.

1. Work practices during the crisis.

In response to the COVID-19 pandemic, all SMEs reported that they enforced basic preventative measures in their back and front offices, such as mask-wearing policies, social-distancing measures, regular disinfection, and surveillance of Body-temperature. Mask-wearing behaviour became mandatory for both employees and customers, while hand disinfection was another new normal. Body-temperature measurement was also necessary before entering services-providing areas, meeting rooms, and offices. In addition, SMEs encouraged their workers to disinfect equipment and working spaces frequently.

In implementing social-distancing measures, SMEs adopted various interventions, broadly categorised into a *time strategy* and a *tool strategy*, depending on the nature of their products and services. A time strategy involves a shift-work system, a flexible-working-hours policy, WFH, and reduced working hours. On the one hand, SMEs from the services sector tended to adopt a combination of a shift-work system and reduced working hours. To maximise benefits for their firm and workers, they reorganised working-shifts based on three concerns: space and capacity, government-subsidy requirements, and the government's request for shortened business hours. The working-shifts reorganisation was primarily aimed to reduce physical contact among workers. It also helped workers receive a government-subsidy if the reorganisation resulted in a sufficient reduction of working days. In addition, the reorganised working-shifts responded to the government's request to shorten business hours, particularly restaurants. By complying with the request, SMEs qualified to receive a government-subsidy.

On the other hand, SMEs from other sectors utilised or tried to use WFH and flexible-working-hours policies. However, approximately half of them faced difficulties in implementation, particularly those from the manufacturing industry. SMEs 5-7 found it difficult to fully implement WFH since their workers had to use machines and equipment in their offices or factories to produce goods. SME 12 faced difficulties in processing customers' orders through WFH. There were also concerns over on-the-job training and employee monitoring. Therefore, SMEs combined partial WFH with flexible-working-hours systems to reduce physical contact among their workers while maintaining work quality.

In addition, SMEs employed a tool strategy to supplement the time strategy. The tool strategy fundamentally refers to digital tools to facilitate WFH and help reduce physical contact among workers, suppliers, and customers.

The tool strategy may also involve physical tools. For instance, SME 3 (language school) and SME 4 (restaurant) placed partitions between tables as a social-distancing measure. As discussed in the marketing-mix section, SMEs employed digital technologies in all marketing-mix elements, partially allowing workers to perform their tasks remotely. Online meetings and SNS applications were the most common tools used to communicate internally and externally. These communication platforms improved work efficiency in terms of better time management, such as easier meeting arrangements, reduced travel costs and time, and shorter hours of business meetings. They also offered more opportunities to access foreign input and labour markets, permitting SMEs to work with foreign workers and suppliers with a higher cost-performance ratio. However, respondents also reported limitations of the digital tools. The inability of physical touch compromised product-quality control over suppliers and the product experience of customers. Some respondents believed that physical meetings built closer relations among workers, suppliers, and customers and, in turn, led to a better work environment and business deals.

2. Government subsidies.

As briefly described in the introduction, there are 19 types of government assistance in Japan related to business and employment. Out of 13 interviewees, 54% or seven received some forms of subsidies, including employment-adjustment subsidies, National Sustainability Subsidy, 3-year subsidy for business succession, emergency-rental-assistance subsidy, business-resumption subsidy, one-off-temporary-support subsidy, and subsidy for SMEs that temporarily close the business as a response to the state of emergency. One interviewee (SME 12) received seven types of subsidies to ensure short-term business maintenance.

All seven applicants who received subsidies struggled to obtain information solely from the government websites, which commonly use jargon not immediately comprehensible to business persons. Hence, it takes time just to assess their eligibility. SME 4 struggled, as the links bookmarked in advance no longer worked to reapply or for further information. SME 4 asserted that restaurants should not be deemed the same as pubs and nightclubs, where there will be more close physical contact in the latter due to alcohol consumption. SME 3 pointed out the phone number provided for inquiries was too busy to reach. SME 11 found it too competitive to obtain assistance.

A significant highlight is the breadth of individual or business strategies for government-subsidy applications that determine the chance of being granted

such benefits. Respondents employed at least one of the five strategies to acquire the government subsidies: (1) checking social media such as tweets of those in the same field or industry, (2) viewing YouTube video clips of accountants providing comprehensive subsidy information, (3) being part of closed Facebook groups for people in the same industry, (4) browsing websites with a summary of relevant information, and (5) joining informal networks of those in the same industry.

These five strategies demonstrate the ability of SMEs to navigate the uncertainties with human capital (i.e., digital-literacy) and social capital (i.e., new and existing networks). Digital platforms of social media, such as Twitter, YouTube, and Facebook, enabled SMEs to maximise the existing and new networks where information can benefit many people in such platforms. The interviews emphasised that common entrepreneurial traits, such as demonstrated persistence and versatility, also supported the combination of human and social capital to explore possible opportunities and sustain their businesses.

In addition, SME 10, which was not eligible for subsidies, also pointed out the inequitable distribution of subsidies, particularly for the retail industry, which is less visible to the public due to the nature of the industry. In the retail sector, the work is hidden “behind the scene,” from sourcing the materials and ingredients from wholesalers and farmers and dealing with the logistics to ensure a stable supply chain to finally selling their products out in the market. SME 10 expressed, “I think things would have been different had there been more specific subsidies not just for the hospitality industry...since we are hidden in the background...without us, restaurants cannot have food ingredients [on their table].,” raising an important consideration for industry-specific subsidy arrangement.

3. Gender and sustainable development.

The interview findings in Japan display little to no active engagement with inclusiveness, particularly on gender. Among interviewed SMEs, even with female interviewees, there were no internal policies or guidelines surrounding gender in their business operation. Nearly 70% or nine out of 13 interviewees had no mention of gender in their initiatives to promote diversity and inclusiveness. It is noteworthy that responses mainly centred around gender balance in employment, referring to the number of female employees, not gender balance in management. Only one interviewee (SME 5) described the benefit of employing women in their workplace as they were hard-working, committed, and fast learners. The overall interview results

manifest that SMEs had a limited understanding of gender inclusiveness in business operation and, in turn, gender was irrelevant to SME core business strategies.

On the other hand, 31% or four interviewees revealed existing initiatives for promoting inclusiveness through engaging with people with disabilities or immigrant workers. While three SMEs expressed their engagement with such people through employment, the forms of engagement were different. For instance, SME 3 actively welcomed students with disabilities to their language school and tailored its education accordingly. SME 4 employed two immigrant workers, which enriched SME 4's understanding of the difficulty of living in Japan as non-Japanese residents, leading to a more inclusive environment in the restaurant.

Policy Implications and Recommendations

Firm level

The COVID-19 crisis emphasised the importance of digitisation and digital transformation. Our analysis showed that the degree and timing of digitalisation linked to the success of SMEs during the crisis. However, Japanese SMEs still employed simple digital technology specific to e-commerce and social media platforms, revealing their early stage of digital transformation. Even though they utilised digital-technology to combine different marketing-mix elements, they failed to fundamentally and comprehensively integrate the technology into their core business goals, strategies, and activities. The current digital-technology adoption may only result in cost reductions but not real productivity and service improvements (Sato, 2021; Tabrizi et al., 2019). On the other hand, our analysis pointed out that limited production capacity could hinder SMEs' digitalisation level (Section 4. "Promotion"). Therefore, SMEs' next big step is to adopt more profound digital transformation by fitting the change into the overall business strategy (Tabrizi et al., 2019) and encourage simultaneous development of digital-technology and SME production capacity. Entrepreneurs and workers must recognise available digital-technology options and their business significance and choose the most appropriate digital-technology mix that matches their business nature (Montagner & Reich, 2018; Tabrizi et al., 2019). To this end, capacity-building programmes regarding digital transformation are necessary for SME entrepreneurs and workers.

Furthermore, (risk) diversifications in goods and services, target markets, and supply chains are vital to surviving the crisis, as the effects of COVID-19 on

business performance depend on product nature, target markets, and supplier locations. SMEs with product diversification became less vulnerable to the crisis, particularly those who digitalised part of their products (e.g., SMEs 1, 2, and 3). Moreover, SMEs can diversify their target markets and, in turn, sources of revenues to avoid nonsystematic economic shocks in particular industries. For instance, the first wave of the COVID-19 crisis affected the tourism industry tremendously. Thus, SMEs (e.g., SMEs 3 and 6) that targeted only foreign tourists or business people stationing abroad were more vulnerable than SMEs targeting domestic consumers. With the help of digital technology, e-commerce and digital marketing could help SMEs diversify their market domestically and internationally (see Sections 1. “Place” and 4. “Promotion”). Lastly, our result suggested that SMEs dealing with foreign suppliers were prone to supply-chain disruptions during the crisis. Therefore, SMEs may adopt a supply-chain-diversification strategy to avoid disruptions. For example, SMEs 9 and 13 gradually shifted to domestic suppliers after experiencing supply-chain disruptions due to the COVID-19 outbreak.

Country level

Firstly, the government needs to improve their websites to ensure that the subsidy information is immediately accessible to all SMEs. The view commonly shared in this research confirmed that government websites with instructions on subsidy applications should be easy to navigate to assess their eligibility, check required documents, and submit applications. Moreover, this research revealed that not all SMEs have sufficient digital literacy and business networks to acquire the necessary information for subsidy applications. Therefore, to ensure that no SMEs are “left behind,” it is critical for the government to improve their services in providing the information on accessible subsidies, fulfilling the needs of SMEs in crisis.

Secondly, SMEs require subindustry-specific considerations by the government for national pandemic measures. The research findings illustrated uneven crisis impact on SMEs due to the fragmented policy responses and the nature of the industries. SMEs raised concerns over the current government-subsidy arrangement. For instance, restaurants and pubs and nightclubs should be categorised separately because of the differences in the number of opening hours, levels of physical contact, and the degree of social-distancing measures. In addition, regardless of SMEs’ visibility to the government and the public, the government must ensure the full coverage of all industries eligible for subsidies. Hence, close hearing, such as this research, is essential to reflect SMEs’ voices in a timely manner.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

Thirdly, the government may offer government-funded capacity-building programmes to improve digitalisation in the private sector, especially SMEs. We found that Japanese SMEs are still at the early stage of digitalisation, indicating the necessity of government support in this area. Even though there have been a few government subsidies to support SMEs' IT solutions, such as teleworking and e-commerce (OECD, 2021; Ministry of Health, Labour and Welfare, 2021), the availability of digitalisation-support initiatives is minimal. In addition, none of the interviewees mentioned the digitalisation support provided by the government, reemphasising the need of improved accessibility of the government information raised in the first policy recommendation.

Fourthly, similarly to the platform of IT support service launched by the SME Agency, the Japanese government can also fully drive and utilise the platform that facilitates an effective and solid global supply chain. Japan External Trade Organisation (JETRO), under the Ministry of Economy, Trade and Industry, has launched the JETRO DX Platform (JETRO, 2021a, 2021b). This platform matches Japanese companies with overseas start-up companies in Southeast Asia, India, Israel, Australia, the United States, and Europe to harness innovative collaboration. Such a platform can encourage SMEs to actively explore and connect with new business partners when pandemic-related issues arise.

Finally, a gender-inclusive policy is essential in preventing the structural inequalities and barriers that women in the workplace face in the postpandemic world. During the pandemic, women tend to be more burned out than men. According to McKinsey (2021), one in three women in general expressed they have considered downshifting their careers. Moreover, four in 10 women have considered leaving the workplace or changing jobs due to increased pressure for balancing domestic work, childcare, and work due to COVID-19. Yet most COVID-19 policy measures failed to have a gender lens (OECD, 2020). At the firm level, Japanese SMEs interviewed in this research also demonstrated the lack of gender consideration. OECD (2020) highlights the benefit of gender-sensitive policies, which will boost the economic growth of up to 2% of GDP and reduce the gender gap in workforce participation by 25% by 2025. Since nearly 70% of the entire workforce in Japan work in SMEs, further awareness of gender inclusiveness can have an extremely significant impact on promoting gender inclusiveness in Japan. To take more initiative and receive broader benefits, SMEs can start by adopting diversity and inclusion policies to encourage a change in business and revising recruitment and promotion policies and processes. Policies must target all genders, not just benefiting women, to institutionalise a culture of gender inclusiveness in the workplace (Razavi & Miller, 1995).

Conclusion

This chapter described the challenges and strategies of Japanese SMEs in the services, manufacturing, wholesale, and retail sectors. It illustrated Japanese SMEs' agility and resilience through the help of digital technology in response to the uneven impacts of the COVID-19 crisis within and across business sectors. The main business strategies commonly utilised among Japanese SMEs were product and services development (product), e-commerce for market-expansion (place), and digital marketing (promotion), while a price strategy was not relevant in a time of crisis. The product strategy primarily responded to the current market demand emerging from the crisis and government policy responses, such as digitalisation of services, internalisation of COVID-19 prevention into services, and enhancement of products' quality, experience, and value. However, the adoption of each strategy depended on the industry and product nature (tangible or intangible) of a particular SME. Furthermore, the place strategy focused on e-commerce for domestic and international market expansion, offering better customer access to products and services during the crisis. Regarding the promotion strategy, SMEs mainly utilised digital-marketing platforms to promote their goods and services and employed a combination of social media platforms, such as Instagram, Facebook, YouTube, Twitter, Line, WhatsApp, and WeChat, to manage customer engagement and relations. The abrupt change in consumer behaviour due to the crisis accelerated SMEs to quickly and comprehensively integrate digital technologies into their business plan and activities. Nevertheless, Japanese SMEs still adopted simple digital technology, indicating the early stage of digitalisation. Therefore, upgrading towards full integration of digital technology is the next big step for Japanese SMEs.

Furthermore, the chapter found that sole and independent decision-making, together with a small-scale organisation, potentially contributed to SMEs' agility, particularly during the crisis. In addition to being agile and resilient, successful SME entrepreneurs were forward looking, open-minded, persistent, and self-motivated. These entrepreneurial traits translated to actions in response to the crisis, namely government-subsidy application and changes in work practices. Regarding work practices, Japanese SMEs implemented basic preventative measures such as mask-wearing policies, social-distancing measures, regular disinfection, and surveillance of body temperature. They also utilised time and (digital) tool strategies to enhance social-distancing measures while maximising the benefits of their firm and workers from the government-subsidy.

Our analysis also discussed issues such as government subsidies and inclusiveness, particularly on gender. We found that SMEs' ability to avail of government

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

subsidies depended on their digital-literacy level, business networks, and entrepreneurial traits, namely persistence and versatility. Regarding inclusiveness, SMEs did not mention policies or guidelines on the inclusive workplace, indicating that gender was not central to their business strategies.

Based on the analysis, this chapter concludes with firm-level and country-level policy recommendations. At the firm level, SMEs may consider adopting more profound digital transformation and risk-diversification strategies to prepare them for future crises and the new normal world. At the country level, to strengthen SMEs' competitiveness during the crisis, the government may support SMEs by providing better access to subsidies and capacity-building programmes related to digital literacy, innovation, and inclusiveness. This chapter laid the initial foundation for research regarding the challenges and strategies of Japanese SMEs. Future research on specific firm-level innovation and gender policies possibly benefits SMEs in further building their agility, resilience, and innovative mindsets ready for the postpandemic world.

