

Response strategies for SMEs in the time of pandemic COVID-19

Albana Berisha Qehaja

Universum College, Faculty of Business and Management
Republic of Kosovo

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Abstract

The COVID-19 pandemic has had a major effect on people's lives and economies worldwide, presenting numerous challenges to private, public, and business organizations. To date, small and medium enterprises have been hit the hardest. That is why governments all over the world are actively encouraging and supporting SME growth as part of their overall development strategy, since SMEs are the most important business sector in any world economy. Therefore, resolving the challenges that SMEs face in the context of COVID-19 is critical. This paper seeks to shed light on the main strategic responses to crisis, especially for SMEs. Although deeper research is needed to better understand crisis strategy-making.

Key words: Pandemic COVID-19, SMEs, crisis, response strategies.

Estrategias de respuesta para PyMEs en tiempos de pandemia COVID-19

Resumen

La pandemia de COVID-19 ha tenido un efecto importante en la vida y la economía de las personas en todo el mundo, presentando numerosos desafíos para las organizaciones privadas, públicas y comerciales. Hasta la fecha, las pequeñas y medianas empresas han sido las más afectadas. Es por eso que los gobiernos de todo el mundo están fomentando y apoyando activamente el crecimiento de las PyMEs como parte de su estrategia general de desarrollo, ya que las PyMEs son el sector empresarial más importante de cualquier economía mundial. Por lo tanto, resolver los desafíos que enfrentan las PyMEs en el contexto de COVID-19 es fundamental. Este documento busca arrojar luz sobre las principales respuestas estratégicas a la crisis, especialmente para las PyMEs. Aunque se necesita una investigación más profunda para comprender mejor la elaboración de estrategias de crisis.

Palabras claves: Pandemia de COVID-19, PyMEs, Crisis, Estrategias de respuesta.

1 Introduction

On November 17, 2019, a respiratory syndrome caused by a novel coronavirus known as COVID-19 was identified for the first time in Wuhan, China, and was confirmed to the WHO (World Health Organization) on December 31, 2019 (Maleki, Norouzi & Maleki, 2022). It is estimated that approximately 81% of COVID-19 cases are mild, 14% are severe, and 5% are critical (Saadatjoo *et al.*, 2021). To date, the World Health Organization (WHO) recorded 125,781,957 confirmed COVID-19 cases worldwide, with 2,759,432 deaths. The breakdowns by regions are presented in the following Figure 1. According to WHO (2021), globally, 43.74% of COVID-19 cases are in America, respectively 48.02% of deaths. Followed by Europe, with 34.94% of COVID-19 cases, respectively 34.50% of deaths. In South-East Asia are 11.57% of COVID-19 cases and 7.87% of deaths. In Eastern Mediterranean, 5.84% confirmed COVID-19 cases, and 5.67% of deaths. In total, 2.43% of confirmed cases are in Africa, and 2.80% of deaths. Whereas, the lowest confirmed cases are in Western Pacific, 1.47% and 1.13% of global deaths.

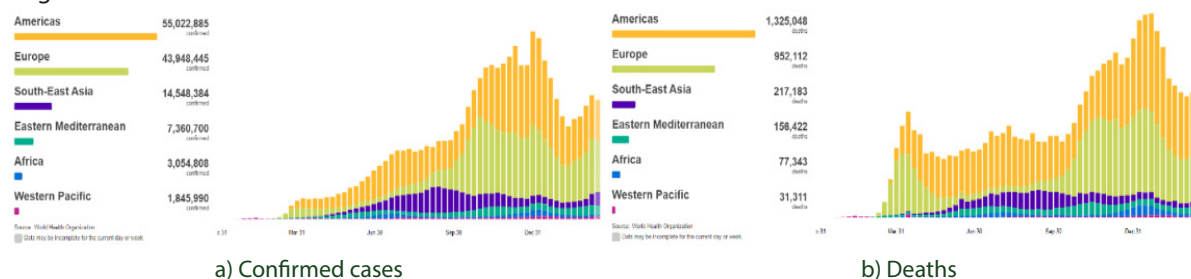


Figure 1: Weekly confirmed COVID-19 cases and deaths by regions (December 2020-March 2021). Source: WHO (2021): Situation by WHO Region

