

# COMPETITIVE, PROFITABLE, NEW-NORMAL SMEs

Dr. Sadaf Zahoor



## Productivity *Insights* Vol. 3-3

Asian Productivity Organization



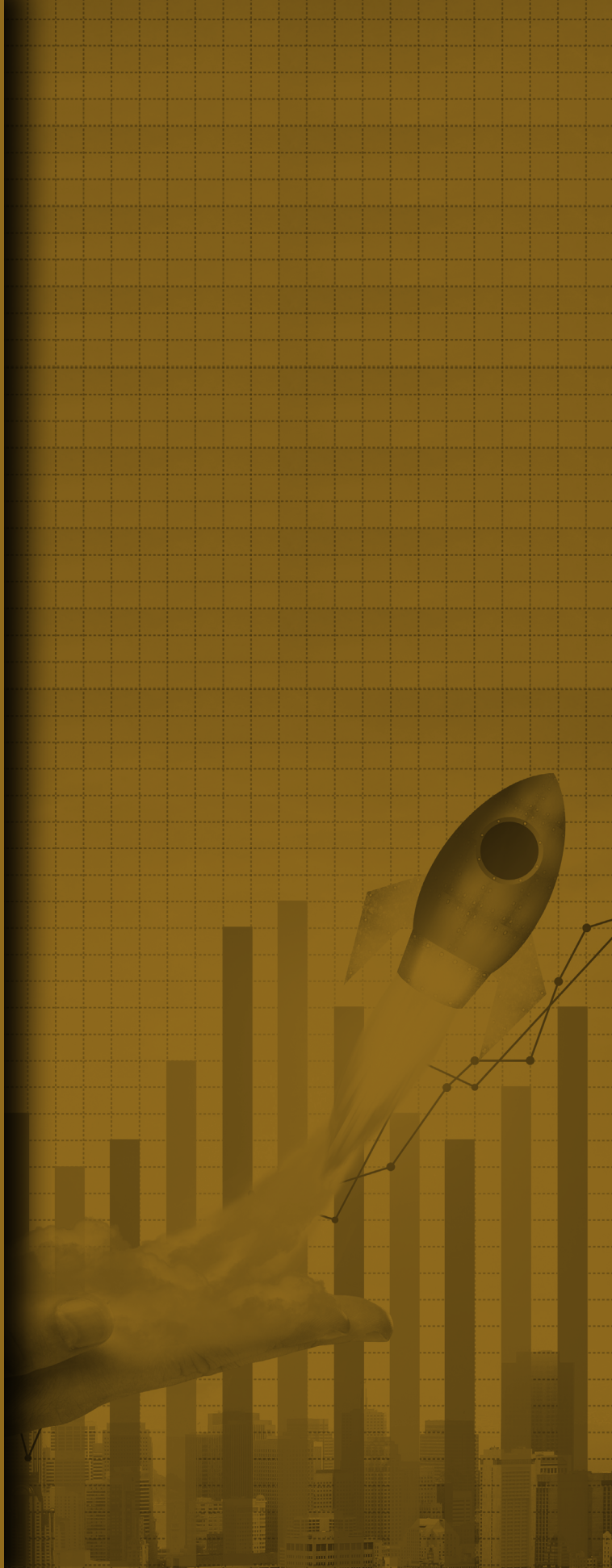
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# **Competitive, Profitable, New-Normal SMEs**

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Competitive, Profitable, New-normal SMEs

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# PREFACE

The P-Insights, short for “Productivity Insights,” is an extension of the Productivity Talk (P-Talk) series, which is a flagship program under the APO Secretariat’s digital information initiative. Born out of both necessity and creativity under the prolonged COVID-19 pandemic, the interactive, livestreamed P-Talks bring practitioners, experts, policymakers, and ordinary citizens from all walks of life with a passion for productivity to share their experience, views, and practical tips on productivity improvement.

With speakers from every corner of the world, the P-Talks effectively convey productivity information to APO member countries and beyond. However, it was recognized that many of the P-Talk speakers had much more to offer beyond the 60-minute presentations and Q&A sessions that are the hallmarks of the series. To take full advantage of their broad knowledge and expertise, some were invited to elaborate on their P-Talks, resulting in this publication. It is hoped that the P-Insights will give readers a deeper understanding of the practices and applications of productivity as they are evolving during the pandemic and being adapted to meet different needs in the anticipated new normal.