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4

Singapore Case Study

List of Abbreviations

ART	Antigen rapid testing
CB	Circuit breaker
DRB	Digital Resilience Bonus
DOS	(Singapore) Department of Statistics
DRC	Dependency-ratio ceiling
EFS	Enterprise Financing Scheme
ERP	Enterprise Resource Planning
ETL	Enhanced Trade Loan
EWCL	Enhanced Working-capital Loan
FWL	Foreign-worker Levy
F&B	Food and beverage
GDP	Gross domestic product
IRAS	Inland Revenue Authority of Singapore
JSS	Job Support Scheme
MATO	Manufacturing Alliance Transformation Office
MCO	Movement Control Order
MOH	Singapore Ministry of Health
MTI	Ministry of Trade and Industry
NPL	No-pay leave
PCR	Polymerase chain reaction
PCPs	Professional Conversion Programmes
PSG	Poverty Solutions Grant
RWF	Rental Waiver Framework
SBF	Singapore Business Federation
SIAA	Singapore Industrial Automation Association
SME	Small and medium enterprises
SMF	Singapore Manufacturing Federation
SPETA	Singapore Precision Engineering and Technology Association
STEER	Singapore Together Enhancing Enterprise Resilience Programme
TACs	Trade associations and chambers
TBLP	Temporary Bridging Loan Programme
TTV	Testing, Tracing, Vaccination Programme
WFH	Work-from-home

Singapore SMEs: Regaining Momentum in the COVID-19 Crisis

Globally, the COVID-19 situation has been rapidly evolving, as the Delta variant continues to dampen global growth outlook. In the past year, Singapore was not spared from a prolonged battle with the pandemic. The economy had to cope with the rippling effects of the pandemic including demand- and supply-side shocks, supply-chain disruptions, as well the implementation of circuit breaker (CB) measures¹ domestically from April 7 to June 1, 2020. The effects of these shocks were most pronounced in the first half of 2020, where the Singapore economy contracted by 5.4%—one of its worst full year recessions.²

COVID-19 has taken a major toll on local businesses, with two-thirds of businesses across Small and Medium Enterprises (SMEs) and large companies reporting negative effects from COVID-19.³ The pandemic situation brought about new challenges to businesses in Singapore, especially SMEs that comprise 99% of all Singapore enterprises. Amongst challenges reported, the most dominant ones included uncertain demand for business services or products, persistently high manpower costs, new travel restrictions related to the pandemic, and business competition.⁴ New challenges caused by the global impact of the pandemic integrated with traditional challenges of manpower costs have introduced greater complexities for smaller businesses that are trying to keep their businesses afloat.

1 The circuit breaker is a partial lockdown in Singapore. Measures included full home-based learning for schools and the closure of most physical workplace premises except for sectors vital to the Singapore's economy and businesses providing essential services.

2 Ministry of Trade and Industry (MTI). "Economic Survey of Singapore 2020." https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-2020/FA_AES2020.pdf Accessed 20 September 2021.

3 Singapore Business Federation (SBF). "National Business Survey 2020/2021." https://www.sbf.org.sg/images/2021/SBF_National_Business_Survey_2020_-_2021_Summary_Report_Final.pdf Accessed 20 September 2021.

4 Singapore Business Federation (SBF). "National Business Survey 2020/2021." https://www.sbf.org.sg/images/2021/SBF_National_Business_Survey_2020_-_2021_Summary_Report_Final.pdf Accessed 20 September 2021.

As the virus situation continued to evolve, and as Singapore faced rising, declining and rising cases in the community, the government rolled out a head-spinning set of rules and measures to protect citizens from becoming infected or admitted to the hospital for treatment. Each of the rule changes has had implications for business operations for firms of all sizes.

One illustration of the challenges of navigating shifting COVID rules can be found in the seating arrangements at local eating houses called hawker centres. These facilities, with numbers fluctuating around 14,000 locations across the island, provide Singaporeans with inexpensive food options. Many are located within housing blocks or estates, making it quick and easy for citizens to grab meals together with neighbours and friends. Over the course of the COVID restrictions, hawker centres were closed outright (during the CB period), allowed to reopen for take-out only, allowed to seat groups of two, allowed to seat groups of five, allowed to seat groups of eight, allowed to seat groups of two, closed again for in-person dining, reopened in groups of two, and restricted to groups of two vaccinated persons only. Each change in rules required reworking the table and seating options for patrons.

In the face of changing rules and strong economic headwinds, Singapore government support has been vital in supporting SMEs towards economic recovery, especially in retaining employment and accelerating structural changes. A suite of measures including grants, credit loans and financing schemes, job-incentives schemes, as well as structural-transformation programmes⁵ were announced as early as February 2020 in Singapore's Budget 2020 to tide businesses and workers over and emerge stronger from the crisis. New incentives and extension of some support schemes and grants were also available in 2021 to help SMEs and their workers from affected sectors to cope with the prolonged impact of COVID-19.

Beginning 2021, Singapore has been regaining its economic momentum. While tightened restrictions were implemented from May to August 2021 in response to a spike in virus cases, the Singapore government had recently increased its 2021 GDP growth forecast to between 6% and 7% compared with the previous projected range of 4% to 6%.⁶ The Singapore economy is expected to continue to see a gradual recovery in the second half of the year with the progressive easing

5 In areas such as digitalisation, innovation, and skills training

6 Ministry of Trade and Industry (MTI). "MTI Upgrades 2021 GDP Growth Forecast to "6.0 to 7.0%." <https://www.singstat.gov.sg/-/media/files/news/gdp2q2021.pdf> Accessed 20 September 2021.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

of domestic and border restrictions as Singapore hits its 80% population-vaccination threshold. Sectoral recovery is expected to remain uneven, as sectors dependent on domestic consumption, such as construction, food, and accommodation, are still affected by curbs and restrictions, and those dependent on international trade are reliant on external demand and the pace of global recovery.

This rest of this chapter will explore the challenges faced by Singapore SMEs and the strategies that some SMEs have taken to mitigate the challenges of COVID-19 and identify new business opportunities. It will also provide policy recommendations from the perspective of SMEs to assist policymakers and regulators in Singapore and Asia to craft policies that will enable SMEs and their workers to recover, succeed, and build resilience in the face of new market conditions during and after the pandemic.

COVID-19 Timeline

In January 2020, recognising the potential threat of the new coronavirus, a multiministry task force was set up by the Singapore government to direct a “whole of government” and community response to deal with the COVID-19 outbreak. With cases in the local community, new measures to curb the spread of the virus were announced by the cochairs and members of the task force through press releases. These measures have affected various business sectors in different ways.

In addition to safe-distancing measures, a nationwide partial lockdown or CB was launched from April 7 to curb the spread of COVID-19 and contain cluster of cases that has erupted in foreign-worker dormitories. Most physical workplaces were closed except for those providing essential services or deemed critical to supply chains, including manufacturing, banking services, social services, and transportation, which were allowed to continue to operate with minimum staff at work premises. For the retail sector, only retail outlets that provided necessary goods and services, such as supermarkets, pharmacies, food and beverage outlets, remained open. Sports and recreation facilities, attractions, and places of worship were also closed. Affected businesses were notified by the Ministry of Industry and Trade.

“Essential businesses” that were allowed to continue operate from the physical workplace needed to adhere to safe-distancing regulations and mandatory wearing of masks that was announced on April 14, 2020. Initially intended to end on May 4, the CB was extended for another month to June 1.

The post-circuit-breaker period saw the gradual easing of measures under a three-phased approach.⁷ Phase 1 enabled most manufacturing firms to resume their full production and most offices were allowed to open.⁸ Sectors where telecommuting arrangements could be made had to continue to operate under remote-working. Phase 2 allowed most business and social activities to resume. Retail physical establishments, personal health and wellness, and home-based services were also permitted to resume.⁹ Phase 3 further increased the group size for dining and social gathering to eight persons per group and increased capacity limits in malls and standalone retail stores from 10 sq. m per person to 8 sq. m per person.¹⁰

7 Phase 1 (Safe Re-Opening) to have improved capabilities to control and contain outbreaks, Phase 2 (Safe Transition) to reopen most of the economy subject to safe-management measures, and Phase 3 (Safe Nation) to assume a new normal for resumption of social and day-to-day activities. See: <https://www.gov.sg/article/post-circuit-breaker-when-can-we-move-on-to-phases-2-and-3>

8 For a list of businesses that were allowed to resume activities in Phase 1, see: <https://www.moh.gov.sg/docs/librariesprovider5/default-document-library/annex-a05667c7d43454b05b072239ceb582db1.pdf>

9 Gov.sg. "Broader re-opening in Phase Two: What businesses and activities will resume?." <https://www.gov.sg/article/broader-re-opening-in-phase-two-what-businesses-and-activities-will-resume> Accessed 21 September 2021.

10 Singapore Ministry of Health (MOH). "Moving Into Phase Three of Re-opening." <https://www.moh.gov.sg/news-highlights/details/moving-into-phase-three-of-re-opening>

Table 1. Timeline of tightening/easing of measures on businesses

Timeline	Government measures included
<p>Circuit Breaker,</p> <ul style="list-style-type: none"> April 7 - June 1, 2020 	<ul style="list-style-type: none"> Standalone food & beverage (F&B) outlets only selling beverages, packaged snacks, confectioneries (e.g., sweets, toffees), or desserts were required to close their outlets. Only takeaway and delivery services allowed for all other F&B outlets that sell meals All nonessential services (e.g., hairdressing and barber services) were required to close their outlets Closure of most physical workplace premises except for businesses providing essential services and selected economic sectors critical for local and global supply-chains
<p>Post-circuit breaker</p> <p>Phase 1</p> <p>June 2 – June 18, 2020</p>	<ul style="list-style-type: none"> Most manufacturing and production facilities were allowed to resume full production Most offices could reopen with telecommuting arrangements made to the furthest extent possible
<p>Post-circuit breaker</p> <p>Phase 2</p> <p>June 19 – December 27, 2020</p>	<ul style="list-style-type: none"> Physical retail stores were allowed to re-open and dining at F&B outlets were permitted for groups of up to 5 diners, extended to groups of 8 persons from December 28, 2020 (Phase 3) Up to 75% of the workforce could be at the workplace at any time
<p>Post-circuit breaker</p> <p>Phase 3</p> <p>December 28, 2020 – May 4, 2021</p>	<ul style="list-style-type: none"> Dining and social-gathering group sizes was increased from 5 to 8 persons Capacity limits for malls and large standalone stores were increased
<p>Post-circuit breaker</p> <p>Phase 2 (Heightened Alert)</p> <p>May 16 – June 13, 2021, July 22 – August 18, 2021</p>	<ul style="list-style-type: none"> Dining in at all F&B outlets banned Work-from-home continued to be default arrangement

Post-circuit breaker Phase 2 (Heightened Alert) August 10, 2021 onwards	<ul style="list-style-type: none"> • Dine-in allowed with group sizes of up to 5 persons for only vaccinated people • “Vaccinate or Regular Test” regime for selected sectors in the workforce • Up to 50% of employees could return to the workplace (from August 19 onwards)
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Since the onset of the pandemic and implementation of safe-management measures,¹¹ businesses in Singapore have had to pay attention and adapt to the changing regulatory measures at different stages as announced by the government. This included shifting to remote-working arrangements for employees wherever possible, implementing safe-management measures at workplace such as staggering start times and allowing flexible-working-hours, ensuring physical spacing of at least one metre apart, and adopting the SafeEntry visitor-management system to record entry of all employees and visitors.

Currently at Phase 2 (Heightened Alert), remote-working remains as the default setting for sectors where telecommuting arrangements can be made, but up to 50% of employees working from home may be allowed to return to the workplace. Spot checks ensure compliance with the regulations and ensure that safe-distancing measures, including mandatory mask-wearing at all times indoors, remains in place.

Business sectors in Singapore are affected to different extent by the regulatory and safe-management measures. For instance, the impact of the partial lockdown in Singapore was most acutely felt by businesses that were “nonessential” or could not be conducted remotely, including accommodation and food services, and construction-service providers that were affected by the closure of workplaces, implementation of safe-management measures, and the drop in demand for their services. Retailers and F&B establishments were also affected by the ban on dining in at specific periods.

11 For more information on the safe-management measures at workplace, see <https://www.mom.gov.sg/COVID-19/requirements-for-safe-management-measures>

Economic and Business Support Measures

To support affected sectors, the Singapore government implemented a series of grants and initiatives for Singapore businesses especially SMEs. Across the four budgets announced in 2020,¹² a substantial sum of close to SGD 93 billion was spent to help avert losses in jobs and enable workers and businesses to reposition and find new opportunities in growth areas.¹³ Some of the government COVID-19 relief measures that could be availed by Singaporean-owned businesses included the Job Support Scheme (JSS), where employers received cash-rebate grants for a percentage of employees paid salary; the Foreign-Worker Levy (FWL) rebate where the FWL for each work-permit or S-pass holder was waived to help defray cost of hiring foreign-workers; and the Enterprise Financing Scheme (EFS) which were government-assisted SME loans for businesses to obtain access to funds.

12 The four budgets are Unity, Solidarity, Resilience, and Fortitude budgets that were announced from February to May 2020 and adds up to about SGD 93 billion.

13 The Straits Times. "Four Budgets projected to help avert \$23.4 billion in economic losses." <https://www.straitstimes.com/politics/four-budgets-projected-to-help-avert-234-billion-in-economic-losses> Accessed 21 September 2021.

Table 2. Summary of key COVID-19 support measures for SMEs

Category of government support for businesses	COVID-19 support measure for SMEs	Description
Cash flow support	Job Support Scheme (JSS)	<ul style="list-style-type: none"> • The Job Support Scheme provided support to business cash-flow and assisted employers in retaining employees by subsidising some of the wages. • Under the Jobs Support Scheme, businesses received a percentage of wage support for the first SGD 4,600 of gross monthly wages paid to their local employees. Employers who put local employees on mandatory no-pay leave (NPL) or retrenched them were not entitled to the enhanced JSS payouts. • Enhanced JSS support was provided during phases 2 and 3 (Heightened Alert) where the scheme was extended for the hardest-hit industries for up to six more months – till end of September 2021. Payouts for closed sectors with enhanced safe-management measures (e.g., F&B, gyms, performing arts) were increased from 50% to 60%. For significantly affected sectors, including retail, cinemas and tourism, payouts increased from 30% to 40%.¹⁴

14 Inland Revenue Authority of Singapore (IRAS). "Job Support Scheme." <https://www.iras.gov.sg/irashome/schemes/businesses/jobs-support-scheme--jss-/> Accessed 21 September 2021.

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

Transformation and growth	Enterprise Growth Package	<ul style="list-style-type: none"> • The Enterprise Growth Package aimed to support business needs, encourage adoption of digital technologies, and assist businesses to expand to new markets. The Enterprise Growth Package is comprised of the following:¹⁵ <ul style="list-style-type: none"> - The GoBusiness platform assisted businesses to conveniently transact with the government and find useful information and assistance schemes in a one-stop platform - The SMEs Go Digital programme, launched in 2017, was expanded to drive greater adoption of digital-technology; it consisted of consultancy services, cofunding to implement digital solutions, and help for SMEs to connect to e-commerce platforms to sell overseas • Digital Resilience Bonus (DRB) provided a payout of up to SGD 10,000 to food services and retail companies that adopted eligible digital solutions¹⁶ <ul style="list-style-type: none"> - Enhanced Market Readiness Assistance grant expanded the funding support and coverage to include, for example, free-trade-agreement consultancy services
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15 Gov.sg. "Solidarity Budget 2020: Further support for businesses through the circuit breaker period." <https://www.gov.sg/article/solidarity-budget-2020-further-support-for-businesses-through-the-circuit-breaker-period> Accessed 21 September 2021.