As the coronavirus COVID-19 spreads, more countries are taking drastic measures to protect people’s lives, such as banning public gatherings, imposing lockdowns, and shutting down businesses (Wenzel, Stanske & Lieberman, 2021). The economic flow across all types of businesses has decreased as a result of such decisions (Caballero-Morales, 2021). Many businesses responded by implementing work-from-home programs in order to comply with government-imposed lockdown orders (Mont, Curtis & Palgan, 2021). Moreover, the pandemic has triggered demand and supply shocks in the economy, resulting in a decrease in consumer and business spending as well as supply chain disruptions around the world (Nguyen, Ngo & Tran, 2021). Goolsbee and Syverson (2020) highlight that the COVID-19 crisis resulted in a significant drop-in economic activity. In the view of Amankwah-Amoah, Khan and Wood (2020), the COVID-19 pandemic has had a more immediate impact on the global business ecosystem, despite the fact that climate change may have longer-term impacts as in a changing climate, entrepreneurs are predisposed to adapt. Ratten (2020) highlights that COVID-19 has altered the global business landscape as well as people’s lives.

Small and medium enterprises (hereinafter referred to as SMEs) constitute the largest business sector in any economy of the world (Culkin & Smith, 2000) and are important engines for stimulating the economic growth of a country (Van Gils, 2005). SMEs were almost entirely affected by the COVID-19 pandemic. Therefore, governments across the globe are constantly promoting and supporting SME growth as part of their overall development strategy.

The previous study in our globalized and digital society does not always capture the magnitude of the global disruption to sectors and people, and even less often, organizational responses to such long-term disruptions as COVID-19 (Mont, Curtis & Palgan, 2021). Thus, there is a critical need to collect the majority of expertise in corporate strategy, strategic planning, and innovation in order to devise solutions for SMEs to strengthen their business models for various markets and constraints (Caballero-Morales, 2021). There is also a shortage of research on the effects of a pandemic on microenterprises in developed countries, especially in terms of business sustainability and recovery. It is important to investigate how microentrepreneurs deal with crises and what decisions they make to keep their businesses afloat (Fabeil, Pazim, & Langgat, 2020).

Consequently, this paper aims to investigate and analyze the impact of the COVID-19 pandemic on SMEs and ways to deal with it. The paper is organized as follows: First, the introduction of the paper is presented, then the literature review, followed by the impact of the COVID-19 pandemic on SMEs and response strategies. In the end, the conclusions and references are given.

2 Literature review

The pandemic crisis is putting corporate business sustainability in danger, with potentially catastrophic social and economic consequences (Wenzel, Stanske & Lieberman, 2021). SMEs make up the vast majority of businesses, value-added, and jobs in every OECD country (OECD, 2020). In OECD countries, the sectors most directly impacted by government-implemented lockdown measures to combat the coronavirus outbreak account for 40% of jobs. Around three out of every four of these jobs are held by small and midsize enterprises, which are especially vulnerable to a prolonged lockdown.

According to the European Investment Bank (2020):

“The reason why all our stakeholders are focused on SMEs is linked to their economic role; essentially, they are the backbone of the European real economy. Just to give a few numbers, they account for roughly two-thirds of overall employment, and they contribute more than 55% of the overall value-added in the non-financial business economy. So, clearly, supporting the survival of SMEs is crucial for mitigating the economic systemic impact, but also to sustain employment and to create the conditions needed for future growth, once the pandemic is over.”

Nowadays, China accounts for 30% of global GDP growth and trades with over 100 countries. Given how much more interconnected the world has become since the SARS epidemic in 2003, the negative impact of COVID-19 on Chinese SMEs could spread to other nations (Dai *et al.*, 2021). Bougheas (2020, p.3) emphasizes: “Without any financial assistance the majority of firms will be unable to meet their financial obligations to their suppliers and their creditors and will close down.” According to research conducted in the United States, 50% of small businesses have less than 15 days of cash on hand and even healthy SMEs have less than two months of cash reserves (Federal Reserve Bank of New York, 2020). In a study of 12,888 firm observations from 24 countries, Liu, Wei and Xu (2021) found that women-led firms are more likely to close and close for longer during the COVID-19 pandemic than men-led firms. They also highlight that in gender unequal economies and poorer economies, the gender-closure and gender-expectation relationships are more prominent.

