Principles and Checklist of Financial Crisis Management for APEC SMEs

Chinese Taipei

This document is the output of APEC Symposium on SME Strategies to Manage the Impacts of the Global Financial Crisis held in 2009 in Taipei, and was endorsed by 2009 APEC SME Ministerial Meeting.

I. Introduction

The globalized world economy is characterized by a complex division of labor and a dense network of linkages between its constituent elements. Small and medium enterprises (SMEs) can no longer afford to focus only on basic operational issues; like larger business enterprises, they must face up to the challenges that the global economy presents. SMEs throughout the world have been affected by the global financial crisis of 2008. The validity of the business models on which they have relied in the past, and the lessons that they had drawn from past experience, have been challenged; this has had a pronounced dampening effect on new business start-up. Given the high level of uncertainty that will characterize the post-crisis era, the range of factors that SMEs need to concern themselves with is growing steadily larger. On the other hand, this is also the ideal time for SMEs to examine their current status and their strategies for the future, to cultivate the ability to respond appropriately to crises, and to search for new business opportunities.

With these issues in mind, an APEC Symposium on SME Strategies to Manage the Impact of the Global Financial Crisis was held in Chinese Taipei on June 8 – 9, 2009. Experts from various APEC member economies were invited to attend the Symposium and obtain fruitful results. Building on the Symposium's achievements, Chinese Taipei has collected and analyzed related experiences and cases of SMEs' response to the global financial crisis, and used this analysis as the basis for compiling this handbook to help SMEs cope with the crisis. It is anticipated that this handbook will help SMEs in all APEC member economies to cultivate the ability to analyze and evaluate the global economic environment effectively.

II. The Impact of the Global Financial Crisis on SMEs

1. The General Impact of the Crisis on the Global Economy

In September 2008, the global economy began a rapid descent into recession. Forecasts by leading international economic and trade organizations and forecasting bodies, including the World Bank, the IMF, the EIU and Global Insight, all indicate that global GDP will fall in 2009 compared to 2008. On August 14, 2009, Global Insight forecast that the global economic growth rate for 2009 would be –2.4%, that the volume of global trade would contract by between 9.7% and 12.2%, and that global industrial production would fall by 9.7%. IMF statistics indicate that, over the period 2007 – 2010, the global financial losses resulting from the financial crisis will exceed US$4 trillion.

2. Government Stimulus Measures

To prevent a meltdown of the financial sector that could have an even more serious impact on the real economy, governments throughout the world have adopted a range of short-term expedients, including the relaxation of monetary policy. Central banks have been plowing funds into the financial markets, and cutting the base interest rate to improve liquidity. On real sector, governments have introduced a range of economic stimulus measures to revitalize the economy, and have sought to adjust the structure of their economy and encouraged the transformation of their industries.

OECD reports show that many economies have adopted policies aimed at boosting domestic demand to provide a short-term stimulus to the economy, while also stepping up government investment to stimulate long-term growth. These policies fall into five broad categories: (1) Measures intended to save banks and rescue its financial system. (2) Measures intended to help private-sector companies, such as tax cuts, provision of credit guarantees, assistance with manpower cultivation, and job creation schemes. (3) Assistance for companies in specific industries. (4) Measures intended to boost consumption and revitalize the economy. (5) Measures intended to encourage innovation and drive long-term growth.

3. Latent Threats to the Overall Economic Environment

As a result of the expansive fiscal policy that economies have been adopting in response to the global financial crisis, government deficits have started to rise, and sovereign debt ratings have fallen. This situation threatens to derail the recovery process. Protectionism is suspected to be on the rise throughout the world. This trend will have a negative impact on the development of international trade, and may delay the recovery of the global economy.

4. The Impact of the Crisis on SMEs

During the period since the global financial crisis began, SMEs in many economies have seen demand for their products fall, have experienced difficulty in obtaining working capital, and in many cases have been forced out of business. With customers canceling orders and delaying payment, many SMEs have had problems with liquidity, and have found themselves urgently seeking bank loans. However, banks tend to lack confidence in SMEs' financial health and their ability to achieve sales growth in the future. Banks' cautious lending policy has in many cases amounted to a freeze on the granting of loans to SMEs, and SMEs' funding costs have increased dramatically. Faced with this difficult situation, SMEs have generally adopted one of three strategies: (1) Cutting costs; with the volume of orders received falling, SMEs have been forced to adjust their production scheduling, run down inventories, or lay off employees so as to cut payroll expenses. (2) Actively seeking alternative funding sources in order to maintain liquidity, for example by securing loan repayment extensions, slashing dividends, etc. (3) Postponing investment and expansion plans, re-evaluating the benefits of planned investments, and focusing on maintaining cash in hand to get through the current crisis.