16 The DRB is provided in addition to the digitalisation assistance under the SME Go Digital programme.

Transformation and growth	Productivity Solutions Grant ¹⁷	<ul style="list-style-type: none"> The Productivity Solutions Grant provided up to 80% of funding support for Singapore SMEs from April 1, 2020, to March 31, 2022 for the purchase of IT solutions and equipment.¹⁸
	E-commerce Booster Package	<ul style="list-style-type: none"> The E-commerce Booster Package (available from May 16 to November 16, 2021) provided eligible Singapore retailers with a one-time support to defray costs on appointed e-commerce platforms (including Lazada, Shopee, Qoo10, Mummys Market, and Zalora) to support e-commerce capabilities of local retailers.¹⁹
Help with credit	Temporary Bridging Loan Programme	<ul style="list-style-type: none"> The Temporary Bridging Loan Programme (TBLP) provided businesses with access to working capital at an interest rate capped at 5% per annum.²⁰

17 https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-Second-Quarter-2020/FA_2Q20.pdf page 6

18 Enterprise Singapore. "Productivity Solutions Grant (PSG)." <https://www.enterprisesg.gov.sg/financial-assistance/grants/for-local-companies/productivity-solutions-grant> Accessed 22 September 2021.

19 Enterprise Singapore. "E-Commerce Booster Package." <https://www.enterprisesg.gov.sg/industries/type/retail/e-commerce-booster-package> Accessed 22 September 2021.

20 Enterprise Singapore. "Temporary Bridging Loan Programme." <https://www.enterprisesg.gov.sg/financial-assistance/loans-and-insurance/loans-and-insurance/temporary-bridging-loan-programme/overview> Accessed 22 September 2021.

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

Help with credit	Enhanced Enterprise Financing Scheme for trade loan and working-capital loan	<ul style="list-style-type: none"> • Under an Enhanced Enterprise Financing Scheme (EFS) that covered six types of business loans, the maximum loan quantum for trade loan was increased to SGD 10 million (from SGD 5 million) and government's risk-share was also increased to 80% (from 70%). • The maximum loan quantum of the SME working-capital loan under the Enhanced EFS was raised to SGD 1 million (up from SGD 600,000).
Defrayment of costs	Foreign-worker Levy (FWL) Rebate	<ul style="list-style-type: none"> • During the circuit breaker in April and May 2020, the monthly Foreign-Worker Levy for each work-permit or S Pass holder was waived for all businesses. The extended levy rebates and waivers from July 2020 onwards were only provided to construction, marine shipyard, and process work-permit holders and businesses that were not permitted to resume operations.²¹
	Rental Relief	<ul style="list-style-type: none"> • As part of the Fortitude Budget 2020, SMEs and eligible non-profit organisations with an annual revenue not exceeding SGD 100 million qualified for rental relief in public and private-owned commercial spaces covering periods from April to May 2020 or April to July 2020.²²

21 Singapore Ministry of Finance (MOF). "Correction of Reopening Dates Affecting Jobs Support Scheme Payouts and Foreign-worker Levy Waivers/Rebates." <https://www.mof.gov.sg/news-publications/press-releases/correction-of-reopening-dates-affecting-jobs-support-scheme-payouts-and-foreign-worker-levy-waivers-rebates>. Accessed 22 September 2021.

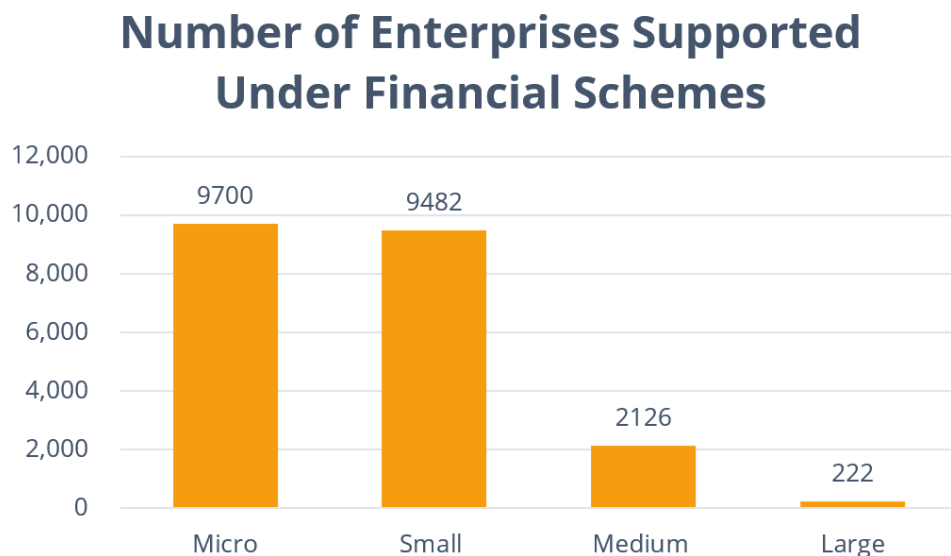
22 Singapore Ministry of Finance (MOF). "Support Package to Help Workers and Businesses during Phase Two (Heightened Alert)." [https://www.mof.gov.sg/news-publications/press-releases/support-package-to-help-workers-and-businesses-during-phase-two-\(heightened-alert\)](https://www.mof.gov.sg/news-publications/press-releases/support-package-to-help-workers-and-businesses-during-phase-two-(heightened-alert)) Accessed 22 September 2021.

The total fiscal support of close to SGD 100 billion is estimated to have averted job losses or created about 155,000 jobs on average over 2020 and 2021.²³

By industry, wholesale trade and construction received the highest disbursement in government grants. Of the total grants disbursed, the JSS constituted the largest spending, of which wholesale-trade, professional-services and financial-services sectors received the largest amount of JSS grants.²⁴

Around 21,000 SMEs benefited under the financing schemes that were supported by risk-sharing from the government.²⁵ Most of the approved applicants were from wholesale-trade, construction, and manufacturing sectors.

Figure 1. Number of enterprises supported under financial schemes



Source: Ministry of Finance (MOF)

23 Singapore Ministry of Finance (MOF). "An Interim Assessment of the Impact of Key COVID-19 Budget Measures." [https://www.mof.gov.sg/docs/default-source/default-document-library/news-and-publications/featured-reports/interim-assessment---COVID-19-budget-measures-\(19-feb-2021\).pdf](https://www.mof.gov.sg/docs/default-source/default-document-library/news-and-publications/featured-reports/interim-assessment---COVID-19-budget-measures-(19-feb-2021).pdf) Accessed 22 September 2021.

24 From April to December 2020, SGD 22.6 billion of JSS was disbursed.

25 The financing schemes are the Temporary Bridging Loan (TBL) Programme, Enhanced Working-capital Loan (EWCL) and Enhanced Trade Loan (ETL) and Singapore Ministry of Finance (MOF). "An Interim Assessment of the Impact of Key COVID-19 Budget Measures." [https://www.mof.gov.sg/docs/default-source/default-document-library/news-and-publications/featured-reports/interim-assessment---COVID-19-budget-measures-\(19-feb-2021\).pdf](https://www.mof.gov.sg/docs/default-source/default-document-library/news-and-publications/featured-reports/interim-assessment---COVID-19-budget-measures-(19-feb-2021).pdf) Accessed 22 September 2021.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

Apart from government-support schemes, Singapore government agencies were in close collaboration with industry associations to deliver additional support, especially to smaller businesses. SG Together Enhancing Enterprise Resilience Programme (STEER), supported by Enterprise Singapore (ESG),²⁶ aimed to support funds set up by the Trade Associations and Chambers (TACs) or industry groupings. ESG matched SGD 1 for every SGD 2 raised through qualifying industry-led initiatives, up to SGD 1 million per fund. With the aim of helping businesses tide over the challenges arising from COVID-19, the funds were to be used for business sustenance, business growth as well as capability upgrading, in the push towards transformation efforts. Some examples of industry funds established in partnership with ESG included the Rising in Support of Enterprises (RISE) Fund by the Singapore Business Federation (SBF) and the SMF ACTS! STEER Fund launched by Singapore Manufacturing Federation (SMF).

ESG also worked with industry partners to provide additional resources to guide SMEs on their financing needs and strengthen their financial knowledge. This included stationing special advisors at SME centres to provide advisory support to SMEs on their financing needs.

The needs of SMEs were also represented by trade and business associations that engage in regular feedback and communication to relevant government ministries and agencies. For example, several business associations made the case for more rental rebates, enhanced wage support, and an extension of bank-loan-principal moratorium ahead of tightened measures to be imposed in Phase 2 (Heightened Alert).²⁷ In consideration of the needs of affected SMEs, a Rental Waiver Framework (RWF) under the COVID-19 (Temporary Measures) (Amendment No. 4) Bill was later passed by the parliament to allow eligible tenants to claim two weeks of rental waiver.²⁸

26 Enterprise Singapore is a government agency under the Ministry of Trade and Industry created to champion enterprise development.

27 Choo Yun Ting. "Businesses call for more rental relief, wage support and loan moratoriums amid tightened COVID-19 measures," The Straits Times. <https://www.straitstimes.com/business/economy/businesses-call-for-more-rental-relief-wage-support-and-loan-moratoriums-amid> Accessed 24 September 2021.

28 Singapore Ministry of Law (MOL). "2021 Rental Waiver Framework for SMEs and NPOs." <https://www.mlaw.gov.sg/COVID-19-relief/rental-waiver-framework-2021> Accessed 24 September 2021.

Impact of COVID-19 on SMEs

According to MTI's Economic Survey of Singapore, the impact of COVID-19 on the Singapore economy and businesses were felt through five main transmission channels, namely (1) a fall in tourist arrivals, (2) weakened domestic consumption, (3) a fall in global demand and supply-chain disruptions, (4) manpower disruptions and the requirement to implement safe-management measures, and (5) negative spillovers from the slowdown in domestic economic activity.²⁹ The channels of disruption, demand-and-supply shocks have different impact on SMEs depending on the nature of their business.

The National Business Survey 2020/2021 revealed that construction, followed by real estate, restaurants and accommodations, and manufacturing, was most severely affected by the pandemic, while sectors such as logistics and transportation, IT and professional-services, banking and insurance experienced positive impact on their respective revenues.³⁰

The negative impact of COVID-19 on Singapore's economy was most striking in the second quarter of 2020 when the CB was implemented; GDP growth contracted by 13%, quarter-on-quarter.

29 Singapore Ministry of Trade and Industry (MTI). "Economic Survey of Singapore 2020." <https://www.mti.gov.sg/Resources/Economic-Survey-of-Singapore> Accessed 22 September 2021.

30 Singapore Business Federation (SBF). "National Business Survey 2020/2021." https://www.sbf.org.sg/images/2021/SBF_National_Business_Survey_2020_-_2021_Summary_Report_Final.pdf Accessed 20 September 2021.

Table 3. Singapore’s GDP by industry, quarter-on-quarter growth rate, seasonally adjusted

	2020 1Q	2020 2Q	2020 3Q	2020 4Q	2021 1Q	2021 2Q
Overall GDP	-0.6	-13.1	9.0	3.8	3.3	-1.8
Manufacturing	10.5	-7.6	9.7	-1.4	11.5	-2.5
Construction	-1.5	-65.6	37.5	55.6	4.3	-7.6
Wholesale & retail trade and transportation & storage	-1.6	-10.4	2.0	4.1	3.5	-1.1
Information & communications, finance & insurance and professional-services	-2.9	-3.8	3.4	5.1	-1.2	0.4
Accommodation & food services, real estate, administrative & support services and other services	-7.6	-17.7	12.0	5.7	-1.1	-2.7

Source: Singapore Department of Statistics³¹

Manufacturing

The manufacturing sector in Singapore has been largely hit by supply-chain disruptions, fall in global demand, and foreign-manpower shortages. Firms with less-diversified supply-chain networks experienced delays, higher prices on raw materials, and increased shipping costs stemming from the waves of disruption that erupted globally across industries as factories closed and workers were quarantined.

Overall, manufacturing output for 2020 declined by 8.6% compared to 2019 figure, with the worst performers being production of refined petroleum products and the manufacture of transport equipment (Table 3). The pandemic has, however, boosted the production of pharmaceuticals and computer, electronic and optical products, which prevented the manufacturing sector from facing a deeper recession.

31 See DOS for data used: <https://www.singstat.gov.sg/find-data/search-by-theme/economy/national-accounts/latest-data>

Table 4. Singapore manufacturing output by industry

Manufacturing Industry	2020	2019	Change
Total manufacturing	297,019	324,948	-8.6%
Food, beverage & tobacco	10,017	10,459	-4.2%
Refined petroleum products	21,580	38,203	-43.5%
Chemicals & chemical products	37,626	44,938	-16.3%
Pharmaceutical & biological products	16,010	14,399	11.2%
Fabricated metal products	7,035	7,722	-8.9%
Computer, electronic & optical products	137,407	136,272	0.8%
Electrical equipment	3,370	3,707	-9.1%
Machinery & equipment	27,232	27,282	-0.2%
Other transport equipment	12,724	16,691	-23.8%
Other manufacturing industries	15,318	14,980	2.3%

Source: Singapore Department of Statistics (DOS)

During CB, the impact on manufacturing sector also varied across firms, as exemptions were provided for key manufacturing firms and their suppliers that were seen as critical to local and global supply chains to continue operations. This included key firms and activities in the electronics, biomedical manufacturing, and chemicals production.

The safe-management measures imposed also had implications on firm's production due to safe-distancing requirements and the need to stagger start time of workers. Furthermore, weakened global demand and supply-chain disruptions that occurred as a result of global containment measures increased lead time for firms to obtain the necessary raw materials and parts, leading to a slowdown in production. Smaller firms operating in various industries found greater challenges in sourcing raw materials from overseas as parts of the world were in lockdown. SMEs grappled with sourcing of materials, including packaging materials, raw materials, and semifinished parts. In the food-manufacturing sector, SMEs found difficulties procuring personal protective equipment for its employees, as these products, such as gloves and masks, were also in high demand in the healthcare sector.³²

32 Ovais Subhani. "Surviving supply-chain shocks caused by COVID-19 pandemic," The Straits Times. <https://www.enterprisesg.gov.sg/media-centre/news/2020/june/surviving-supply-chain-shocks-caused-by-COVID-19-pandemic> Accessed 11 October 2021.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

In addition, manufacturing firms also faced shortages of skilled workers in the local labour market due to tightened borders and increased challenges in bringing foreign labour to Singapore. Hence, SMEs in the sector increasingly needed to leverage technologies and tools to automate their production to cope with the manpower crunch.³³

To support Singapore manufacturing firms, the Singapore Manufacturing Federation (SMF), as the largest organisation for the manufacturing industry, also helped its members to find new suppliers through its industry network with other trade associations in the region. Other support rendered include sourcing for more affordable test kits for its members, as mandatory routine testing for unvaccinated workers were enforced for higher-risk sectors including manufacturing.