The COVID-19 pandemic’s long-term economic consequences are also being felt around the world, with job losses and poverty. The new ILO annual estimates for the pandemic’s overall effect in 2020 confirm that it caused significant work disruptions. In comparison to the fourth quarter of 2019, 8.8% of worldwide working hours were lost in 2020, equating to 255 million full-time jobs. Working-hour losses were especially high in Latin America and the Caribbean, as well as Southern Europe and Asia. Working-hour losses in 2020 would be almost four times higher than they were during the global financial crisis of 2009 (ILO, 2021).

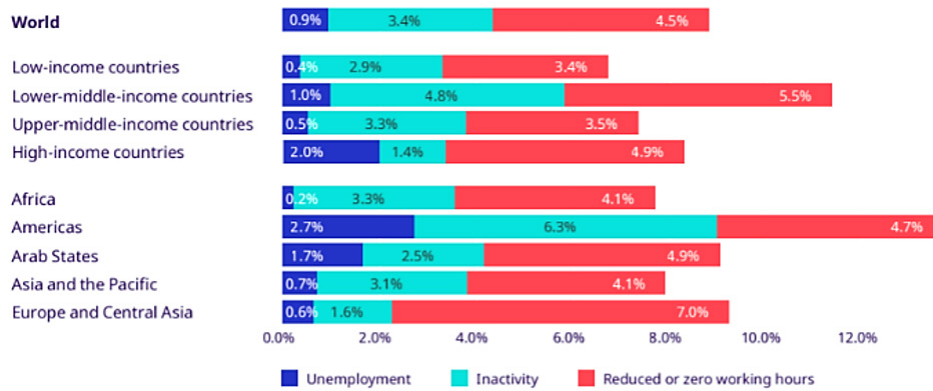


Figure 2: Decomposition of working-hour losses into changes in unemployment, inactivity and reduced working hours, world and by income group and region, 2020 (%), Source: ILO (2021), ILO Monitor: COVID-19 and the world of work. 7th edition, p.11.

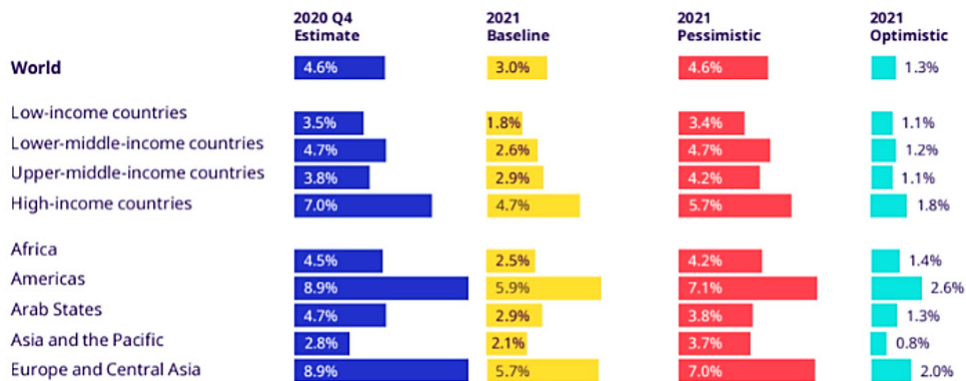


Figure 3: Estimated working-hour losses in 2020 and projections under three different scenarios for 2021, world and by region and income group (%), Source: ILO (2021), ILO Monitor: COVID-19 and the world of work. 7th edition, p.16

While containment measures are in place, there is a risk that otherwise solvent businesses, especially SMEs, will go bankrupt (OECD, 2020).