III. Preparedness Measures for Global Financial Crises

When the current global financial crisis began, most SMEs did not realize how serious its effects would be; as a result, they failed to adopt suitable preparedness measures. In the post-crisis era, SMEs will need to strengthen their crisis management capabilities, and develop the ability to anticipate the impact that future crises will have on their business.

SMEs need to be able to recognize that a crisis is brewing, so that they can adopt suitable defensive measures; then, when the crisis hits, they must be able to rapidly evaluate the benefits and risks of the various response strategies that are open to them, as well as the resources that will need to be allocated to particular action plans, and the costs of implementing these plans. Even when the crisis is over, a SME's owners and managers will need to confirm whether there are any lingering problems that need to be solved, appraise the strategies that the firm adopted in response, and undertake ongoing improvement of their long-term response strategies.

In today's era of high economic uncertainty and rapid technological progress, the market environment is changing all the time. SMEs cannot assume that, because a given business model was successful in the past, it will continue to be so in the future. Enterprises need to establish early warning systems, and undertake diagnostic analysis of the state of their business so that they can identify latent problems as early as possible. There are five key areas on which SMEs should focus:

1. Monitoring Changes in the Global Economic Environment

The global economic environment can change very rapidly; SMEs need to undertake constant, ongoing monitoring of major economic indicators and the business climate both in their home market and in the world economy as a whole, so that they can adopt appropriate preparedness measures as early as possible when necessary.

2. Taking Potential Crises into Consideration when Formulating Business Strategies

When formulating business strategies in the post-crisis era, SMEs will need to take potential future crises into account, and undertake careful planning of their operational strategy and product mix.

3. Establishing a Financial Early Warning System

SMEs need to put a financial early warning system in place, and incorporate this system into their day-to-day management, making use of quantified financial data to develop an accurate picture of the firm's financial health and identify potential risks. A financial early warning system requires long-term establishment and maintenance of comprehensive financial data in order to be effective. SMEs should try to conform to the following principles:

(1) Establish a sound financial management system.
(2) Undertake regular examination of the four key financial ratios: the cash flow ratio, the debt ratio, the equity growth rate, and the receivables turnover ratio.
(3) Monitor three key indicators on an ongoing basis over the long-term: sales revenue growth, cost rationalization, and cash flow growth.
(4) Determine an appropriate financial structure for the enterprise in line with

the special characteristics of the industry to which it belongs; establish the necessary financial indicators, and monitor them regularly with the aim of improving the firm’s financial health.

(5) Give due emphasis to cash flow management and return on investment analysis; avoid becoming over-leveraged.

4. Hedging Strategy

Business enterprises need to formulate hedging strategies appropriate to their own particular needs. When making use of financial instruments for risk management purposes, a firm should consider the period of time for which they will be used, and the trading strategy to be adopted. As regards the use of futures contracts to manage foreign exchange risk and interest rate risk, particularly with respect to the impact of major international economic or political events, SMEs can make effective use of short-term hedging strategies to manage unforeseeable risks. Regardless of what type of hedging instrument is used, there will always be some latent danger, so SMEs should exercise great caution when using hedging tools.

5. Crisis Management Planning

(1) Being prepared: SMEs need to establish a crisis management team, and formulate scenarios for all eventualities that can serve as a basis for crisis management planning.

(2) Strengthening crisis control in the initial phase of a crisis: When the first warning signs appear and the crisis starts to spread, the SME should take action immediately to reduce the negative impact of the crisis on the firm.

(3) Crisis response: Once the crisis is underway, the SME should respond as rapidly as possible in order to minimize the loss resulting from the crisis.

(4) Follow-up work: This includes compiling a final report on the crisis, establishing new rules and making improvements to deal with problems that were exposed by the crisis, terminating temporary measures that were adopted as an emergency response to the crisis, and bringing the firm back into a normal state of operation.