Wholesale and retail trade

Due to poor economic outlook, weakened domestic demand, and the implementation of safe-management measures, the wholesale and retail trade industry in Singapore faced a slew of hurdles that dampened sales revenue.

Table 5. Singapore retail sales index (2017=100), in chained volume terms, quarterly

Data Series	2021 2Q	2021 1Q	2020 4Q	2020 3Q	2020 2Q	2020 1Q
Total	83.154	88.97	94.007	84.942	55.125	88.095
Department stores	52.807	64.561	79.366	62.124	17.585	76.231
Supermarkets & hypermarkets	123.671	121.352	118.94	118.985	147.135	120.532
Mini-marts & convenience stores	93.427	96.329	96.944	97.792	104.481	101.067
Food & alcohol	55.593	64.225	60.204	55.784	42.214	87.722
Motor vehicles	69.049	72.204	71.14	75.149	24.973	69.305
Cosmetics, toiletries & medical goods	72.701	76.47	80.439	75.672	59.415	96.547

33 Choo Yun Ting. "Automation helps firms ease labour crunch, shorten processes," The Straits Times. <https://estates.jtc.gov.sg/jid/stories/automation-helps-firms-ease-labour-crunch-shorten-processes> Accessed 11 October 2021.

Wearing apparel & footwear	74.398	91.452	93.735	74.648	22.338	86.765
Furniture & household equipment	101.048	105.368	122.086	105.153	59.026	92.741
Recreational goods	98.375	103.316	124.879	104.089	42.203	85.824
Watches & jewellery	70.877	82.503	78.277	67.229	16.727	70.947
Computer & tele-communications equipment	103.567	101.048	138.842	90.407	76.981	82.974
Optical goods & books	66.141	76.886	98.943	73.483	34.979	80.544

Source: Singapore Department of Statistics (DOS)³⁴

Beginning with a steep decline in tourist numbers, retailers, including F&B establishments earning tourist money, had to shift to a domestic customer base. The tightening of safe-distancing measures and limits on group gathering and dine-ins also brought significant implications to small retailers located in malls, as people reduced their frequency of outings and avoid crowded areas such as shopping malls. Retailers also had to ensure that customers check-in to the TraceTogether entry-management system to allow contact tracing. Those that sold accessories or wearable items for trying on by customers had to conduct frequent sanitization where possible.

Within the retail sector, F&B establishments were also adversely affected by safe-distancing measures as well as operational challenges of keeping abreast and complying with changing COVID-19 regulations, such as changes in capacity of group gatherings for dine-in and banning of dine-in during CB and Phase 2 (Heightened Alert), resulting in capacity constraints and loss of revenue. The implementation of remote-working has also significantly reduced lunch-time office crowds in city areas and led to decline in sales, prompting SMEs to lay off some employees.

Most recently, under Phase 2 (Heightened Alert), which was implemented in August 2021, dine-in was only allowed for vaccinated persons up to a maximum of five people. F&B retailers that are reliant on foreign manpower also faced challenges of finding manpower due to tightened border controls and a reduced

³⁴ Data is accessed at: <https://www.singstat.gov.sg/find-data/search-by-theme/industry/services/latest-data>

dependency-ratio ceiling (DRC), which is the maximum permitted ratio of foreign-workers to the total labour that a company is allowed to hire.³⁵ A Movement Control Order (MCO) implemented by Malaysia has also affected the availability of foreign manpower that commute between Singapore and Malaysia daily for work.³⁶

Previous bans on dining in also brought negative externalities to other retailers located within the vicinity. For example, an SME retail-store owner located in a shopping mall highlighted that ban on dine-in had reduced their volume of customers as fewer would come by to shop, and those who did spent less time in malls, as only takeaway food was allowed. While retailers could leverage online channels to sell their products, SME retailers who were unable to move to online sales suffered significantly. This included SMEs that offer products that require customers to “look and feel” the products for themselves, including wearable accessories and uniquely designed handicraft items.

Moving to remote-working and the closure of certain sectors has also brought negative spillovers to retailers and distributors that provide products to offices and affected businesses. An SME distributor of office-pantry supplies reflected that their businesses was significantly affected by the closure of offices in Singapore. The firm had to donate SGD 200,000 worth of excess stock that could not be sold. Another SME distributor providing machinery and tools to construction firms was also hit by the fall in demand of their products, as most construction projects came to a halt.

In addition, SMEs in wholesale and retail trade had to cope with supply-chain disruption that increased lead time of products and higher costs of freight which translates to higher pricing of their products. An SME involved in the distribution of heavy machinery and parts reported that lead time for machinery and parts increased significantly—from 90 days to 240 days—which brought challenges to product sales, as the long lead time created greater uncertainty. This increase in product lead time and shipping also meant delay in receipt of products for their clients and, hence, later payments, which impacted SME cash flow, another predicament for SMEs facing problems with liquidity.

35 Tang See Kit. “No takers for 1,000 F&B jobs, says restaurant association,” Channel News Asia. <https://www.channelnewsasia.com/business/food-beverage-jobs-no-takers-1000-jobs-restaurant-association-517526> Accessed 23 September 2020.

36 Joyce Lim. “Only 50% of Malaysian workers have returned since border reopening,” The Straits Times. <https://www.straitstimes.com/business/economy/only-50-of-malaysian-workers-have-returned-since-border-reopening> Accessed 23 September 2020.

Other services

For the rest of the services sector, the impact of the pandemic appeared to be relative mild, especially for SMEs in the tech and IT sector providing digital services. SMEs able to continue their operation as normal and deliver services digitally or remotely were less affected by safe-management measures and closure of physical offices. Interviewed SMEs providing telecommunications and cybersecurity services reported positive revenues stemming from increase in demand for their services. Revenues in 2020 more than doubled from pre-COVID for some SMEs providing these digitalized services, and hiring in these SMEs also increased.

Remote-work arrangements

Manufacturing and retail- & wholesale-trade sector were often unable to transit to remote-working arrangements due to the nature of their operations—having to perform labour-intensive tasks or managing customer-facing roles on location. Most SMEs providing digitalized services, however, could conduct their operations remotely and allow most, if not all, of their employees to work from home.

The need for remote-working, or working from home (WFH), received mixed reactions from employers and employees. The following benefits and challenges were summarized based on interviews with 12 SME owners or managers and workers.³⁷

Challenges of WFH from employer and employees' perspective:

- Lack of proper equipment such as a working desk, good quality camera or headset
- Lack of a suitable work environment
- Difficult to clinch sales through online meetings
- Challenging to obtain the required files and information
- Missing face-to-face interactions with colleagues
- Not possible to conduct remote-working for some industries
- Paying (usually very high) rent on unusable office or company space as WFH remained the “default” setting

³⁷ A total of 12 SMEs owners/managers and SME workers were interviewed.

Benefits of WFH from employer and employees' perspective:

- Time saved on travelling to conduct other tasks
- Flexibility in response and managing tasks
- Wider adoption of digital tools to improve productivity
- Savings on office rental and utility³⁸ due to downsizing and closure of office

Remote-working arrangements have brought significant challenges to some SME employers and employees in sectors that are not permitted to operate from a physical location or office. As workers have had to perform their tasks and attend to calls and meetings from home, it was crucial to establish a quality workspace and environment. Consequently, multiple members of the household sharing a limited space to conduct work brought complexities in managing who and what takes precedence in using the space. Members working in the same household needed to consider new solutions to these challenges, such as staggering meetings to avoid background noise and deciding whether to invest in a work desk if the same space and facilities were shared. Although Singapore schools were not closed for the same length of time as most offices, over the COVID period, Singaporean students were also engaged in remote-learning for extended periods, leading to challenges managing often-cramped housing space.

In the conduct of work, challenges could also arise for workers that were traditionally working in office space that allowed the ease of access to information and enhanced communication between colleagues. Workers performing administrative duties often highly relied on files and documents kept in offices, and these had to be brought home to perform their tasks. Frequent chats amongst colleagues and sharing of new ideas were also limited when face-to-face interactions were replaced with mobile chat applications and online meetings.

The effectiveness of managing client relations and engagement were also compromised for workers performing sales-related activities through virtual meetings. An SME worker performing sales commented that their customers “normally do not like to meet and discuss things over Zoom or MS teams, they like to have face to face meetings” due to the technicality of the discussions involved and the need to present some drawings. Therefore, the shift to remote-working arrangement had implications for some workers, particularly salespersons that had to engage with clients and were dependent on sales commission for income,

38 One of the SME interviewed has closed their physical office, and all employees are working remotely. Part of the savings are distributed as an allowance for workers.

especially if communication through online channels was less effective to seal a contract or a deal.

The transition to remote-working, on the other hand, has brought gains to some SME owners or managers and their employees. The cut in travelling time locally and reduced overseas trips amalgamated to more time saved to be spent on other tasks; usage of online collaborative tools and enterprise resource planning (ERP) software has also bolstered productivity for some SME workers.

SME owners and managers showed more flexibility in allowing employees to manage their time by permitting them to attend to household chores and other matters during working hours but without compromising on work productivity.

The extended period of having to work remotely has prompted SMEs to explore possibilities of obtaining savings in rental by giving up their office space. An SME owner of a telecommunications service in Singapore, upon realizing that there has been no productivity loss due to remote-work, closed its office after its lease expired. Part of the gain in savings was diverted to employees as allowance to subsidize electricity and internet bills. However, as most office leases run a minimum of three years, many firms were unable to shed unwanted commercial space and had to keep paying full rental amounts on unusable real estate.³⁹

The shift to remote-work or to a hybrid mode of partially working from home and from the office, while having brought more flexibilities for employees to plan their time and improve productivity, has also blurred the boundaries between work and personal life, potentially leading to stress and burnout. Both employers and their workers should be more understanding on issues that surfaced under new working arrangements and cohesively employ strategies to mitigate them. Even prepandemic, Singaporean workers put in long hours. The switch to remote-working exacerbated the “always on” culture of work.

Inclusive business practices

Adoption or maintenance of inclusive business practices was an area less prioritized by Singapore SMEs. SMEs interviewed did not have written policies or specific strategies to follow in hiring practices or to adopt sustainable practices. Several, however, mentioned that hiring practices are often dependent on the “culture and leadership” and also reliant on “observed needs” of the company rather than considering age, race, and gender of applicants. Given Singapore’s

39 Breaking leases early is extremely hard to do in Singapore, with the result that many firms found rental costs driving them towards financial distress.

reliance on foreign manpower, SMEs interviewed also have diverse employees from various nations, race, age, and gender groups.

Sustainable business practices were of a less noteworthy issue for the majority of Singapore SMEs interviewed. The ability to implement sustainable measures such as recycling and reducing waste and carbon emissions are often dependent on the nature of the business. An SME in retail and distribution mentioned that they do not import beverages in plastic bottles and recycle cardboard boxes. Another SME that was a distributor of machinery cited examples of refraining from printing catalogues and sending links or digital catalogues instead. These practices have not changed during the pandemic and will remain postpandemic.

The global economic slowdown and containment measures to curb the outbreak have mixed impact on SMEs in different sectors. Government grants and schemes helped to cushion the impact of the pandemic for SMEs and covered some of the losses incurred due to decline in sales and closure of businesses, particularly during the CB. These government grants and support targeted affected sectors, and those that were worst affected received greater support and payouts. Some SMEs owners interviewed, however, reported that they were ineligible for specific governments grants and incentives, as they were foreigners and did not qualify for failing to meet at least 30% Singaporean shareholdings that is required to avail of these grants and support schemes. Other firms experienced a variety of other challenges in meeting the criteria for assistance or relief. For instance, rental support was provided only to SMEs renting from specific landlords and not from others. The complexity and changing conditions of different schemes also made it difficult for many firms to actually claim assistance in all the ways they may have been eligible on paper. Overall, despite significant government assistance packages, many SMEs independently financed all or most of their operations.

Notwithstanding strong challenges, most SMEs remained positive that the pandemic was a temporary setback and that businesses will be on the road to recovery while operating in environment with different working dynamics. In spite of the limited financial and manpower resources, these small businesses exhibited resilience to cope with current challenges by leveraging available resources and incentive schemes.

The following section will examine the strategies that Singapore SMEs utilised to help their business survive, recover, and thrive. It includes approaches that SMEs owners or decision-makers have taken to keep their business operating as usual and retain employees amidst impact on revenues and highlights the areas of

cooperation between government, industry associations, and private businesses to enable a collective effort towards recovery and growth.

Business Resilience: Strategies to Mitigate the Challenges of COVID-19 and Identify New Business Opportunities

To cope with the impact of COVID-19, priorities for businesses in this troubling period continued to revolve around basic fundamentals such as raising revenue, building cash flow, and lowering costs as enterprises recovered sales losses from CBs and COVID-related government measures.⁴⁰

While businesses interviewed generally did not adopt a proactive approach to business development and innovation due to the negative impacts on revenues, many reacted nimbly to the impact of COVID-19 and the workplace safe-management measures imposed by the Singapore government. This included adhering to safe-distancing guidelines, regular disinfecting and sanitizing,⁴¹ making preparations for workers to stagger working hours, allowing workers to work remotely from home where possible, and even sending workers for training courses on hygiene and workplace safety. Small businesses in Singapore exhibited agility to adapt to changing regulatory measures and took caution in a preventive approach by ensuring that employees in the workplace had their masks on and minimised any interaction with colleagues, particularly when masked were removed during lunch breaks.

SMEs also made use of available grants and support to improve their cash flow. This included the JSS, which helped reimburse part of worker's salaries, grants for hiring and upskilling new workers such as the Professional Conversion Programmes (PCPs) for new hires to reskill and make a career transition, and rental rebates for SMEs in qualified commercial properties. Based on feedback from SME interviewees, such government grants were provided in an efficient manner to allow provision of timely financial support.⁴²

40 Singapore Business Federation (SBF). "National Business Survey 2020/2021." https://www.sbf.org.sg/images/2021/SBF_National_Business_Survey_2020_-_2021_Summary_Report_Final.pdf Accessed 20 September 2021.

41 This applies to cleaning of offices and also for retailers where customers try on wearable accessories.

42 SMEs highlighted that "no paperwork involved" and "support was provided automatically" to avail the grants and incentives.

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Workers

Constraints in cash flow prompted SMEs to put on hold plans for expansion or investment and maintain prudence in spending. SMEs that reported decline in revenues have maintained a lean team for operations and did not hire additional staff. In addition, SMEs interviewed from negatively impacted sectors have not increased their budgets and spending on marketing in order to spend cash on employees' salaries and ensure that they do not have to let go of their current staff. SME employees from negatively impacted sectors also expect that there would be minimal or no salary raises for the year.