# INTRODUCTION

SMEs are the backbone of the economy and often have rich histories. For developing economies, SMEs have always played an important role. The first SMEs were created in the late 19th century, when they were known as “family capitalism” and were operated by one or two partners. This model evolved into what we now know as modern SMEs, which are typically structured as corporations with shareholders and employees who own shares in the company. They account for more than 99% of all companies in the world, employ half of all workers, produce more than 50% of global GDP, and generate more than 60% of total employment.

SMEs exist in almost every industry. Their focus is often narrower, more direct, and less diversified than that of larger businesses. This means that they are able to concentrate their resources in a particular area and exploit their economies of scale. Moreover, they outnumber large firms considerably, employ vast numbers of people, and are generally entrepreneurial in nature, thus helping to shape innovation, although they most likely operate within large industries. Unlike bigger, more complex firms that require advanced enterprise resource planning (ERP) systems, interconnectivity across offices globally, or deeper organizational/financial business models, SMEs need fewer employees and smaller upfront capital investments. They are the businesses that maintain revenues, assets, or number of employees below a certain threshold.

Traditionally, SMEs find it difficult to grow due to a lack of resources and funds. But with digitalization and modern technologies, they can now compete with big corporations by making use of AI-powered tools such as chatbots, virtual assistants, and CRM systems. SMEs tend to be more agile, flexible, and innovative than larger businesses because they are not as bureaucratic. They can also adapt more quickly to changes in the marketplace because they are not constrained by the rigid hierarchies of large organizations.

Each country has its own definition of what constitutes an SME. For example, the US Small Business Administration (SBA) classifies small businesses according to ownership structure, number of employees, revenues, and nature of industry [1]. In manufacturing, an SME is a firm with 500 or fewer

employees. In contrast, businesses that mine copper and nickel ore can have up to 1,500 employees and still be identified as SMEs. Additionally, the USA classifies a company with fewer than 10 employees as a small office/home office (SOHO). However, when it comes to tax reporting, the Internal Revenue Service (IRS) does not categorize businesses as SMEs. Instead, it separates small businesses and self-employed individuals into one group and large to medium-sized businesses into another [2, 3]. The IRS classifies small businesses as companies with assets of USD10 million or less and large businesses as those with more than USD10 million in assets [4]. In Canada, however, micro businesses have 1–4 employees, small businesses have 5–99, medium-sized businesses have 100–499, and large businesses have 500+ [5].