6. Building up the Firm’s Internal Resources

SMEs need to pay attention to manpower cultivation, training and R&D, so as to enhance the professional expertise of the firm’s workforce and strengthen its technological capabilities. SMEs can leverage the knowledge of their employees to remedy internal weaknesses, improve quality and raise competitiveness; internal training programs can also help to build an innovation-oriented corporate culture and cultivate the ability to respond rapidly to changes in the external business environment.

IV. Guiding Principles for Responding to Global Financial Crises

1. Coping with Reduced Liquidity and Credit Crunches

a. Re-evaluating the firm’s capital structure

SMEs should identify the key factors that affect their firm’s finances, and work to strengthen the firm’s capital base. Some suggestions for achieving this are listed below:

(1) Paying close attention to the liquidity and marketability of every assets and investments, to ensure maximum flexibility in fund utilization; evaluating capital expenditure, giving priority to business model improvement and cost rationalization.
(2) The day-to-day cash position management should emphasize on safety and avoiding loss.
(3) Strengthening receivables performance, for example by improving purchasing, inventory and warehousing management, and reducing capital stock.
(4) Stepping up credit checks of customers and suppliers to prevent breach of contract situations from developing.
(5) Re-evaluating the allocation of assets between the core business area and non-core business areas, and re-assessing the percentage of long-term investments held by the core business area and non-core business areas, so that the enterprise’s limited resources can be concentrated in core areas where they can create maximum value.
(6) Monitoring interest rate and exchange rate trends so that unnecessary losses can be avoided; for example, assets should be denominated in strong currencies and liabilities in weak currencies.

b. Improving cash flow

In a period of crisis, managers need to shift their focus away from the profit and loss statement towards the balance sheet. When the economy is booming, market share and return on investment may be the best performance indicators, but in a downturn a firm should be focusing on cash flow, and in particular on the three main sources of cash: operating profit, working capital, and income from the disposal of assets. Enterprises need to be working actively both to grow income and reduce expenditure, so as to lower the firm’s cash breakeven point. The most important methods for improving cash flow status are as follows:

(1) Business owners should not be looking only at the income statement; they need to consider how much cash is tied up in inventory and accounts receivable in each of the firm’s business areas; in other words, they need to undertake detailed evaluation of how much cash will be needed to complete each individual transaction, how much cash it will produce, and how quickly this cash will be produced, so as to minimize the risk of cash shortages.
(2) Assets, inventory and materials that are lying idle should be disposed of, in order to boost the firm’s cash holdings.
(3) The enterprise should seek to cut operating costs, reduce purchasing costs, implement effective tax planning, and control personnel costs, while also seeking to eliminate unnecessary costs that do not create value.

(4) SMEs should find out what resources are available from their banks, and obtain financing assistance from the banks when needed. SMEs can leverage the specialist expertise of different financial institutions for hedging purposes; they can also make use of the financing solutions that banks offer to improve liquidity or get maximum value from the funds available to them.

c. Ensuring access to comprehensive, up-to-date financial information

In conditions of high economic uncertainty, financial managers need to serve as a bridge for communication between the CEO and the firm's employees, and to provide the CEO with advice and recommendations. To perform this role effectively, financial managers need up-to-date financial data, and must be able to monitor cash flow with a high level of precision. It is also the financial manager's job to exercise control over budget planning processes and the frequency of budget preparation (depending on the circumstances, budget planning may need to be undertaken as frequently as once a month), and to keep an eye on the company's cash position and financing status, any special restrictions that may apply to the firm's credit line, and any inventory that is lying idle. By undertaking these tasks efficiently, financial manages can help the firm to formulate appropriate crisis response strategies as early as possible, and facilitate the adjustment of resource allocation.

2. The Role of Financial Institutions on Assisting SMES in Overcoming Financial Crises

In a period of financial crisis, SMEs will be experiencing serious difficulty in obtaining working capital. It is suggested that financial institutions could provide the following services to help SMEs:

(1) Extending loan repayment deadlines to help SMEs get through the crisis.
(2) Providing a grace period when dealing with dishonored bills.
(3) Continuing to extend new loans to SMEs that meet certain conditions (for example, SMEs that can provide credit guarantees, and those with a strong credit record).
(4) Providing SMEs with loan information and consulting services to help SMEs reduce their funding costs and the level of risk that they are required to take onboard.
(5) Financial institutions should do their utmost to maintain the provision of trade finance for SMEs engaged in import/export business, to avoid a situation where international trade becomes seriously disrupted.
(6) Financial institutions should be willing to accept supply chain financing applications from SMEs to help them get over their current difficulties.