The COVID-19 outbreak has also induced SMEs to adopt more digital tools and services following transition to remote-working arrangements for most sectors. Ensuring that their businesses have an online presence is of growing importance to SME owners and managers; all the SMEs interviewed in this study maintain at least a website and have adopted digital tools for communication with staff and clients. As expected, SMEs that were already providing services digitally have taken a step further than more traditional sectors of manufacturing and retail in the use of digital tools. Some examples included delivering online presentations to clients through their websites, creating customized training materials for staff for virtual learning, and using team-productivity tools for staff collaboration and interaction. An SME interviewed also leveraged an ESG productivity grant to adopt a high-end ERP system that could boost productivity, reduce staff workload, and allow a more contactless operation to take place. Resourceful and innovative ways to adopt new digital tools and technologies have contributed to improvements in productivity in a WFH setting for some SMEs.

The acceleration of digitalisation regionwide offered opportunities for SMEs to penetrate new markets at a lower cost. Wider acceptance of digitalisation enabled potential clients of SMEs to become more receptive to holding meetings and sales calls through videoconferencing platforms and led to reduced spending on paid advertisement and telemarketing. SMEs may be able to benefit from the adoption of similar digital tools to find new customers in regional markets.

To address labour shortages and quotas on hiring foreign workers, Singapore SMEs in the manufacturing sector have also increasingly adopted digital solutions. Having deployed a new machine to perform more manual tasks, an SME food manufacturer has seen increase in production capacity and a reduction in the number of employees on-site.⁴³ The implementation of an automation line has

43 Sue-Ann Tan. "More manufacturers transform themselves digitally amid pandemic," The Straits Times. <https://www.straitstimes.com/business/economy/more-manufacturers-transform-themselves-digitally-amid-pandemic> Accessed 13 October 2021.

enabled an SME in precision engineering to run its production full time, improve the quality of its outputs, and free up labour to be trained in new skills to maintain its automation line.⁴⁴

Local SME retailers, having faced disruption in supply chains, have tried sourcing for locally made products. An SME distributor of food and snacks has sought more local produce after facing challenges of shipment delays. This initiative, which also provides support to the local economy, has been well received by their clients. Another retailer of art and handicraft products has also adopted the strategy of local sourcing and looking for new products by capitalizing on sales opportunities due to consumers' changing preference to improve their living space as they spend more time at home. The owner of the retail store also decided to refurbish both of her shops while traffic is low and prepare for an eventual opening of Singapore's borders for travel and tourism that could improve future sales.

Partnerships between government agencies, industry associations, and private partners brought greater synergy to support various needs of SMEs, ranging from manpower, market access and expansion, and also addressed current and imminent challenges due to mandatory safe-management measures and compulsory periodic COVID-19 testing for unvaccinated workers.

For example, in the manufacturing industry, SMEs could tap on industry initiatives that were offered jointly by a number of trade associations or with government agencies and/or with other partners. This included the Manufacturing Alliance Transformation Office (MATO), which was led by SMF with four other trade associations in Singapore to assist manufacturers with digitalisation and automation gearing towards industry 4.0.⁴⁵ MATO has supported over a hundred companies since its inception in January 2021. Support was also provided by SMF this year to help industry workers return to work safely through the launch of the Testing, Tracing, Vaccination (TTV) programme, which provides preferential rates for COVID-19 polymerase chain reaction (PCR) testing, antigen rapid testing (ART),

44 Choo Yun Ting. "Automation helps firms ease labour crunch, shorten processes," The Straits Times. <https://estates.jtc.gov.sg/jid/stories/automation-helps-firms-ease-labour-crunch-shorten-processes> Accessed 11 October 2021.

45 MATO is a three-year programme led by SMF in conjunction with partners SBF, SGTECH, Singapore Industrial Automation Association (SIAA), and Singapore Precision Engineering and Technology Association (SPETA).

and serological testing for overseas business travel and routine testing needs.⁴⁶ Another initiative, the Global Ready Talent Programme (internships) under ESG, in collaboration with institutes of higher learning and trade associations, enabled funding for Singapore enterprises to build a pipeline of talent to support expansion plans. Singapore enterprises offering student internships are eligible for up to 70% funding rebates on a monthly stipend.

The close working relationship and networks between trade associations and chambers locally and in the region also enabled greater sharing of information and best practices, which benefited business communities seeking new opportunities overseas. Trade associations, including SBF and SMF, have a vast network to connect local enterprises to business groups and networks overseas. Examples include the SBF BusinessASEAN Network and GlobalConnect@SBF and virtual trade fairs supported by SMF with its regional partners. Alongside government initiatives and grants, industry support had enabled SMEs to cope with the pandemic and identify new opportunities by finding new suppliers and customers and expanding to new markets.

Recommendations

Given the varying impact of COVID-19 on Singapore SMEs, the support measures provided by the government and industry associations, and the strategies that some SMEs adopted to enable their business to survive and recover, the path to achieve economic growth and sustenance will need to focus on three main areas: (1) innovation and digitalisation, (2) border management, and (3) trade cooperation.

Innovation and digitalisation

Under a prolonged battle with the pandemic that depleted reserves of SMEs and several rounds of fiscal measures provided by the Singapore government to businesses in affected sectors, future support for SMEs will need to be targeted to specific businesses within the industry to provide assistance where it is most needed. Policymakers will need to identify strategic priorities to help SMEs develop resilience and achieve sustainable growth in an uncertain pandemic environment.

46 There are two programmes under the TTV. Outbound predeparture testing provide testing to allow business travel such as to visit overseas manufacturing sites. Rostered routine testing provide testing that are mandatory for industry sectors such as F&B and construction within the SMF compound.

With a significant number of SMEs undergoing challenges in cash flow and liquidity, plans for innovation and market expansion were often shelved to manage more crucial aspects of the business. Doing so has had implications on the future growth of SMEs due to the lack of investment in areas to develop and expand their business.

While there were financing schemes and grants for SMEs, only around 7.8% of all SMEs applied and were granted loans under the COVID-19 financial schemes.⁴⁷ Engaging in digital transformation and upskilling of workers for some SMEs in non-labour-intensive sectors was also of lower priority, as SMEs expected lower return of investment with weakened domestic demand and slow economic recovery. Hence, there is need to continue to provide support for industry transformation and adoption of innovative digital tools in more-traditional and less-digitalised sectors to enable greater growth for these SMEs. Incentive measures and support packages for productivity and automation also need to be customizable for various sectors as SMEs have individual needs because they offer unique products and or services.

More targeted support in grants and disbursement could be provided to businesses across sectors, with those from affected sectors receiving more handouts and enhanced support provided, in addition to businesses that could substantiate reasons for additional handouts. This will allow grants and incentives to be leveraged by businesses that are negatively impacted and avoid government handouts to businesses that have been positively impacted by COVID-19.

Border management

Managing the borders while ensuring that essential supplies, raw materials, and labour can enter Singapore will be critical to a small economy that lacks natural resources. Tightened border measures in the past 18 months have intensified labour shortages particularly in construction, manufacturing, and food services. High costs of quarantine and testing for workers entering Singapore further raised the cost of SMEs in Singapore that are highly reliant on foreign labour and induced SMEs to cut down on business travel. Some Singapore firms also have manufacturing plants located in the region and may require regular site

47 From author's calculation using the number of SMEs that were granted loans under the Temporary Bridging Loan (TBL) Programme, Enhanced Working-capital Loan (EWCL), and Enhanced Trade Loan (ETL) and the number of SME enterprises in Singapore in 2019.

inspection or seek market-expansion opportunities through business trips. Such business activities were disrupted with tightened border restrictions imposed.

The gradual opening of Singapore's border will be necessary to strengthen the growth of many industry sectors and revive the tourism industry, which has dropped precipitously. Finding ways to reduce costs of quarantine and tests for returning business travellers and enable smaller firms to seek new market opportunities overseas will also complement the government's existing strategy to help SMEs internationalize.

Trade cooperation

Even though substantial support was provided by the Singapore government to help small retailers onboard e-commerce platforms to improve sales, there remain substantial trade and regulatory hurdles for SMEs entering new markets. For instance, the development of new e-commerce rules on consumer protection and imposition of digital taxation has placed the burden on SMEs to decipher new digital-trade rules. Furthermore, traditional trade challenges such as tariff and nontariff barriers remain significant to SME manufacturers and traders in the region.

Such challenges in trade will require mutual cooperation by countries to streamline trade procedures and eliminate obstacles to SME trade by establishing free-trade agreements and memoranda of understanding. Addressing supply-chain disruption and delays in shipping that were cited as key challenges for SME manufacturers and retailers will entail greater knowledge exchange and industry support by trade associations and networks to enable SMEs to find new suppliers to diversify its supply chain.

Conclusions

SMEs in Singapore have adopted strategies to mitigate the adverse impact of the pandemic and adhere to the safe-management measures imposed by the government by maintaining their operations, building cash flow, lowering costs, and adopting digital tools and technologies. To cope with revenue losses, some SMEs have tightened spending and postponed investments in business development and upgrading of infrastructure, where returns are not foreseeable in the near term.

Most small businesses in Singapore have taken advantage of grants and subsidies where available to improve their cash flow and adopted some form of digital tools to maintain an online presence and to communicate with employees

and clients. Digital tools and infrastructure were also used for communication and COVID-19 response by the Singapore government, such as chatbots and information disseminated through messaging applications like WhatsApp and Telegram. This allowed a more rapid response by businesses and informed its citizens with the most recent updates on the COVID-19 situation. Government and industry initiatives provided support to SMEs in cash flow, growth and transformation, financing, and in defraying costs.

Micro and small enterprises that are often resource-strapped remained cautious in spending on business development and expansion. They were, however, prepared to launch new plans and strategies when recovery or greater opening of the Singapore economy is anticipated. With Singapore's vaccination rate surpassing 80% as of end August 2021, businesses were optimistic about the future of doing business. Equipping businesses with means to stay resilient in an uncertain business environment will be key to overcome new challenges.

Policies for SMEs should not only meet their current needs but also embed initiatives that generate robust growth and innovation for more sustainable outcomes. As Singapore's growth is largely driven by external demand, the need for greater cooperation amongst governments and industry associations in the region to support SME trade is magnified under the uncertainty imposed by the pandemic situation.

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers



5

**Multicountry
Report**

COVID-19 and the Future of Doing Business in Asia: Towards a Better Normal for SMEs and Their Workers

The COVID-19 pandemic tremendously impacted businesses across Asia, depressing demand and disrupting supply chains due to various lockdown measures imposed by governments to mitigate the spread of the virus. Uncertainty about future recovery likewise dampened confidence among consumers and investors. While each country faced unique challenges resulting from various forms and stringencies of lockdown restrictions, common adversities affected small and medium enterprises (SMEs) across the region, notwithstanding differences in firm and sector characteristics. SMEs that survived the crisis, thus far, continue to struggle, persevering through evolving market conditions and adjusting to new ways of doing business, while prioritizing the health and safety of their people.

This report examines the impact of the pandemic on SMEs in Japan, Singapore, Thailand, and the Philippines, and investigates their strategic response to the crisis using a framework adopted from Wenzel et al., (2020), categorizing response strategies as retrenchment, preserving, or innovating.

Based on our analysis, we discussed key insights on how SMEs in the four countries coped with generally adverse market conditions, sustained their businesses, introduced innovations, and built their resilience throughout the pandemic. We also studied how firms' strategic responses may have affected their employees, and whether firms adopted specific strategies for the protection and welfare of their workers. Finally, we examined whether SMEs adopted more inclusive or sustainable business practices as they underwent strategic renewal in response to the crisis. From the insights gained through our analysis, we presented recommendations for local and national government in providing support and developing an enabling environment for SMEs and their workers to build back better and position themselves towards success in the next normal.

Government Response to the COVID-19 Pandemic

Comparison of lockdown restrictions and stringency across countries

Although restrictions to movement and activities or lockdowns were a central feature of the national COVID-19 containment strategy adopted by each of the four countries included in the study, the degree to which mobility was restricted, the total duration of lockdowns, and the frequency of changes in lockdown stringency varied across countries. Table 2.1 summarizes the various lockdown restrictions implemented in Japan, Singapore, Thailand, and the Philippines. Shortly after the World Health Organization (WHO) declared a pandemic in March 2020, governments of the four countries responded by imposing travel bans from high risk countries, limiting nonessential business activity, and restricting large public gatherings. During the second and third quarters of 2020, all four countries gradually eased their respective restrictions by allowing more significant movement of people and goods and, to a degree, a gradual reopening of schools and businesses. However, with the arrival of deadlier and more-contagious variants of the virus in the fourth quarter of 2020, stringent restrictions had to be reintroduced and persisted until the second quarter of 2021. As vaccination programs across the four countries began to pick up to varying degrees, governments began to gradually relax restrictions again by the third quarter of 2021.

Table 1.1. COVID-19 lockdown restrictions and mitigating measures in select Asian countries

	Japan	Singapore	Thailand	Philippines
2020 Q1	<ul style="list-style-type: none"> Imposed entry restrictions to travelers from certain parts of China 	<ul style="list-style-type: none"> Increased travel bans on visitors from high risk areas Partial restrictions on public gathering Advised public to stay home 	<ul style="list-style-type: none"> Banned international travel from high risk regions Closure of all nonessential businesses/ workplaces 	<ul style="list-style-type: none"> Imposed internal and international travel restrictions Imposed curfews and stay-at-home orders Closure of nonessential businesses

	Japan	Singapore	Thailand	Philippines
2020 Q2	<ul style="list-style-type: none"> Expanded entry bans on several countries but eased travel restrictions during the latter part of the quarter Requested public to stay home Closure of schools and public facilities 	<ul style="list-style-type: none"> All nonessential workplaces and schools closed in April Allowed limited movement of people Allowed reopening of schools, businesses, religious and tourism places 	<ul style="list-style-type: none"> Banned international passenger flights; imposition of national curfew on the first part of the quarter Relaxation of protocols during the latter part of the quarter: reopening of some businesses, shortened curfew, easing on cross-border travel 	<ul style="list-style-type: none"> Advised the public to remain at home Nonessential businesses remained closed Resumption of some domestic flights
2020 Q3	<ul style="list-style-type: none"> Restriction on traveling outside Tokyo Allowed essential-business exchange between two countries 	<ul style="list-style-type: none"> Reopened Singapore & Malaysia border 	<ul style="list-style-type: none"> Lifted restrictions on incoming flights Reopened checkpoints along borders and schools 	<ul style="list-style-type: none"> Gradual removal of restrictions in some parts of the country and partial reopening of the National Capital Region Shift between lockdown and reopening of certain cities, depending on local conditions Lifted restrictions on nonessential outbound travel

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

	Japan	Singapore	Thailand	Philippines
2020 Q4	<ul style="list-style-type: none"> Allowed entry of students and dependents cross-border business travelers Restricted entry from all countries 	<ul style="list-style-type: none"> Fully returning to normal except for large gatherings and the elderly, who were advised to remain at home 	<ul style="list-style-type: none"> Reopened the country to foreign visitors Imposition of restrictions on large gatherings for year-end festivities 	<ul style="list-style-type: none"> Banned entry of travelers from selected countries
2021 Q1	<ul style="list-style-type: none"> Shortened operating hours of restaurants and teleworking Residents refrained from nonessential outings Suspended business-travel arrangements with selected countries Allowed entry of international spectators for Tokyo Olympics 	<ul style="list-style-type: none"> Eased restrictions on social-gatherings and capacity limits in public places 	<ul style="list-style-type: none"> Applied restrictions on red-zone provinces: closure of schools, ban on high-risk activities 	<ul style="list-style-type: none"> Longer curfew hours were imposed in the capital due to the surge in new cases Reopened tourism sites and other establishments