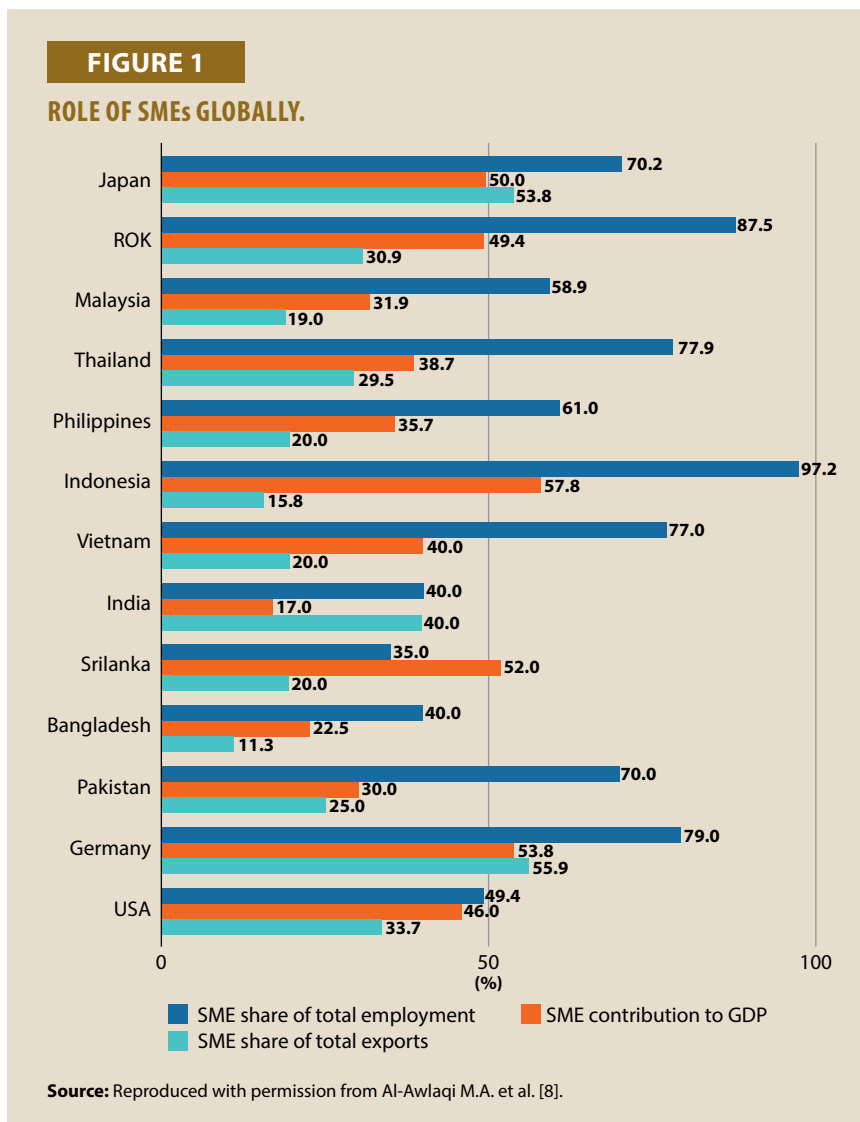
According to the EU, small-sized enterprises are companies with fewer than 50 employees and medium-sized ones with fewer than 250. In addition to SMEs, there are micro companies, which employ up to 10 employees. PR China considers retailers to be small if they employ between 10 and 49 employees and have annual operating revenue of at least USD1 million; Chinese real estate developers are small if they have annual operating revenue between USD1 million and 10 million and have total assets between USD20 million and 50 million; and Chinese agriculture companies are small if their annual operating revenue is between USD0.5 million and 5 million [6]. Developing countries such as India, Kenya, and others refer to “micro, small, and medium-sized enterprise development (MSMED).” Despite the differences in nomenclature, countries share the commonality of separating businesses according to size or structure. Small businesses also have the following distinct advantages over larger companies:

- SMEs can often operate more flexibly. Large companies with broader processes touching more employees may find it more difficult to act as nimbly.
- SMEs often benefit from a stronger sense of community. Slogans such as “shop local” are geared toward supporting SMEs that do not have branches across the nation.
- SMEs are more likely to financially support their own communities. Instead of collecting revenue and investing it in a new store across the country, SMEs are more likely to remain local, sustain other local businesses, contribute local tax dollars, and buy from nearby suppliers.

- SMEs may be engrained with a rich history. Larger, complex companies may have a long history as well (especially if they have been financially successful). However, SMEs are more likely to carry on family traditions, preserve how generations have done things, and pass the family business down.
- SMEs may have a narrower, more direct focus than larger businesses. Imagine Apple developing iPhones, iPads, Macs, Apple Watches, accessories, and streaming services. While Apple has the staff to support each of these departments, an SME with limited staff must narrow the scope of what it offers. Instead of attempting to create a broad market presence, successful SMEs often deeply integrate themselves into smaller target markets.

# WHY SMEs MATTER

According to the OECD, SMEs contribute roughly 50% of total employment and 40% of GDP [7]. Figure 1 illustrates the role of SMEs in the economies of various countries.



Additionally, the World Bank estimates that a majority (seven out of 10) of formal jobs in emerging markets are generated by SMEs. However, these small businesses in developing countries often face greater financing challenges compared with their developed-country counterparts. Furthermore, the World Bank estimates that MSMEs in developing countries have unmet financing needs in excess of USD5 trillion annually [9, 10].

## Features of SMEs

The following features are the main advantages that SMEs offer to each economy.