3. Sustaining Business Partnership in a Supply Chain

Within a given supply chain, enterprises of all sizes are closely bound together. When a crisis occurs, and the large enterprises in the supply chain experience a contraction in global demand, there will also be a severe knock-on effect on the SMEs. Just how severe this negative impact on the SMEs in the supply chain becomes depends on the attitude taken by the large enterprises towards their suppliers. The large enterprises need to bear in mind that, once the supply chain has been broken, this will have a severe impact on the operations of the large enterprises themselves in the future. For this reason, in times of economic instability, firms should work to strengthen their partnership in a supply chain, so that they can work together to overcome the difficulties that they are experiencing.

a. Re-evaluating business partnerships

Enterprises should analyze their partner company relationships to determine how productive and efficient they are. It may be necessary for a firm to adjust its supply chain strategy, and to evaluate suppliers' performance in terms of maintaining timely delivery and a low defect rate, as well as their contribution and importance to the company, so that they can focus on strengthening collaboration with the best suppliers during the period of crisis.

b. Maintaining partnerships

Long-term partnerships are just valuable asset that is worth to maintain and develop, while a period of crisis is a test of loyalty and trust. Companies should encourage their partner firms to join with them in facing up to the new challenges, and discuss ways in which they can work together and continue to provide value to their partners.

c. Re-examining collaboration models

Enterprises should talk to both their suppliers and customers to identify the best methods for getting through the crisis. For example:

- **Re-negotiating contracts:** Economic downturns are a good time to think about re-negotiating contracts. Particularly when there is a problem with overcapacity. Periods of crisis offer buyers the opportunity to obtain more favorable prices.
- **Sharing risk and costs with suppliers:** By making effective use of hedging to reduce inventory and exchange rate risk, enterprises can share risk with their suppliers, thereby reducing uncertainty to a minimum.

d. Synchronizing operations with partner companies

By strengthening the integration of a firm's operations with those of its customers, both parties can be helped to respond more rapidly to changes in the external environment. Process synchronization – whereby materials purchasing, delivery of materials, and finished product delivery are synchronized with the customer – not only helps to increase the speed of service provision, it also provides benefits in terms of cash management, by keeping the amount of cash that is tied up in materials and inventory to a minimum.

4. Government Policy to Enhance SME Capacity to Manage the Impacts of Financial Crises

Governments need to work closely with SMEs and to develop an understanding of SMEs' problems and needs, so that they can formulate suitable guidance policies. Government guidance policy for SMEs can include the following areas:

a. Provision of credit guarantee funds

The government should seek to provide SMEs with access to a wide range of credit channels; work with private-sector lending institutions to share the risk; and monitor financial institutions' lending to SMEs. The government should consider relaxing credit guarantee quotas and restrictions, and expanding the scale of credit guarantee provision through credit guarantee funds, while also raising the percentage of the total loan amount for which SMEs can obtain credit guarantees, relaxing the cap on the size of credit guarantees for an individual firm, cutting credit guarantee processing fees, etc.

b. Providing a range of financial incentive measures

Governments can help to reduce financing costs for SMEs, for example by temporarily waiving loan processing fees, thereby helping SMEs to obtain the working capital they need and maintain financial liquidity. By facilitating the securing of financing by SMEs (including newly-established SMEs), governments can help them to maintain normal operation during periods of crisis.

c. Carefully tailored relaxation of monetary policy

Measures taken by the central bank (such as interest rate reductions) can help to maintain liquidity in the financial markets, thereby reducing financing costs for both individuals and business enterprises.

d. Strengthening credit information systems

By promoting the prompt diffusion of information, governments can ensure that SMEs receive the financing-related information they need in a timely manner. Governments should seek to strengthen the functioning of credit information systems, for example by assisting with the establishment of an "SME financing scoreboard" that evaluates SME loan criteria and provides SME credit analysis benchmarks, credit ratings, default risk appraisal etc. A system of this kind can enable financial institutions to channel loans towards financially sound SMEs, and provide greater transparency in SME financing mechanisms.

e. Deposit insurance

To maintain the stability of the financial system and strengthen depositor confidence, governments can institute comprehensive deposit insurance, thereby reducing the risk of bank runs and its impact on banks that are fundamentally sound, and also helping these banks to attract more deposits.

f. Recapitalizing banks

Governments can provide capital injections to large, fundamentally sound banks through arranging for state-owned banks, public development funds or overseas private equity funds (PEFs) to acquire shares in the banks and strengthen their capital structure, in exchange for which the banks will be expected to step up lending to SMEs, and to seek opportunities for mergers with other banks.

g. Expansive fiscal policy

Stimulating domestic demand is an important policy goal for governments. Tax reductions and exemptions, increased public spending and the introduction of consumption promotion schemes can help to stimulate consumer demand and revitalize the economy.