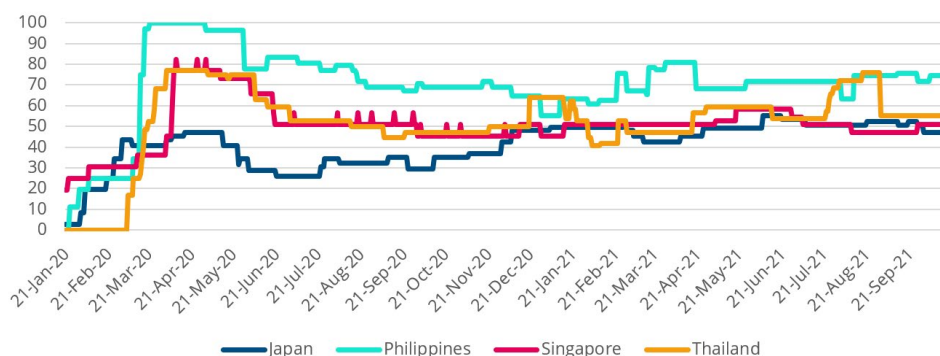
	Japan	Singapore	Thailand	Philippines
2021 Q2	<ul style="list-style-type: none"> Tightened the entry rules on COVID-19 test certificates 	<ul style="list-style-type: none"> Tightened border measures for travelers from selected countries Tightened workplace measures Disallowed social gatherings 	<ul style="list-style-type: none"> Variety of entry restrictions imposed on additional provinces Closed schools, restricted gatherings, and high risk activities for two weeks (April) Closed borders to travelers from selected countries 	<ul style="list-style-type: none"> Banned entry of travelers from selected countries Heightened measures on border-control points
2021 Q3	<ul style="list-style-type: none"> Relaxed its strict quarantine measures for about two dozen countries and regions 	<ul style="list-style-type: none"> Implemented vaccine-differentiated border measures Continue the planned second step in the easing of community measures Limited in-person gatherings 	<ul style="list-style-type: none"> Imposition of a nationwide ban on public gatherings; ban on commercial domestic flights to dark-red-zone provinces; extended lockdown for two weeks (August) Relaxation of restrictions during the latter part of the quarter: shortened curfew hours, allowed domestic flights to and from Bangkok and other high risk areas 	<ul style="list-style-type: none"> Extension of the travel ban from selected countries Pilot implementation of granular lockdown in the capital region

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

	Japan	Singapore	Thailand	Philippines
2021 Q4 (October)	<ul style="list-style-type: none"> Imposed a ban on new entries by all foreign visitors in response to the Omicron variant; requested airlines to halt new reservations for international flights 	<ul style="list-style-type: none"> Enhanced testing protocols for arriving travelers in response to the Omicron variant 	<ul style="list-style-type: none"> Banned the entry of people travelling from eight African countries it designated as high risk for the new Omicron variant 	<ul style="list-style-type: none"> Tightened border controls to keep out the new Omicron variant; imposed a travel ban covering seven African and seven European countries

Sources: Asian Development Bank. (2021). United Nations Economic and Social Commission for Asia and the Pacific. (2021). Center for Strategic and International Studies. (2021).

The Oxford Coronavirus Government Response Tracker measures each country's COVID-19 response rigor using metrics such as the closure of schools, workplaces, public transportation, internal and international travel restrictions, and public-gathering restrictions (Blavatnik School of Government, University of Oxford, 2021). As shown in Figure 2.1, the Philippines consistently implemented the longest, continuous, and most-stringent lockdowns between January 2020 and September 2021, while Japan implemented the least-stringent restrictions to business activity and movement within the country. We discussed later in the report how the severity, duration, and frequency of changes in lockdown restrictions had consequences on SME performance and strategic response as the pandemic ensued.

Figure 1.1. COVID-19 stringency index

Source: Oxford Coronavirus Government Response Tracker COVID-19 Stringency Index (OxCGRT)

Government support for SMEs and their workers

To cushion the impact of the crisis, each country government implemented various programs to support SMEs. A summary of the different aid measures for SMEs in response to COVID-19 in Japan, Singapore, Thailand, and the Philippines is presented in Table 2.5. The most common intervention was through debt financing, including subsidized loans, debt restructuring, and deferral of debt payments. Most governments also provided additional liquidity specifically to financial institutions that lent to SMEs. Even before the pandemic, access to finance was one of the most important elements that determined the survival and success of SMEs (Corredera-Catalán et al., 2021). As the pandemic crisis dragged on, the proportion of small businesses needing financial assistance grew significantly.

Japan provided special low-interest-rate loans to firms that reported declining sales; and Singapore, Thailand, and the Philippines increased loan ceilings and maximum loan support for their SME lending programs. The total amount of loans released to SMEs varied greatly between developed and developing economies included in the study. In Singapore, over USD 16 billion worth of loans were provided by the Singapore government to SMEs since the beginning of 2020 (See, 2021), compared to only USD 110 million worth of loans released through a similar facility in the Philippines (Small Business Corporation, 2021).

Other forms of business support included rent relief, reduction of government fees, and tax relief. To preserve current employment, governments also provided wage subsidies in support of businesses.

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

Singapore’s comprehensive support package particularly stood out for its forward thinking. Recognizing the important role of digitalization in strengthening business resilience and improving SME competitiveness, the Singapore government provided direct subsidies for the purchase and implementation of IT solutions and equipment together with information and assistance campaigns to encourage SMEs to adopt digital solutions, including e-commerce. One of Singapore’s programs, for example, was the expansion of its E-Commerce Booster Package, which provided one-time support for eligible retailers, subsidizing 90% of set up and operating costs (up to three months) of their e-commerce operations.

Table 1.2. SME support in response to COVID-19 in Japan, Singapore, Thailand & the Philippines

Debt Finance						
Country	Liquidity support for financial institutions/ capital injection	Debt restructuring/ deferral of debt payments	Relaxed lending conditions/ interest-rate reduction	New lending to MSMEs/ emergency refinancing facility	Special credit guarantees	Regulatory forbearance
Japan				√	√	
Singapore	√	√		√		√
Thailand	√	√	√	√	√	√
Philippines	√	√	√	√	√	√

Tax Relief				
Country	Corporate-tax reduction	Expedited tax refunds	Incentives for investors	Payroll, social security, VAT, and land taxes
Japan				√
Singapore	√			√
Thailand	√	√		√
Philippines				

Employment Support					
Country	Wage subsidies	Support for informal/self-employed workers	Unemployment benefits	New working arrangements	Labor-training subsidies
Japan	√	√			
Singapore	√	√			√
Thailand		√	√		
Philippines	√	√	√		√

Business Support						
Country	Reduced utility payments	Reduced rent/leasing	Reduction/waiver of government fees	Reduced import restrictions	Focus group expenditure programs	Vouchers for remote business services
Japan						√
Singapore		√	√		√	√
Thailand	√		√		√	
Philippines	√	√	√		√	

Note: Table was derived from Shinozaki & Rao (2021) and edited based on updates from the World Bank Map of SME-Support Measures in Response to COVID-19.

While SMEs have been observed in past crises to survive on their own with little or no direct intervention from government (Musa & Priatna, 1998; Shinozaki, 2012), differences in the nature, amount, and duration of government support may significantly impact the pace and quality of recovery postpandemic. Policy recommendations made at the end of this report focus on postpandemic recovery, building resilience, and increasing SME competitiveness based on our findings about how SMEs coped and responded strategically to the pandemic crisis.

Strategic Response of SMEs During Crises

In their recent systematic review of research on firms' potential response to crises, Wenzel et al., (2020) described four categories of strategic response: retrenchment, persevering strategies, innovating strategies, and exit. The crises studied by papers reviewed by Wenzel et al., included economic/financial crises (i.e. 1997 Asian Financial Crisis, 2000 Dot-com Bubble, and 2008 Great Recession) as well as "natural" and "man-made" disasters (e.g., 2011 Fukushima nuclear meltdown, 2015 migration crisis, and various political crises). As they went through different kinds of crises, firms responded in different ways, depending on the length of the crisis and the specific stage in the crisis they were in.

Faced with a crisis, some firms found *retrenchment* necessary, particularly to address increasing liquidity concerns in the short run. The aim of retrenchment was to reduce costs (Pearce & Robbins, 1993), narrow the scope of business (Pearce & Robbins, 1994), decrease complexity, and increase transparency (Benner & Zenger, 2016; Gartenberg, 2014). Adopting retrenchment strategies in the short run may be important for long-term recovery by stabilizing performance and improving focus (Robbins & Pearce, 1992). However, continued retrenchment over a long period of time may erode a firm's key resources, capabilities, and culture (Ndofor et al., 2013).

In the medium term, some firms adopted *persevering strategies* aimed at maintaining the status quo, keeping activities as close as possible to "business as usual" and minimizing the adverse impacts of the crisis on operations (Wenzel, 2015). Persevering strategies may be particularly useful when firms face frequently changing conditions during the crisis because, otherwise, having to frequently change strategic direction may be detrimental to the firm's success (Stieglitz et al., 2016). However, persevering strategies became more difficult to sustain the longer the crisis persisted as resource constraints became tighter.

In an extended crisis, some firms adopted *innovating strategies* in search of alternative sources of revenue by widening or shifting the scope of business (Reymen et al., 2015), as they approached the crisis as an opportunity for strategic renewal. Given mounting resource constraints to persevering over time, firms may have no choice but to innovate in the longer run as the crisis persists (Wenzel et al., 2020). Timing is important when it comes to adoption of innovating strategies, as the opportunity to allocate increasingly scarce resources to innovation may close quickly if resources ran out from persevering too long. When these responses fail or could not be effectively implemented due to various constraints, *exit* and the discontinuation of all business activities may be the final recourse for a firm in response to the crisis.

Data and Methodology

For this report, we used consolidated data gathered by research teams in Japan, the Philippines, Singapore, and Thailand from qualitative expert interviews with SME owners/managers, allowing us to closely capture the subjective experiences of respondents (Graebner et al., 2012) and gain insight into the similarities and differences among cases (Guest et al., 2006). Aside from interviewing SME owners/managers, the research teams also conducted qualitative expert interviews with various government agencies involved in SME policy at the national and local levels in each country studied. Additionally, employees of SMEs were also interviewed to triangulate with the qualitative data collected from SMEs to gain a complete understanding of the developing themes (Dana & Dana, 2005).

Data were collected using semistructured interviews. Although some questions varied depending on the relevance to a specific country, focal topics of interest were common across all countries as derived from the current literature (Perry, 1998). Interviews were conducted online through videoconferencing between July and August 2021. On average, interviews took about 75 minutes to complete and were conducted by trained interviewers. We employed a purposive-sampling technique (Morse et al., 2002) to make sure that respondents were key informants representing top management or owners of the firm, that the firm was classified as an SME, and that the firm belonged to one of three major economic sectors—manufacturing, wholesale and retail trade, and other services.

A summary of respondent characteristics per country is shown in Figure 2.1, and detailed descriptions of each respondent can be found in Appendix A. A total of forty-six (46) SME owners-managers were interviewed across the four countries covered in the study. In all countries, majority of SME interviewed were from the services sector (including the wholesale and retail subsector) since most SMEs belonged to this sector in each country studied. Majority of SMEs interviewed were at least ten years old.

Figure 2.1a. Distribution of SME respondents by industry

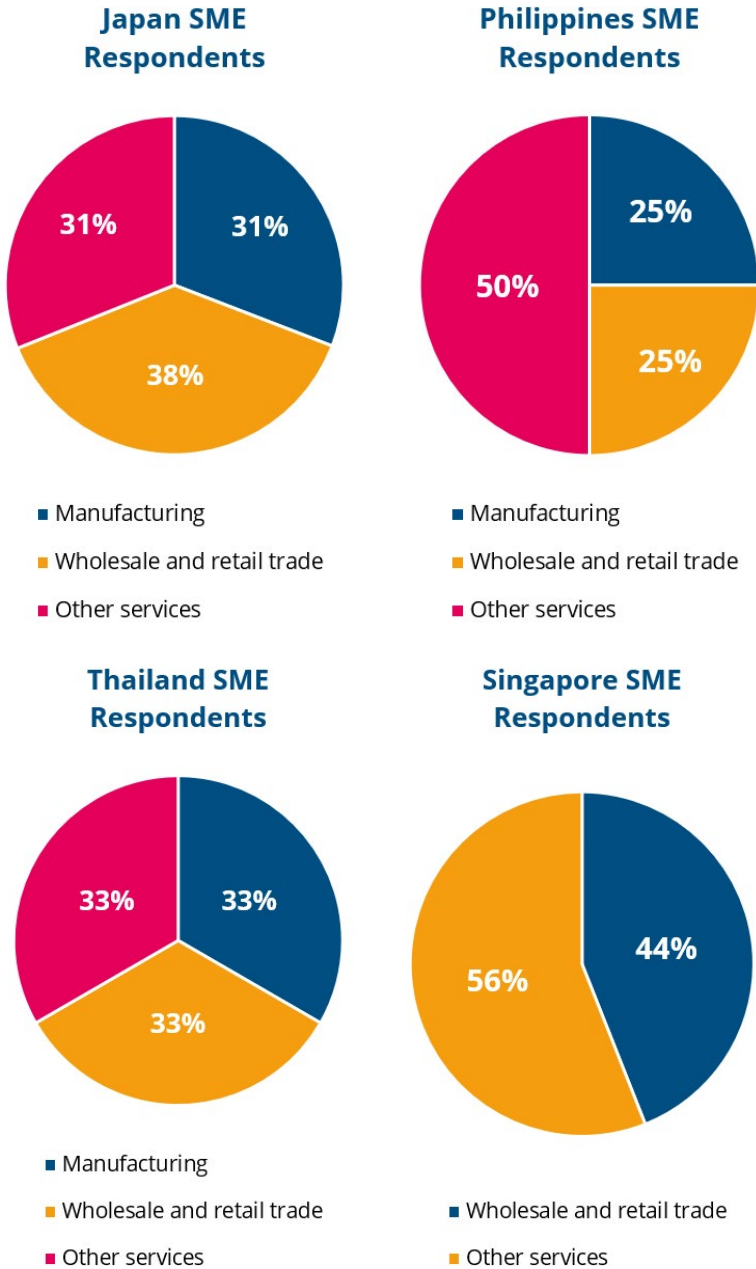
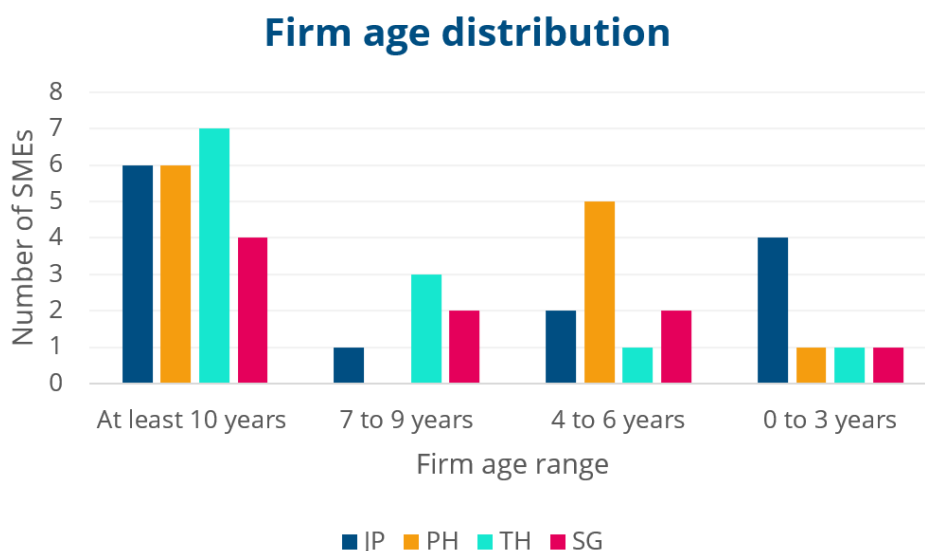


Figure 2.1b. Distribution of firm age

Interviews were generally limited to highly urbanized metropolitan areas (Tokyo Metropolitan Area, Metro Manila, Singapore, and Bangkok). Thus, our findings and recommendations may not reflect the experiences of SMEs in rural areas. Nonetheless, SME experiences across the four countries covered are generally comparable.