### Economic Growth

SMEs play vital roles in many economies globally through conscious consumer behavior, government assistance, and reliance on their local communities.

### Acting as Incubators for the Development of Local Corporate Entities

Their characteristics such as innovativeness, flexibility, creativity, efficiency, and locality play a major part in the success of SMEs.

### Huge Market Potential and Opportunity

SMEs stimulate competition in the design of products, prices, and efficiency. Without SMEs, large enterprises would hold a monopoly in almost all areas of activity.

### Successful Entrepreneurship

Entrepreneurship is at the heart of national and local economic growth. By innovating and seizing opportunities, SME entrepreneurs drive national and local economic change and competitiveness.

### Flexibility and Innovation

Many technological processes and innovations are attributed to SMEs. Since large enterprises tend to focus on improving old products to produce greater quantities and obtain the general benefits of a dimensional economy, such companies are not as flexible as SMEs. Because SMEs focus on creating new products or services, they are capable of adapting faster to changing market requirements. SMEs play a vital role in shaping a country's economy and can be considered an attractive, huge innovative system. Due to the socioeconomic advantages of SMEs, the sector is of strategic interest in any economy.

### Assistance to Large Enterprises

In the absence of SMEs, large enterprises would be forced to be involved in all areas of SME activity, which would not be efficient. SMEs help large companies in areas of operation which they are better able to supply and manage. For example, raw material supply and distribution of finished goods produced by big enterprises are conducted more efficiently by SMEs. The significance of SMEs is also recognized by governments. Hence, they offer regular incentives to SMEs, such as easier access to loans and better tax treatment.

### Challenges Faced by SMEs

Common challenges encountered by SMEs are summarized below.

#### Policies and Regulations

There are many challenges faced by SMEs today. However, they can be resolved with the right approaches. One of the ways to do so is by looking at the changing environment and adapting to it. A competitive, profitable, new-normal SME is an enterprise that has a competitive edge in its market, generates a profit, and is able to sustain itself through periods of economic turbulence.

#### Access to Finance

Access to finance is a key prerequisite for SMEs to grow and compete in today's internationalized economy. The challenges faced by SMEs stem from the fact that they have limited access to capital as well as difficulties in accessing markets, which are often dominated by large corporations. The World Bank estimates that the number of SMEs is around 85% of all firms worldwide. There are over 200 million SMEs in the EU, employing more than 50 million people and generating one-third of GDP. Despite the facts that SMEs have always been responsible for most of the employment in many countries and they are often pioneers in innovation, the recent economic crisis due to the pandemic has had a huge impact on SMEs, with many struggling to secure access to finance. This has led to a decrease in their competitiveness and profitability levels. Therefore, SME financing can be improved so that they can remain competitive and profitable in the new-normal economy.

#### Business Development

As the world has changed, markets are no longer national, and the barriers to entry are lower than ever before. The current global economy is characterized

by two major trends: the emergence of new-normal SMEs; and the competition between SMEs. New-normal SMEs are competitive, profitable, and ready to take on the world. They may not be able to compete with large corporations due to their size, but they have a competitive advantage over microenterprises. They focus on innovation and knowledge creation, as well as on developing human resources. They want to be profitable in order to grow sustainably. A new-normal SME has had to adapt to a changing market. This includes changes in the economy and how consumers access information. SMEs must be strategic and think about how they can keep up with shifting trends to stay competitive.

### **Marketing and Market Access**

SMEs have many opportunities for growth but also face many obstacles. One of those obstacles is marketing. For a company to survive in today's globalized market and stay competitive, it needs an effective marketing strategy. Marketing is essential for any business but can be difficult for SMEs because of their limited resources. However, there are many ways that an SME can undertake effective marketing, such as by using social media and email campaigns. It is important for SMEs to invest in marketing to ensure that their products and services receive the visibility they deserve and that customers can find them online. Marketing is also essential for companies looking to establish themselves as leaders within their sectors or niche markets.