5. Marketing Strategies to Overcome Reduced Consumer Demand

a. Re-examining marketing strategies and monitoring market share to maintain a strong position in existing markets

SMEs need to keep themselves well-informed about the status of their existing customers, and visit customers to find out how their operations are going and to gain a clear picture of customers' sales volume, product lines, advertising and promotional strategies, pricing strategy etc. SMEs should try to make a positive contribution towards enabling their customers to maintain long-term sales revenue and earnings growth, so as to stabilize their relationships with these customers. In the case of customers whose future is doubtful, SMEs should keep a close eye on these customers' financial health and sales performance, so as to avoid being saddled with excessively high inventory and to be prepared if the customer in question suddenly goes out of business.

b. Developing emerging markets and other overseas markets

While the impact of the financial crisis may have disrupted SMEs' relationships with customers, such a crisis also represents a marvelous opportunity for firms to grow their market share and move ahead of their competitors by securing orders from new customers. However, to make sure that their new customers have not been severely affected by the crisis, SMEs also need to step up their collection and analysis of market information, so as to be able to appraise the level of risk they are taking on and take out more export insurance if necessary.

c. Refraining from making excessive cuts in the marketing budget

During a period of crisis, SMEs may need to re-evaluate their marketing strategy, but they should try not to cut their marketing budget any more than is necessary. If it does become necessary to reduce the resources allocated to advertising and marketing, SMEs should seek to achieve maximum marketing results at the lowest possible cost, e.g. by stepping up marketing to particular target customers groups.

d. Rethinking sales targets and pricing strategy

During a period of dramatic market fluctuations, SMEs that had previously set their sales targets for a period of one year or one quarter may need to switch to setting new targets every 1 – 2 months, so that the targets can be adjusted appropriately according to the company's operational status. SMEs may also need to re-examine their pricing strategy in light of the impact of the crisis, taking into consideration their current market share and profitability, and also considering the externalities that will accompany any price adjustment. When making price adjustments, SMEs need to be very cautious in their promotional activities, to avoid damaging a brand image that may have taken years to build up.

e. Focusing on superior products

SMEs should re-examine their product mix, eliminating those products that no longer meet the company's needs (for example, products with low profit margin, poor-quality products and products that are too similar to those of rival companies) so as to avoid having too much cash tied up in these product lines. Firms should concentrate all of their efforts on their best-performing products and business areas and on their most important customers, seeking to gain maximum benefit from the enterprise's core competencies.

6. Entrepreneurship and Innovation

In a period when financial crisis is affecting the economy's fundamentals, business enterprises tend to cut back on investment in innovation, and existing collaborative partnerships in this area are often damaged, leading to a vicious circle of diminished innovation. At the same time, however, SMEs will have more opportunity to acquire R&D talent and intellectual property from other firms, creating new possibilities for transformation and innovation.

a. Innovation and R&D in a period of economic crisis

Innovation can take many forms, such as product innovation, service innovation and business model innovation. In the case of product innovation, SMEs can try to improve product packaging and enhance product quality and functionality to meet changing market demand. At the same time, by focusing on innovation undertaken with existing partner companies, SMEs can keep the cost of innovation and R&D down.

b. R&D budgets

When responding to changes in market demand, SMEs need to be flexible in making adjustments to their original R&D project scheduling. They need to examine the R&D projects that they currently have underway, and evaluate how the changing economic climate will affect the future value that will be created by each of these projects. As a crisis can provide an excellent opportunity to establish a lead over one's competitors, SMEs should also examine the strengths and weaknesses of rival firms' innovation capabilities.

c. Making the operations of the firm's R&D department more market-oriented

SMEs should work to strengthen the integration between their R&D departments and their sales and marketing departments, so that R&D operations are closely linked to changes in the market and to the company's goals. Firms also need to monitor changes in consumer behavior, so that they can make any adjustments needed to meet market demand.