3 The impact of the COVID-19 pandemic on SMEs and response strategies

The COVID-19 pandemic has affected the global economic downturn, as a result of which many SMEs in different parts of the world have been closed. Because of their limited resources and current barriers to capital access, SMEs have a shorter time to recover from a shock than bigger companies. Then, resolving the challenges that SMEs face in the context of COVID-19 is critical. As we can see in Figure 4, the SMEs employ the majority of people in the most affected industries: 75% on average across OECD countries, and almost 90% in Greece and Italy. Microbusinesses with less than ten workers, which are most vulnerable to cash shortages, account for around 30% of jobs in these industries, and up to 60% in Greece and Italy.

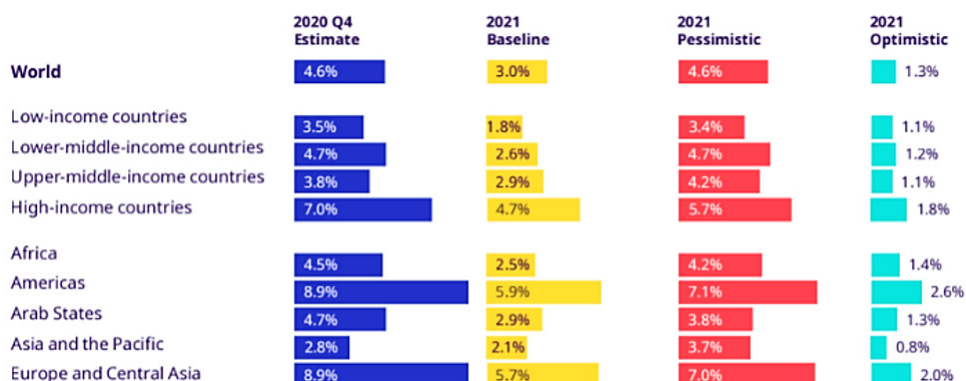


Figure 4: Share of total employment in the sectors most directly affected by lockdown measures – breakdown by firm size (%), Source: CCSA (2020). How COVID-19 is changing the world: a statistical perspective (Volume II). Committee for the Coordination of Statistical Activities, p. 21.

A recent study of more than 5,800 small businesses in the United States was undertaken by Bartik *et al.* (2020). It shed light that temporary closures of 43% of businesses resulted in a 40% decrease in jobs. Amankwah-Amoah, Khan and Wood (2020) are more optimistic as they think that small business owners who leave industries as a result of the COVID-19 pandemic are often unnoticed, but this provides promising opportunities to investigate how these entrepreneurs re-emerge with new businesses.

As a result of the coronavirus, the nature of entrepreneurship may change dramatically, more entrepreneurial thinking will be needed to meet society’s needs (Rashid & Ratten, 2021). ILO (2021) in 2021 recommended five interrelated matters that must be at the top of policymakers’ agendas: Macroeconomic policy must remain flexible, international assistance to low- and middle-income nations will remain crucial, many vulnerable populations and industries across the world have been especially hard hit by the crisis, recovery plans must include a carefully balanced sectoral policy dimension to help industries that have been hit the hardest and are at risk of falling further behind, while also recognizing the full potential for job creation in fast-growing sectors, and faced with structural change and persistent deficits, policymakers must seize the opportunity to devise and execute recovery strategies through social dialogue with employers and labor unions.

How do firms respond effectively to a crisis? To answer this question, Wenzel, Stanske and Lieberman (2021) made an overview of select articles published in the Strategic Management Society (SMS) journals and they pointed four strategic responses to crisis: Retrenchment, persevering, innovating, and exit. In the opinion

of Nguyen, Ngo and Tran (2021), in SMEs context, response strategies can be grouped into two groups. One group of SMEs focuses on reducing costs to survive, and the other focuses on growth to retain market share when the recession is over. Similarly, Hofer (1980) identified four generic strategies that became the foundation for any discussion of firms' strategic steps for dealing with crises: revenue generation, product/market refocusing, cost-cutting, and asset reduction. As per Bourletidis and Triantafyllopoulos (2014), various strategies have been proposed, including product planning, new pricing perceptions, new approaches to supplier partnerships, and information management.