### **Human Resources Development**

Human resources development (HRD) is key for new-normal SMEs because they need to invest in their employees, who are the backbone of their business. HRD has a direct link with enterprise productivity and competitiveness, which is why it should be considered a priority. HRD is the backbone of organizations, and HRD professionals are required to have a broad knowledge of various disciplines. It is also important to be able to work with different people in different contexts as well as being able to demonstrate skills in teamwork. As the business environment becomes more competitive, companies need more efficient, productive employees. This leads to an increase in demand for HRD professionals.

# RESPONSE TO COVID-19 AND POSTPANDEMIC IMPACTS

Since the first COVID-19 cases were reported in November 2019, the world has faced an extreme situation. The pandemic has reduced global GDP by 200%, increased inflation and unemployment rates, and reduced sales in almost every sector, including tourism, hospitality, and travel. SMEs were no exception. The pandemic has disrupted operations, supply chains, sales, etc. in every industrial sector.

SMEs were hurt badly by the various waves of strict quarantines and lockdowns to combat the spread of COVID-19. Bangladesh imposed a nationwide lockdown from March to May 2020. India declared several lockdowns in response to the first wave in February–March 2020 and the second wave in March 2021. Nepal introduced a nationwide lockdown from March to July 2020 and strict measures were imposed again during the second wave in April 2021. Pakistan had three waves of COVID-19 between March 2020 and May 2021, imposing lockdowns and frequent restrictions. Sri Lanka was under lockdown with strict quarantine measures during March–May 2020.

A series of COVID-19 impact studies in South Asia showed that the lockdowns seriously limited MSME business activities, immediately reducing incomes and profits, especially for MSMEs engaged in personal contact-based services. There was little or no demand for their products and services, and maintaining working capital was a major challenge in sustaining or reopening businesses. Women-owned firms were more seriously affected in sales, income, and access to funds in each country.

Several reports cited low awareness of government SME assistance programs, suggesting the need for strengthening the dissemination of information on those programs more effectively to target SMEs, including youth and women entrepreneurs. Each country acted quickly to contain infection rates and limit the pandemic's impact on the economy. Large government stimulus packages with spending from 2% to 16% of GDP helped support affected businesses and



individuals [9]. Support for MSMEs has been timely by using existing frameworks for SME assistance.

Government assistance covers a wide range of financial measures including liquidity support to financial institutions, debt restructuring (deferred debt payments), relaxed lending conditions (interest rate reductions through interest subsidies and caps), new lending to SMEs and priority sectors (using refinancing facilities, special funds, and credit guarantees), and regulatory forbearance (debt moratoria and NPL reclassifications). In addition, tax relief measures (corporate income tax reductions) and employment income support (cash transfers) have been provided to affected businesses, especially SMEs [9]. Moreover, COVID-19 showed societies and industries ways to survive in the new-normal era.

# ADAPTATION OF SMEs TO THE NEW NORMAL

The global economy is going through a period of unprecedented volatility. In emerging markets, weaker competition has created opportunities for SMEs to thrive. New-normal SMEs have been able to survive the economic downturn, becoming more competitive and profitable than ever. Despite their contributions to job creation, innovation, exports, and overall economic growth, SMEs face a number of challenges that can undermine their resilience. These challenges include a lack of access to capital, limited access to new technologies, weak infrastructure, lack of skilled labor, and limited access to markets. All these factors can lead to high risks for SMEs due to their small size and insufficient resources.

Governments must address these challenges by improving infrastructure and investing in education and skill training programs. SMEs have difficulties in accessing funding, which limits their ability to innovate and grow. They also do not have access to as much technology as larger companies do, which can be an obstacle for modernizing their business practices. In addition, SMEs face other challenges such as limited market access and lack of skilled workers. Digitization can help SMEs enhance their competitive advantages to position themselves for success in the future.

However, new-normal SMEs are taking advantage of recent economic trends to achieve success in market niches. The globalized world has made internationalization a necessity for SMEs. Competitive, profitable, new-normal SMEs have taken this need seriously and prepared for the future. Internationalization is not just about translating a website into different languages or hiring employees from different countries. It is about understanding and catering to the needs of customers in other countries. It is also about understanding and adapting to cultural differences.