d. Making effective use of external resources

SMEs should be on the lookout for opportunities to collaborate with research institutes and academic institutions, and for opportunities to form strategic alliances with domestic or overseas companies to collaborate on technology upgrade and exchange. In this way, firms can share the cost of R&D (as well as the results).

e. Important considerations when starting a new business

A period of economic instability is often a good time to start a new business. However, entrepreneurs need to think carefully about how they will obtain venture capital funding; they also need to strengthen risk management, undertake thorough risk analysis and develop suitable response strategies with respect to potential risk factors.

7. Human Resources Strategy During a Crisis

SMEs should work to strengthen their organizational responsiveness, re-examining their existing organizational structure and allocation of resources and seeking to raise the overall quality of their workforce to make their organization more flexible and effective.

a. Human resources restructuring

(1) In a crisis, a company needs to be able to respond rapidly to change and implement effective management and control. Enterprises will thus tend to focus on centralizing authority and strengthening the intensity of management so that decisions can be made rapidly and implemented effectively.

(2) Performance appraisal cycles may need to be shortened so as to be able to provide employees with support when and where it is needed.

(3) The board of directors will need to monitor the changing circumstances closely, and undertake careful evaluation of the performance targets formulated by the company’s management, focusing on risk control and protecting the rights of shareholders.

(4) The positions within the company’s organizational structure and the standards that personnel are expected to conform to should be tailored to meet the enterprise’s operational objectives. The human resource department should plan the mechanisms for manager appraisal and feedback carefully, and should take a human resources inventory to serve as a “health examination” for both individual positions and the overall organizational structure.

(5) With large numbers of talented people coming onto the job market, a financial crisis provides a marvelous opportunity for recruiting new talent.

b. Manpower upgrading

An economic downturn is the right time for SMEs to take a human resources inventory and formulate new manpower cultivation plans, while at the same time working actively to recruit talented people from outside the company. Most SMEs lack a comprehensive employee career planning system; given that a firm may find itself temporarily overmanned, a downturn is also a good time to implement employee cultivation and training.

(1) SMEs can arrange training to give their sales staff the ability to undertake accurate analysis of customers’ financial health (in terms of sales revenue, profits, funding costs, etc.).

(2) SMEs can take advantage of the fact that employees may not be working at full capacity to arrange in-service training programs and establish knowledge management mechanisms.

c. Boosting employee satisfaction and morale

(1) SMEs should try to keep layoffs to a minimum, and avoid any violation of local labor laws (while also seeking to maintain good relations with labor

unions). Firms should focus on achieving flexible manpower allocation, for example by reducing working hours or adopting a flextime system; enterprises can also try to negotiate a temporary reduction in employee benefits to reduce costs. If, after careful evaluation, an SME still feels that layoffs are necessary, only a single round of layoffs should be implemented, and the company should give a full explanation of how the layoffs will help to improve the company's situation, so as to minimize the negative impact on employee morale.

(2) Measures that can increase employee satisfaction and improve employee morale are very important. Besides undertaking careful recruitment and retention planning with respect to key personnel, SMEs also need a comprehensive performance appraisal and incentives system, to achieve effective integration of human talent with the company's organizational capabilities and prevent the loss of talented staff.

8. Women-owned Enterprises and the Financial Crisis

a. Strengthening financial management capabilities

In the current financial crisis, female-owned enterprises have found it even harder than male-owned businesses to secure loans from financial institutions. Women-owned SMEs may need to strengthen their financial management capabilities, and seek assistance from the government or quasi-governmental organizations to help them secure the funding they need.

b. Improving managerial capabilities

Efforts should be made to help women entrepreneurs strengthen their key managerial capabilities and to adopt flexible management techniques. For example, women entrepreneurs could try to diversify their operations, or develop innovative marketing strategies.

c. Making effective use of information technology

Women-owned businesses should be encouraged to make more effective use of information technology, which can help them to access technology-related and financial information, and can also help to reduce operating costs and boost productivity.

V. Check List for Financial Crisis Management

1. Preparedness Measures for Global Financial Crises

☐(1)Undertake constant, ongoing monitoring of major economic indicators and the business climate both in the home market and in the world economy as a whole.