The use of a semistructured interview guide allowed the interviewers to probe into topics of interest while letting the respondents give a more detailed account of their insights and share their experiences naturally. The interviewers also asked open-ended questions that allowed for follow-up questions, allowing the respondent to elaborate on points not part of the interview guide but that were relevant to the study. The interviews covered the following broad thematic areas:

- The impact of the COVID-19 pandemic on SME business performance;
- Strategic responses adopted by SMEs reflecting their business agility, innovation, resilience, and relationship with their employees;
- Implications of SME strategic responses to the crisis on the future of doing business;
- Sustainable and inclusive business practices adopted throughout the crisis; and
- Government support measures for SMEs and their workers.

Following recommended approaches to thematic analysis (Fereday & Muir-Cochrane, 2006), we analyzed the qualitative data gathered to uncover themes in the areas identified above.

Findings

Immediate impact of COVID-19 on SME performance

Majority of SMEs in all four countries experienced decreased sales revenues for some period during the pandemic, although the severity of the decline varied across sectors and among specific businesses. Movement restrictions, limits to business operations, and physical-distancing protocols dampened both market demand and firm output for SMEs in Thailand, Singapore, and the Philippines. In Japan, where the national government did not impose hard lockdowns, notably fewer SMEs reported a severe decline in business activity during the pandemic.

However, differences in market conditions prior to the crisis may have leveled outcomes for SMEs across the four countries. SMEs in the Philippines, Singapore, and Thailand reported good performance and were generally optimistic about market conditions before the pandemic. In contrast, some Japanese SMEs from the wholesale and retail sector reported poor business performance even before COVID-19, which made them more vulnerable when the crisis hit even if lockdowns in Japan were not as severe as in other countries.

Many firms in the services sector, particularly those in the business of wholesale and retail trade, reported a huge drop in sales as customer traffic drastically fell. Businesses that depended heavily on face-to-face transactions and service delivery (e.g., restaurants, events, tourism) were most affected.

Significant supply-side issues were reported by firms in some countries, particularly in the manufacturing sector. In Singapore, travel restrictions and tight border controls resulted in a shortage of foreign workers and material inputs from overseas. Some SMEs in Japan also reported labor shortages, as their workers opted to stay at home due to fears of contracting the virus, resulting in reduced productive capacity among manufacturers.

While the immediate impact of the pandemic on performance for majority of SMEs interviewed was negative, a small number of firms reported an increase in sales revenue as the crisis ensued. In Singapore and Japan, SMEs that provided information technology and other digital services (e.g., cybersecurity, video editing) reported increased revenues as the adoption of digital tools and platforms accelerated. In Thailand and the Philippines, SMEs that produced

health equipment and medical supplies (e.g., face masks) experienced growth in sales.

Crisis-response strategies adopted by SMEs

In response to a crisis—the nature, severity, and duration of which had been unlike any other previously experienced or anticipated—SMEs in all four countries adopted multiple strategies that continuously evolved as the pandemic ensued. We present key observations from the experiences of SMEs interviewed in Japan, Philippines, Singapore, and Thailand.

1. SMEs significantly affected by lockdown restrictions adopted retrenchment strategies to safeguard liquidity and ensure immediate survival.

Facing a significant decline in sales due to severe restrictions to movement and operations in their markets, SMEs resorted to various cost-reduction strategies aimed at preserving liquidity. Most firms in Thailand, Singapore, and the Philippines, where lockdowns were particularly stringent, cut back on salary expenses by shortening work hours, forgoing bonuses and incentives, and reducing the number of full-time staff. In Japan, however, where hard lockdowns were not imposed, none of the SME respondents reported cutting back on salaries or intentionally decreasing staff numbers.

For some wholesale/retail firms, downsizing was adopted alongside the shift to e-commerce and digital automation of tasks—one firm in the Philippines and another in Thailand completely eliminated their sales teams as they shifted to purely online sales through a centralized digital platform. Other strategies aimed at reducing overhead costs were also linked to adoption of digital tools, such as reducing traditional-advertising expenses in favor of more cost-effective digital campaigns, insourcing of business support services, and letting go of leased office space as employees were allowed to work remotely.

2. SMEs demonstrated resilience in adopting telework and maximizing the use of digital communication tools to sustain productivity while strictly complying with government-mandated health and safety protocols.

In compliance with government directives, all SME respondents adopted work-from-home arrangements for job functions that could be performed remotely—mainly administrative and back-office functions for most firms as well as sales and marketing for some. Some SME respondents reported having

to incur additional expenses to purchase productivity software, digital tools and applications, and computer equipment to enable telework, alongside new overhead expenses for communications allowances. Nonetheless, the shift to telework also resulted in reduced transportation costs, incidental expenses, utility expenses, and office-rental fees for some firms. SMEs across all sectors and countries intensified their use of digital communication tools—email, SMS, instant messaging, videoconferencing—for both internal and external communications. Instant-messaging (e.g., Viber, Facebook Messenger, and WeChat) became especially important for Philippine SMEs in wholesale and retail as a new channel for receiving inquiries and orders from customers. Some firms noted that the cost efficiency realized with the use of digital communications tools motivated them to continue using these tools even after restrictions were eased.

SMEs across all sectors reported, however, that not all job functions could be performed remotely. Physical-distancing protocols and work-from-home mandates had significant impact on operations particularly for firms whose business required physical transactions and on-site activities. In Japan, where telework was “encouraged” but not imposed on firms, some SMEs in the manufacturing sector reported labor shortages, as employees opted not to report to work due to fears of contracting the virus.

Despite having to shoulder additional costs to implement public-health measures, all firms took concrete steps to keep their employees and customers healthy, often beyond what was required by government. SMEs incurred additional expenses to implement regular sanitation and disinfection measures, conduct workplace safety and health training, and install protective barriers and health equipment (e.g., thermometers, hand-sanitizer dispensers). For many firms, these measures put increased pressure on financial resources.

3. SMEs quickly developed business-process innovations through digitalization.

In all four countries, SME respondents across all sectors introduced process improvements involving digitalization in response to evolving market conditions. All firms also reported increased digitalization in various aspects of their business. As SMEs accelerated digitalization of core business activities, many firms began to realize the benefits of digitally transforming their operations—potentially lower overhead costs, greater market reach, and better resilience against frequently changing lockdown restrictions.

Some firms indicated their intention to keep such process innovations postpandemic.

Adoption of digital payments and e-commerce was a key coping strategy for SMEs during the crisis. Many firms that sold physical products, whether in wholesale/retail or manufacturing, shifted their marketing activities online as they sought alternative ways to reach their customers whose movement was severely restricted by lockdowns or who were hesitant to transact in person. In Thailand and the Philippines, where digital marketing was still in early stages of adoption among SMEs before the pandemic, most firms quickly started promoting products through social media and online communities as soon as the crisis hit. These included both business-to-consumer (B2C) and business-to-business (B2B) marketing. The relatively low cost of promoting products through digital platforms was particularly encouraging for SMEs trying it for the first time. In Japan and Singapore, where the use of digital technologies among SMEs to promote and sell their products (e.g., through company websites and social media) was already common, the use of digital marketing intensified further as firms accelerated e-commerce adoption. Facebook and Instagram were the most popular platforms utilized by SMEs for digital marketing.

In the Philippines and Thailand, less-costly promotions through instant-messaging (e.g., Viber groups) was also very popular among SMEs for both B2B and B2C marketing. The instant-messaging format was also preferred by some customers in these countries, as correspondences over chat more closely resembled face-to-face interactions compared to website or online-marketplace transactions, which some customers were not familiar or comfortable with yet. A hardware-supply wholesaler/retailer in the Philippines and a pharmacy in Thailand both highlighted how they conducted interactions with customers online as close as possible to their customers' experience in-store (e.g., addressing questions about the products and its applications, offering special deals, and collecting order details) by using "chat commerce." With minimal training and equipment requirements for adopting this form of e-commerce, SMEs that utilized the live-chat format simply modified the job descriptions of their in-store sales personnel to conduct online sales.

In all countries, SMEs saw a significant increase in commercial transactions over alternative channels, either through telephone/SMS or through the internet—email, website, instant messaging, and e-commerce platforms. Even in Japan, where all SMEs interviewed had already been doing some form of promotion through digital platforms prior to the pandemic, more

than two-thirds of interviewed firms adopted e-commerce for the first time only after the crisis hit.

SMEs that shifted to e-commerce on more sophisticated platforms such as online-marketplaces or on-demand delivery services often had to make substantial changes in other operations, including accounting and inventory management. Many firms also began accepting electronic fund transfers and various forms of digital-payments. Among SMEs interviewed, firms in service industries (e.g., construction/home repair, food service, education/training), followed by firms in wholesale and retail, were generally more advanced in their use of digital marketing and e-commerce compared to manufacturing firms.

While most SMEs that innovated key business processes during the pandemic focused on marketing operations, some firms also innovated production and delivery methods. For example, two SME respondents—a karate dojo and a foreign-language school—both started conducting online classes, despite initial hesitation among teachers, to offset the drop in demand for face-to-face sessions.

4. SMEs gained access to new customers and markets through e-commerce.

Adoption of e-commerce and digital-marketing channels allowed SMEs to pursue geographical diversification, reaching new customers outside their traditional geographical market. For example, a foreign-language school in Japan that catered mainly to local students studying English and foreigners in Japan studying Nihongo found new customers in Europe wanting to learn the Japanese language through sessions over Zoom. In the Philippines, a firm in the food-service business that primarily served commuters passing through local transportation hubs where their kiosks were located found new customers in other cities within Metro Manila ordering for their entire family at home through an on-demand food-delivery service.

The shift to e-commerce also enabled some manufacturers and wholesalers to directly engage in retail selling themselves, bypassing their traditional retailers. Most SME respondents expected to maintain their multichannel (online and off-line) sales and distribution strategy even after the pandemic crisis, given the shift in their customers' digital habits and the new markets they successfully tapped through e-commerce.

5. Uncertainty and challenges to adoption of digitalization and e-commerce persisted among some SMEs.

Digitalization of key business processes and quick adoption of e-commerce were a lifeline for SMEs amidst lockdown restrictions. The digital transformation of their businesses, however, was not without challenge for many SMEs. Not all employees had the digital skills necessary for the use of new applications and platforms. One wholesale/retailer from the Philippines decidedly kept their shift to e-commerce minimal (i.e. email and instant messaging/SMS for receiving orders and confirming bank-transfer payments from regular clients), even if other retailers in the same business had already shifted to selling in online marketplaces. The owner-manager cited reluctance to incur anticipated costs of setting up their online presence, producing digital promotional materials, and training their store clerks to manage their online merchant account or payment gateway. In Japan, despite decline in sales through physical channels, a quarter of SME respondents did not seek to increase their digital-marketing activities beyond what they had already been doing pre-pandemic (i.e., website and email campaigns) due to lack of competent staff to manage new initiatives (e.g., social media and e-commerce platforms).

Some firms had doubts about the sustainability of recent changes they introduced while on “survival mode” and reported their intention to return to “business as usual” when the pandemic ended. Most manufacturers in all four countries believed that showcasing their products (i.e. pottery, handicraft, garments, wearable accessories, and packaging materials) and discussing customization with B2B customers and retailers were more effectively done through in-person sales calls and product demonstrations than through videoconferencing or digital catalogues.

There were also some SMEs that were concerned that their core competencies were not completely transferable online or that they lost their competitive advantage when shifting to e-commerce. A shoe retailer in Thailand lamented that the recent e-commerce boom and increase in the number of online sellers had forced them to compete primarily in terms of price rather than quality or design, which was previously a competitive advantage for the firm. In the Philippines, a hardware and construction-materials wholesaler noted that shifting to e-commerce, particularly through online marketplaces, failed to leverage on the social capital and trusted network of regular customers/contractors the family businesses built over two generations.

6. SMEs demonstrated agility in responding to swiftly evolving market conditions through product innovation and diversification.

The rapid acceleration of digitalization resulting in various process improvements and the significant shift to e-commerce among nearly all interviewed firms illustrated their agility, which directly contributed to the survival and resilience of SMEs throughout the crisis. Tahmasebifard (2017) described the essence of agility as being able to sense changes and respond to them quickly. Evolving market conditions that characterized the pandemic crisis required quick decision-making, willingness to experiment, and risk-taking.

Alongside process improvements and new marketing channels, majority of firms interviewed also introduced new products, ventured into new businesses, and diversified supplier networks despite turbulent market conditions. SMEs across all sectors observed new or evolving customer needs, and some were able to quickly innovate their products or introduce new product lines to take advantage of arising market opportunities. Firms in the services sector did this through concentric or related diversification, adding new products similar or closely related to their original product lines. For example, a cosmetics retailer in Thailand, seeing a drop in demand for their makeup products, added skin care into their catalogue, as more consumers demanded anti-acne/antiblemish products due to skin problems arising from wearing face masks. Similarly, a public-relations and events-management agency quickly shifted from organizing in-person events (meetings, conferences and trade exhibits) to organizing webinars and digital campaigns.

The shift to e-commerce and adoption of new distribution channels brought opportunities to innovate products or introduce new product bundles. A restaurant in Thailand and a milk-tea-beverage retailer in the Philippines introduced new “combo meals” and family-sized servings to serve customers ordering from home through on-demand food-delivery services.

A small number of firms pursued riskier horizontal and unrelated diversification, venturing into unrelated product lines and new services temporarily to safeguard the viability of their enterprise. A shoe retailer in Thailand started selling homeware (e.g., decorative objects, kitchen tools) on their online platform to offset the drop in demand for shoes, despite the owner-manager’s hesitation that this might affect the company’s brand. A seller of GPS devices in the Philippines became a subcontractor for an on-demand food-delivery service, deploying some of their workers as food-

delivery riders, while the need for delivery and installation of GPS devices remained low. In both cases, horizontal and unrelated diversification was considered by the owners-managers as “necessary” coping strategies given the immense liquidity pressures they faced and their reluctance to let go of valued employees.