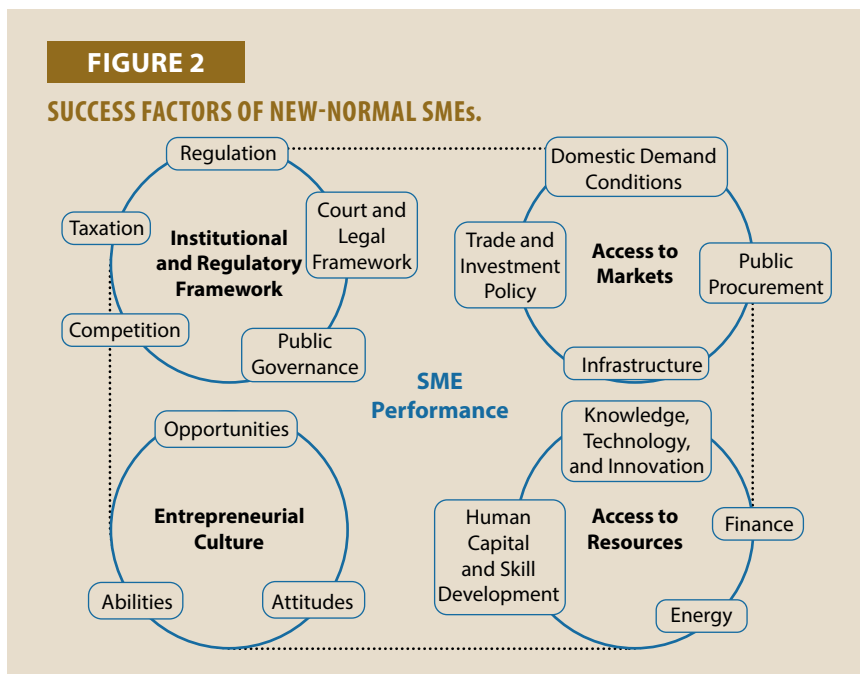
“New normal” is a term coined by the International Monetary Fund to describe a period when interest and inflation rates are low but economic growth is slow. This has been the economic environment for many years. The new normal has led to opportunities for SMEs to expand into international markets, not only by

exporting products but also by developing business models that can be adapted to different cultures and economies and understanding how local markets operate, what people want and need, and what works best in different environments.

## Success Factors of New-normal SMEs

The following are some requirements for SMEs to adopt to the postpandemic new normal (Figure 2):

1. Business assessment, including assessing current business processes, drawing up roadmaps to transform to smart factory models, and consulting with customers on where, when, and how to start.
2. Assessment of automation options, including CAD/CAE and simulation, embedded software, digital twinning, robotic programming, etc.
3. Software development for enterprise operation, visualization and reporting, predictive analytics, big data, and machine learning.
4. Training in system security, maintenance, and networking.
5. System integration and customization.