☐(2)Take potential future crises into account, and undertake careful planning of SMEs' operational strategy and product mix.

☐(3)Establish a sound financial management system.

☐(4)Undertake regular examination of the 4 key financial ratios: The cash flow ratio, the debt ratio, the equity growth rate, and the receivables turnover ratio.

☐(5)Monitor 3 key indicators on an ongoing basis over the long-term: sales revenue growth, cost rationalization, and cash flow growth.

☐(6)Establish the necessary financial indicators, and monitor them regularly with the aim of improving the firm's financial health.

☐(7)Give due emphasis to cash flow management and return on investment analysis; and avoid becoming over-leveraged.

☐(8)Formulate hedging strategies appropriate to SMEs' own particular needs; consider the period of time for which they will be used and the trading strategy to be adopted when making use of financial instruments for risk management purposes.

☐(9)Establish a crisis management team, and formulate scenarios for all eventualities that can serve as a basis for crisis management planning.

☐(10)Strengthen crisis control in the initial phase of a crisis; take action immediately to reduce the negative impact of the crisis when the first warning signs appear.

☐ (11)Leverage the knowledge of SMEs' employees to remedy internal weaknesses; cultivate the ability to respond rapidly to changes in the external business environment.

2. Guiding Principles for Responding to Global Financial Crises

■ **Coping with Reduced Liquidity and Credit Crunches**

☐(1)Pay close attention to the liquidity and marketability of every assets and investments, to ensure maximum flexibility in fund utilization; evaluating capital expenditure, giving priority to business model improvement and cost rationalization.

☐(2)Emphasize on safety and avoiding loss for day-to-day cash position management.

☐(3)Strengthen receivables performance, for example by improving purchasing, inventory and warehousing management, and reducing capital stock.

☐(4)Step up credit checks of customers and suppliers to prevent breach of contract situations from developing.

☐(5)Re-evaluate the allocation of assets between the core business area and non-core business areas, and re-assessing the percentage of long-term investments held by the core business area and non-core business area.

☐(6)Monitor interest rate and exchange rate trends so that unnecessary losses can be avoided.

☐(7)Monitor cash flow, and in particular on the 3 main sources of cash: operating profit, working capital, and income from the disposal of assets.

☐(8)Focus on cash efficiency, and consider how much cash is tied up in inventory and accounts receivable in each of the firm's business areas.

☐(9)Dispose of assets, inventory and materials that are lying idle to boost the company's cash holdings.

☐(10)Cut operating costs, reduce purchasing costs, implement effective tax planning, and control personnel costs, while also seeking to eliminate unnecessary costs that do not create value.

☐(11)Leverage the specialist expertise of different financial institutions for hedging purposes.

☐(12)For financial managers, exercise control over budget planning processes and the frequency of budget preparation, and keep an eye on the company's cash position and financing status, any special restrictions, and facilitate the adjustment of resource allocation.

■ **The Role of Financial Institutions on Assisting SMES in Overcoming Financial Crises**

☐(1)Extend loan repayment deadlines to help SMEs get through the crisis.

☐(2)Provide a grace period when dealing with dishonored bills.

☐(3)Continue to extend new loans to SMEs that meet certain conditions (for example, SMEs that can provide credit guarantees, and those with a strong credit record).

☐(4)Provide SMEs with loan information and consulting services to help them reduce their funding costs and the level of risk that they are required to take onboard.

☐(5)Maintain the provision of trade finance for SMEs engaged in import/export business, to avoid a situation where international trade becomes seriously disrupted.

☐(6)Accept supply chain financing applications from SMEs to help them get over their current difficulties.

■ **Sustaining Business Partnership in a Supply Chain**

☐(1)Re-evaluate business partnerships, determine how productive and efficient they are, and adjust its supply chain strategy if necessary.

☐(2)Maintain partnerships, companies should encourage their partner firms to join with them in facing up to the new challenges.

☐(3)Re-negotiate contracts, when there is a problem with overcapacity. Periods of crisis offer buyers the opportunity to obtain more favorable prices.

☐(4)Strengthen the integration of a firm's operations with those of its customers

■ **Government Policy to Enhance SME Capacity to Manage the Impacts of Financial Crises**

☐(1)Provide credit guarantee funds, consider relaxing credit guarantee quotas and restrictions, and expand the scale of credit guarantee provision through credit guarantee funds.