SME owners-managers attributed their business agility to quick decision-making at the top—often involving a single decision-maker for the enterprise—and, in many cases, “being a family business.”

7. SMEs in Japan and Singapore leveraged on government support to bolster their resilience; SMEs in Thailand and the Philippines had to be more self-reliant, taking on greater risk in their strategic crisis response.

In Singapore and Japan, where government subsidies and assistance programs were readily available and easily accessible to qualified firms, majority of SME respondents received some form of direct support from government. In some cases, firms adopted strategies specifically to meet eligibility criteria for government assistance or incentives, such as reducing business hours, adjusting work shifts, and maintaining staff numbers to meet government requirements. SME respondents from both countries highlighted the importance of timely financial assistance from their government in helping them cope with their liquidity constraints.

In contrast, none of the SME respondents in the Philippines received financial assistance or subsidized loans from government. In Thailand, where only a few SME respondents availed of government support, lack of information about available assistance programs and perceived difficulty of applying for support kept most respondents from seeking aid.

Immense liquidity pressures that gravely threatened their business viability forced some SMEs in the Philippines and Thailand to respond to the crisis more aggressively than those in Japan and Singapore.

To bridge increasing liquidity gaps particularly during the early months of the pandemic, some SME respondents in the Philippines resorted to borrowing from the personal savings of their owner or owner’s family since access to formal credit was limited. The owner-manager of one SME reported having to mortgage the family home to meet short-term cash obligations.

To cope with declining demand for their original products and safeguard their survival as a company, some SMEs in the Philippines and Thailand resorted to risky, unrelated diversification strategies. None of the SME respondents

from Japan and Singapore pursued unrelated diversification in response to the crisis.

When firms venture into new product lines or business activities that are unrelated to their core products, they risk hurting their productivity, damaging their brand, or undermining their long-term strategic direction when core competencies do not align with the new business and leadership resources are stretched (George & Kabir, 2011; Chang et al, 2013; Alli et al., 2016). Diversification may have positive effects for large companies through financial synergies and influence over suppliers and distribution channels (Haberberg & Rieple, 2008). Research involving smaller firms are limited, but recent studies suggest that SMEs are still better off focusing on core products during earlier stages of growth (Bachtiar, 2020) and that unrelated product-diversification, in particular, may impair performance among SMEs (Benito-Osorio et al., 2020).

8. SMEs adopted an expanded role as employers in addressing social-safety-net gaps.

With or without support from government, SMEs in all four countries embraced employee welfare, health, and income security as part of their responsibility as employers. SMEs coordinated with local and national government agencies to strictly observe public health and safety guidelines, and ensure that their workers were adequately protected from infection. This was the case even in Japan where physical distancing, telework, and other preventive measures were “requested” rather than mandated by government. In Japan, some SMEs adopted inclusive business practices, particularly in hiring differently-abled workers as well as technical interns/apprentices during the pandemic.

In the Philippines, where large gaps in the government’s social safety nets left vulnerable workers exposed, SMEs prioritized safeguarding employee welfare and income security despite facing immense liquidity pressures of their own. Given the lack of government unemployment benefits and social-assistance programs, SME owner-managers knew that their workers would find it very difficult to survive if they lost their sources of income. Many owner-managers reported that their top priority throughout the crisis was to keep their workers employed. One SME that was facing extreme liquidity constraints and had to place several workers on furlough used its local business network to help find temporary jobs for their displaced workers, with the promise of rehiring them as soon as market conditions improved. Aside from seeking income security of their employees, SME respondents in the Philippines also provided their workers financial assistance (i.e. cash

advances and salary loans) and nonmonetary aid such as free groceries and vitamin supplements.

In all four countries, SMEs also spent resources on training and upskilling of employees on the use of digital technologies and on COVID-19 safety and health precautions. There was also a recognition among owner-managers interviewed that the pandemic crisis underscored the critical role that human resources played in their viability of their business.

These behaviors were consistent with findings from other studies suggesting that small firms, especially those that were family-run, behaved more responsibly toward employees compared to larger firms (Chrisman et al., 2005) and aligned their strategic decisions with values that may not necessarily be purely economic or profit-seeking (Dyer & Whetten, 2006).

Policy Recommendations

The past two years have been tremendously challenging for SMEs in Japan, Singapore, Thailand, and the Philippines. SMEs adopted various strategic responses throughout the pandemic, and some firms were able to successfully overcome the challenges of limited operations and declining sales using their own resources and with little government support. However, as firms continue to navigate a still uncertain future, the long-term survival of small businesses remain heavily jeopardized.

Recognizing the vulnerability of small businesses during crises, respective governments adopted policies and initiatives to cushion the impact of the crisis on firms and their workers. Despite these measures, however, there are still gaps that need to be addressed to improve the business environment further and support firms' survival, recovery, and future-readiness as market conditions continue to evolve into the "next normal."

Improved access and awareness for ongoing programs

Access and awareness are critical areas of improvement when it comes to government support for SMEs. While subsidies and assistance programs were made available for qualified enterprises in all four countries, SME respondents reported difficulty in accessing information on government programs and going through the application process due to cumbersome requirements and confusing procedures. A notable exception was Singapore, where many SME respondents gave positive feedback regarding the government support that they received, particularly the ease of applying for and receiving aid. Governments

must facilitate awareness among firms about available programs and encourage access to subsidized loans by minimizing requirements and expediting the loans process. In avoiding the perceived challenges of acquiring subsidized loans, some SMEs resorted to more-costly informal borrowing to address urgent liquidity constraints during the pandemic.

Increased scope, coverage, and duration of assistance

Current government initiatives aimed at providing financial assistance must also be expanded to accommodate more firms. In the Philippines, for example, none of the SME respondents reported having received direct support from government during the pandemic.

Despite demonstrated ability of firms to survive and protect their own employees' welfare, health, and income security during the pandemic, a prolonged crisis may result in decreased long-term competitiveness due to suboptimal decisions intended for short-term survival. For example, given that many SMEs have taken out loans to ease crisis-induced liquidity constraints, government may consider provisional tax relief or credit for firms with new or outstanding debt to support their long-term viability. Small firms with limited revenue-generating potential may find it difficult to repay increasingly large debt burdens without undermining long-term capacity building and innovation.

The quality of assistance programs is equally as important as its scope. Results of our study indicate that the situations faced by SMEs vary across sectors and business models. Thus, there is no one-size-fits-all approach to tide all small businesses over the crisis. Governments should consider sector-specific assistance, as the impact of the crisis and the pace of recovery varies across sectors. Thus, authorities must consider tailoring measures according to the type and size of firms and their ability to withstand shocks (Shinozaki & Rao, 2021).

Support for innovation and digital transformation

In all four countries, digitalization, alongside e-commerce adoption, was a lifeline to most businesses as they coped with lockdown restrictions to movement and operations. Digital transformation is essential to ensure the speed and quality of firm recovery. For many small firms, however, the additional costs and capital investments required by digitalization are major impediments to full adoption. While the Singaporean government provided comprehensive assistance with digitalization and e-commerce adoption among SMEs, other countries have not offered the same level of support. To ensure the viability of SMEs postpandemic, policymakers should make digital-technology adoption a pillar of their industry

roadmaps to support postpandemic transformation. Providing targeted technical support and helping owner-managers and workers enhance their skills through human-capital development is crucial to supporting the digitalization of firms (Business at OECD, 2021).

Crises provide opportunity and impetus for innovation. A setback gives firms a chance to reorganize and improve their business operations (Lim et al., 2020). Although innovative practices have increased among firms during the pandemic, retaining newly adopted digital processes and the transferability of expertise and social networks postpandemic remains a significant hurdle for firms. If governments fail to incentivize and support innovation, the crisis would be a missed opportunity to help SMEs evolve. Thus, policymakers must examine possible incentives and support measures to encourage firms to continue innovating beyond the crisis. Additionally, governments must also increase funding allocations for research and development (R&D) in key industries (Business at OECD, 2021). Future government subsidies and loans may be shifted towards directly supporting or sustaining innovation and digitalization among firms as in the case of Singapore.

Support for workforce development and upskilling

As the crisis unfolds as a catalytic event of “creative destruction” for firms, human-capital development is more valuable than ever for the workforce to remain competitive. The pandemic crises accelerated adoption of digital technologies and e-commerce and the streamlining of operations alongside retrenchment among businesses big and small. However, since larger firms are more likely to invest in human-capital training and development relative to SMEs, workers in small businesses are at a disadvantage, especially during crises (Almeida & Aterido, 2015). To remain competitive, the workforce needs government-funded support in continuing education and lifelong learning. Since SMEs are also in the midst of adopting new technologies and business models, critical to their success is a competitive and future-ready workforce to complement their strategic renewal.

Best practices can be borrowed from Singapore, which has implemented several programs to help avert the lack of investment and resources in worker training, particularly among SMEs. Singapore’s Enhanced Training Support for SMEs (ETSS) offers assistance for the training of small-business employees through SkillsFuture Singapore (SSG) (SkillsFuture Singapore, 2020). There are also digitalization-enabling programs such as the Ministry of Trade and Industry’s (MTI) Innovation Capability Voucher (ICV) program, which covers costs of consulting and training services for SME adoption of information and communication technology (ICT) systems through qualified private-sector service providers in Singapore (ILO,

2017).

Active collaboration between the public and private sectors can increase the coverage and effectiveness of programs aimed at upskilling the workforce of small businesses. Working with industry associations can also help facilitate efficient knowledge transfer. The government can fund the performance-enablement programs, while the private sector can provide the training expertise to ensure suitable industry applicability.

Conclusion

Almost two years into the crisis, small businesses in Asia have slowly re-emerged with cautious optimism. Although SMEs in the region have faced colossal challenges in 2020 and 2021, they are not entirely out of the woods and are facing new obstacles as they strive to build back better. During this period, governments have been able to assess more clearly which policy-response strategies have been effective with minimal repercussions and which ones might have done more long-term damage than good. Likewise, firms have also learned how the evolving strategies they adapted as a response to prolonged periods of depressed sales revenues affect their operations and long-term business plans moving forward from the crisis.

Despite the policy responses from governments to dampen the long-term impact of the pandemic, the crisis has created an unprecedented amount of uncertainty. This uncertainty makes the recovery journey more challenging for firms, whose investment and overall decision-making processes largely depend on expected outcomes. While market volatility is a natural consequence following an external shock, governments can alleviate the effects of uncertainty through effective policy options (McMahon, 2020). With less uncertainty, firms can plan ahead more deliberately and, at the same time, be more flexible to evolving market conditions, thereby becoming more shock-proof. Government-led initiatives to improve access and awareness of ongoing SME-assistance programs and support for digital transformation and workforce development can encourage firms to embrace innovation more openly and focus on rebuilding back better.

The crisis has tested the fragility of small businesses in Asia—and the SMEs that have survived have adopted innovative business practices and strategic pivots, such as digitalization and e-commerce, to tide them over the crisis. The major challenge for policymakers is to craft a timely and efficient set of inclusive policies that reduces uncertainty for firms, enhances business confidence and entrepreneurial activity, and supports innovation and workforce development. At the same time, SMEs should maximize government support and continue

innovating to make the businesses more robust to future shocks.

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Appendix

Appendix A: Respondent characteristics

Respondent	Industry	Number of employees	Year established	Position of respondent
JAPAN				
JP1	Services (videography)	10 (4 permanent)	2019	Representative director
JP2	Services (Karate ground)	5	2012	Head of dojo
JP3	Services (Language school)	80 (8 permanent)	2000 (Ikebukuro) 2007 (Ildibashi)	Representative (Idabashi)/Head-master (Ikebukuro)
JP4	Services (Restaurant)	6 (1 permanent)	2017	Managing director
JP5	Manufacturing (Coffee roastery)	4 (3 permanent)	2002	Founder/Executive director
JP6	Manufacturing (Pottery)	5 (2 permanent)	1914	Managing director
JP7	Manufacturing (Eggs and related products)	40	2020	Managing director
JP8	Manufacturing (Garments and bags)	3 (1 permanent + outsourced staff)	2018	Founder/Executive director
JP9	Wholesale and retail trade (clothes)	5	2006	Founder/Board member
JP10	Wholesale and retail trade (Agricultural products)	30	1983 (Personal business) 2002 (Company)	Executive director

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

JP11	Wholesale and retail trade (Fashion and jewelry)	2 + outsourced staff	2019	Representative director
JP12	Wholesale and retail trade (Beads)	6 (5 permanent)	1997 (Personal business) 2004 (Company)	Representative director
JP13	Wholesale and retail trade (Natural stones and accessories)	1	2016	Representative director
PHILIPPINES				
PH1	Manufacturing and sales of hospital equipment	<50	1951	Vice-President for human resources and building administrator
PH2	Food service	Did not mention	2018	Owner
PH3	Wholesale and retail of hardware and construction supplies	48	2001	Owner/Manager
PH4	Construction and real estate development	26	2017	Owner/Internal operations manager
PH5	Logistics	450-500 (riders alone)	2011	Owner
PH6	Logistics	15 (not mentioned if these are the riders or management staff)	2017	Owner
PH7	Manufacturing and retail of motorcycles, parts and accessories	90-100	2010	Operations manager

PH8	Construction	23-25	2016	Co-owner/General manager
PH9	Manufacturing and sales of plastic-packaging products	Did not mention	2015	Owner
PH10	Manpower services	15	2017	Owner/Marketing director
PH11	Wholesale and retail of GPS devices	30 (regular employees and subcon)	2010	Operations and sales manager
PH12	Wholesale and retail of roofing and construction materials	45 (regular employee and subcon)	1996/1997	Owner/Sales manager
THAILAND				
TH1	Manufacturing (Wood factory)	15	1980s	Marketing manager
TH2	Manufacturing (Printing service to Packaging products & services)	12	2000s	Manager
TH3	Manufacturing (Acrylic products)	13 (permanent) 15-20 (outsourcing)	1994	Manager
TH4	Manufacturing (Iron)	40	1995	Manager
TH5	Services (Export-import service provider)	7	2009	Manager
TH6	Services (Event agency)	8 (permanent) 5-10 (part-time)	2000s	Manager and account executive

COVID-19 and the Future of Doing Business in Asia:
Towards a Better Normal for SMEs and Workers

TH7	Services (Marketing agency)	10	2014	Manager director
TH8	Services (Restaurant)	7 (permanent) 2-5 (part-time)	2019	Manager and founder
TH9	Retail (Online shoe store)	10	2018	Manager
TH10	Retail (Bag and luggage authorized distributor)	2 (permanent) 3-4 (freelance)	2012	General manager
TH11	Retail (Pharmacy)	15	1995	Manager
TH12	Retail (Cosmetic branding/marketing)	30	2014	Co-founder and CEO
SINGAPORE				
SG1	Services	11-50	1999	Director of operations
SG2	Retail and wholesale-trade	>50	2011	Hr and admin manager
SG3	Services	11-50	2019	Chief medical informatics officer
SG4	Services	Subcontractors in the Philippines	2017	CEO
SG5	Retail and wholesale-trade	15	2017	Director
SG6	Services	7	2014	Managing director
SG7	Services	Subcontract	2014	Founder and CEO
SG8	Retail and wholesale-trade	6	1983	Business development manager
SG9	Retail and wholesale-trade	4	2004	Owner



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