Retrenchment strategies are focused on halting the downturn and fixing organizational inefficiencies (Rico, Pandit & Puig, 2020). As previous studies have demonstrated, reducing a business's reach by retrenchment has mixed outcomes in terms of market recovery. Continued retrenchment, particularly when a recession continues for a long period, may contribute to a loss of a business's valuable capital, skills, and culture. On the other hand, retrenchment is not the only strategic solution to a crisis, although it can be a partially feasible response in the short term. (Wenzel, Stanske & Lieberman, 2021).

Many researchers have shown that in unpredictable situations where businesses are grappling with unexpected shifts, the preserving strategy may be more effective than innovating strategy (Do *et al.*, 2021). Preserving will help a business survive in the medium term, but it would be difficult, if not unlikely, to execute this technique if the situation lasts longer (Wenzel, Stanske & Lieberman, 2021). Wenzel, Stanske and Lieberman argue that given the resource-based limits to sustaining firm survival over time, innovating may become increasingly valuable, if not inevitable, to maintain firm survival in the long run if the crisis persists for a prolonged period of time and heeds the discovery of alternative revenue sources. In the opinion of Do *et al.* (2021), a crisis will threaten a business's success, but it can also provide opportunities for strategic renewal.

According to Wenzel, Stanske and Lieberman (2021, p.12), the exit strategy is: "the discontinuation of a firm's business activities in response to crisis." The study results of Dai, Eden and Beamish (2017) indicate that exit rates are affected by the business vulnerability, which is described as the degree of immediate crisis exposure, at-risk resources that are difficult to replace if lost, and a business's ability to cope with the damage. According to previous research, business exits may be helpful for strategic renewal because they help businesses unleash invested capital (Ren, Hu & Cui, 2019). COVID-19's effects on Vietnam's tour operators and their strategic responses to the pandemic were investigated by Do *et al.* (2021). They found that tour operators used the retrenchment approach the most (50%) followed by persevering (25%) exit (15.6%) and innovating (9.4%).

SMEs can make better use of their scarce resources by using digital resources such as the Internet and communication tools (WhatsApp, ZOOM, Skype, etc.) to acquire information about particular strategies and contacts (suppliers, clients, etc.) (Caballero-Morales, 2021). Caballero-Morales (2021, p.3) also states: "Most SMEs are competitors within industries that produce substitutes. This adds challenges to SMEs survival in case of crisis, and the Five Forces model can support the assessment of the industry to develop the most appropriate strategy."

4 Conclusions

The COVID-19 pandemic has had a significant impact on people's lives and economies all over the world, posing countless challenges to private, public, and business organizations. It has triggered the worst labor-market crisis since the 1930s Great Depression (ILO, 2021). SMEs are among the hardest hit by the COVID-19

pandemic. Since SMEs constitute the largest business sector in any world economy, governments across the globe are constantly promoting and supporting SME growth as part of their overall development strategy. According to European Investment Bank (2020), ensuring the longevity of SMEs is vital not just for mitigating the economic structural effects, but also for sustaining jobs and creating the foundations for future development after the pandemic is over.

As a result of the coronavirus, the nature of entrepreneurship may change dramatically, more entrepreneurial thinking will be needed to meet society's needs (Rashid & Ratten, 2021). Academics and scholars have been researching possible effective response strategies to pandemic COVID-19. Wenzel, Stanske and Lieberman (2021), pointed four strategic responses to crisis: Retrenchment, persevering, innovating, and exit. Whereas, Nguyen, Ngo and Tran (2021) suggested reducing costs to survive and the growth to retain market share. It has already been 40 years when Hofer (1980) recognized four generic strategies for dealing with crises: revenue generation, product/market refocusing, cost-cutting and asset reduction. Caballero-Morales (2021) recommend the Five Forces model which will assist with market research and developing the right strategy.

In addition to these response strategies, there are many other strategies that should be researched and suggested for use in times of crisis. We agree with the conclusion of Wenzel, Stanske and Lieberman (2021), that more research is required to unpack strategy-making in times of crisis, considering the pervasiveness and severity of crises like the ongoing COVID-19 pandemic.

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