- ☐(2)Provide SMEs with access to a wide range of credit channels, work with private-sector lending institutions to share the risk, and monitor financial institutions' lending to SMEs.
- ☐(3)Provide a range of financial incentive measures to reduce financing costs for SMEs.
- ☐(4)Carefully tailor relaxation of monetary policy to maintain liquidity in the financial markets.
- ☐(5)Strengthen the functioning of credit information systems, for example by assisting with the establishment of an "SME financing scoreboard"
- ☐(6)Maintain the stability of the financial system and strengthen depositor confidence, the government can institute comprehensive deposit insurance.
- ☐(7)Provide capital injections to large banks, in exchange for which the banks will be expected to step up lending to SMEs.
- ☐(8)Provide expansive fiscal policy, for example, by tax reductions and exemptions, increased public spending and the introduction of consumption promotion schemes.

■ **Marketing Strategies to Overcome Reduced Consumer Demand**

- ☐(1)Re-examine marketing strategies and monitoring market share to maintain a strong position in existing markets, and to avoid being saddled with excessively high inventory and to be prepared if the customer in question suddenly goes out of business.
- ☐(2)Develop emerging markets and other overseas markets, a crisis also represents a marvelous opportunity for firms to grow their market share. However, SMEs also need to step up their collection and analysis of market information.
- ☐(3)Re-evaluate market strategy, but refraining from making excessive cuts in the marketing budget.
- ☐(4)Re-examine sales targets and pricing strategy in light of the impact of the crisis, taking into consideration the current market share and profitability, and also considering the externalities that will accompany any price adjustment.
- ☐(5)Re-examine product mix, eliminating those products that no longer meet the company's needs.

■ **Entrepreneurship and Innovation**

- ☐(1) Improve product packaging and enhance product quality and functionality to meet changing market demand.
- ☐(2)Keep the cost of innovation and R&D down by focusing on innovation undertaken with existing partner companies.
- ☐(3)Be flexible in making adjustments to the original R&D project scheduling and evaluate how the changing economic climate will affect the future value that will be created by each of these projects.
- ☐(4)Work to strengthen the integration between the R&D departments and sales and marketing departments, so that R&D operations are closely linked to changes in the market departments and to the company's goals.

☐ (5)Make effective use of external resources, be on the lookout for opportunities to collaborate with research institutes and academic institutions, and for opportunities to form strategic alliances with domestic or overseas companies to collaborate on technology upgrade and exchange.

☐(6) For entrepreneurs, think carefully about how to obtain venture capital funding, strengthen risk management, undertake thorough risk analysis and develop suitable response strategies with respect to potential risk factors.

■ Human Resources Strategy During a Crisis

☐(1)Centralize authority and strengthen the intensity of management so that decisions can be made rapidly and implemented effectively

☐(2)Shorten performance appraisal cycles so as to be able to provide employees with support when and where it is needed.

☐(3) For the board of directors, monitor the changing circumstances closely, and undertake careful evaluation of the performance targets, focusing on risk control and protecting the rights of shareholders.

☐(4)For the human resource department, plan the mechanisms for manager appraisal and feedback carefully, and take a human resources inventory to serve as a "health examination" for both individual positions and the overall organizational structure.

☐(5)Catch the marvelous opportunity for recruiting new talent when a large number of talented people come onto the job market.

☐(6)Arrange training to give their sales staff the ability to undertake accurate analysis of customers' financial health.

☐(7)Take advantage of the fact that employees may not be working at full capacity to arrange in-service training programs and establish knowledge management mechanisms.

☐(8)Keep layoffs to a minimum, and try to negotiate a temporary reduction in employee benefits to reduce costs, and avoid any violation of local labor laws.

☐(9)Implement only a single round of layoffs after careful evaluation and give a full explanation of how the layoffs will help to improve the situation.

☐(10)Need a comprehensive performance appraisal and incentives system, to achieve effective integration of human talent with the organizational capabilities and prevent the loss of talented staff.

■ Women-owned Enterprises and the Financial Crisis

☐(1)Strengthen financial management capabilities, and seek assistance from the government or quasi-governmental organizations to help women secure the funding they need.

☐(2)Help women entrepreneurs strengthen their key managerial capabilities and to adopt flexible management techniques.

☐(3)Be encouraged to make more effective use of information technology, which can help them to access technology-related and financial information, and can also help to reduce operating costs and boost productivity.