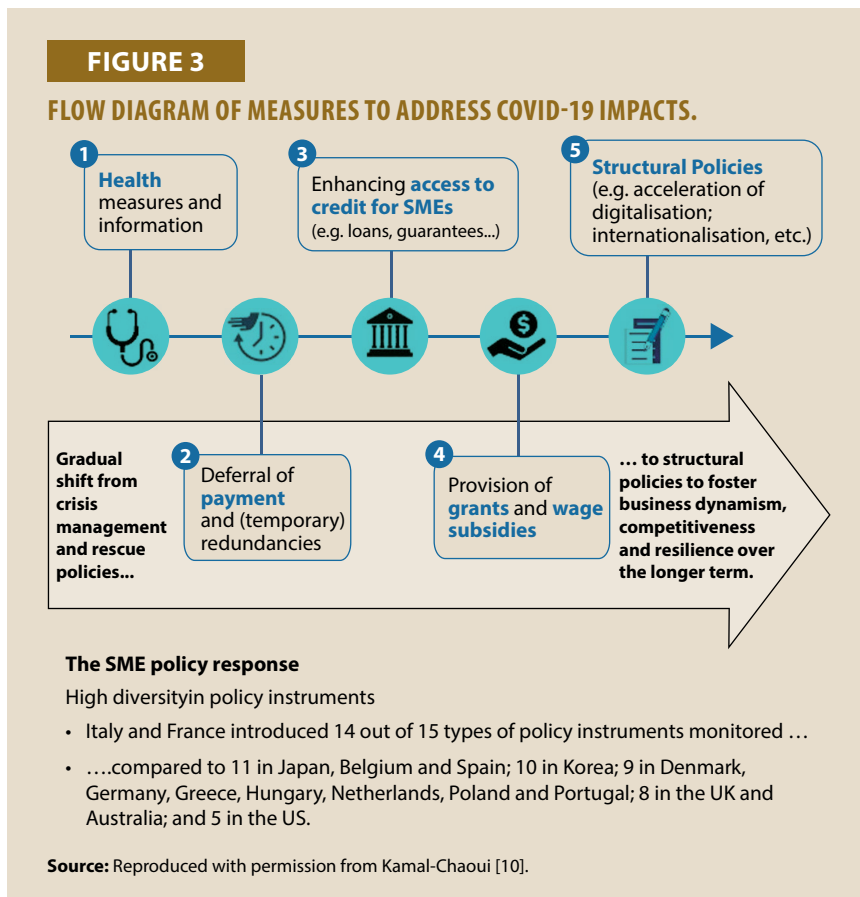


# RECOMMENDATIONS AND THE WAY FORWARD

Some recommendations to assist in the evolution of competitive, profitable, new-normal SMEs are outlined below.

## Ensure Access to Finance

Figure 3 shows how measures can be sequenced to address COVID-19 pandemic impacts.



## Promote the Adoption of Digital Technology and Greener Business

The adoption of technology helps owners and employees of SMEs to develop their digital skills, build new, robust regulatory frameworks, enhance digital connectivity and high-speed networks, and promote green behavior of SMEs by providing financial, sector-specific technical assistance to companies introducing green practices. It uses the concepts of smart factory design utilizing data-driven processes, servitization, the IoT, AI, etc. A smart factory is a people-oriented, high-tech, intelligent factory that integrates all production processes from product planning to sales with ICT to produce customized products at minimum cost and time. The possible advantages of smart factories include shortened lead times, customized development, mass production of various types of products, facility efficiency, reduction of inventory costs, and cooperation in all fields including quality and logistics.

## Foster Inclusive Entrepreneurship

Digital technology adoption ensures generation-based entrepreneurial education, including youth entrepreneurship development schemes. It also fosters senior entrepreneurship by increasing older people's awareness of entrepreneurship as a late-career option and promoting a positive image of older people as entrepreneurs. Moreover, inclusive support measures should also be offered to reach the vulnerable segments of the SME community, including women and minority entrepreneurs.

## Support Self-employment

Self-employment can be encouraged under tax-financed social security systems by promoting the formalization of informal businesses, especially in economies with large informal sectors. Additionally, public policies in support of SMEs can reduce barriers to their formalization and improve their competencies and productive capacities.

## Calibrate the Burden of Regulation and Encourage Good Governance

Administrative burdens on SMEs can be reduced throughout the recovery phase in the new-normal era through prioritizing greater coordination between

global financial regulators and government bodies. This will guarantee that labor market regulation does not create bracket effects that may disincentivize SME growth.

### **Promote SME Internationalization and Global Value Chains**

SME internationalization allows simplified custom-control mechanisms and regulations on export control and promotes the development and adoption of international standards as well as technological, commercial, and legal aspects.

### **Foster Skills and Education**

The quality of education systems for individuals of all ages should be promoted through well-designed qualification frameworks. This will provide formal recognition of skills acquired through informal learning.

### **Create a Culture of Innovation and Entrepreneurship**

A broad-based culture of innovation and entrepreneurship will equip people with entrepreneurial skills, allowing a clear focus on innovation and research.

# CONCLUSION

The following inferences can be drawn from the above-mentioned discussion.

- SMEs must reinvent their business strategies for business recovery and growth.
- SMEs must be supported in strengthening their business resilience and enhancing their competitive advantages.
- SME leadership and senior operational teams should be equipped with global skills and accelerate digital technology adoption.
- After stabilizing their business operations in the new normal, SMEs can strategically explore expanding their businesses across borders in the medium to long term.

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