The Feasibility Study of Approaches to SMEs Business Resilience in Post-Pandemic Times

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Abstract. Over the past few years, the epidemic has led to the destruction of families, a run-on resource in the healthcare sector, and an overall economic downturn, which is particularly evident among Small- and Medium-sized Enterprises. Some of the enterprises were shut down permanently, affecting the livelihoods of many people. Now with the opening of the country's borders, people's lives are gradually back in order in this post-pandemic era. It is time to think about how to get SMEs back into production as they contribute the most to the global GDP. Thus, this paper aims to address possible ways for SMEs to create business resilience and achieve sustainable growth through risk management, digital transformation and strategic alliances in the highly uncertain context through critically assessed prior research. The findings suggested that active risk management, implementation of digitalization and selected strategic alliance have positive influences on the resilience of SMEs. Although there might be inherent limitations of SMEs, it is still helpful in the recovery of SMEs.

Keywords: Business resilience, SME, post-pandemic.

1. Introduction

Small- and Medium-sized enterprises (SMEs) have been widely affected by COVID-19 in the past three years. It seems to have originated from the fact that society was not prepared for massive and long-lasting turbulence. The severity could be concluded through the statistics launched by the United Nations Conference on Trade and Development. Developing countries such as China reported a super-majority of 80% of SMEs were shut down permanently in February 2020, while 20% of small enterprises in developed countries like the United States [1]. The challenge to the world economy is real as SMEs contribute 70% of the global GDP [2]. Thus, it could be concluded that SMEs and the world economy are positively related. In these turbulent times, more attention should be paid to SMEs so that the overall society will continue to thrive.

This study builds on previous scholarly research and industry reports and continues to address possible ways that help Small- and Medium-sized enterprises create business resilience at the post-pandemic era, and thereby achieve sustainable growth through three ways - the ability of risk management, digitalization transformation, and strategic alliance. This corresponds to the ways in which SMEs could defend themselves and respond to adverse developments, and through internal and external forces. The analysis has focused on the strengths and inherent limitations of SMEs compared with large organizations such as multinational companies, but there are opportunities for SMEs to stand out from the crowd.

Interestingly, not all businesses have struggled during this pandemic. It has found that the performance of those internet-based businesses where no actual human interaction needed to occur flourished, such as food delivery and online shopping. The phenomenon has triggered the research interest in the impact and the role that technology and digital strategies played in businesses, and thus provides further solutions for business resilience for SMEs. Therefore, this research has investigated the effectiveness of digitalization for SMEs and there may be both internal and external challenges that SMEs need to be conquered in order to achieve sustainable growth. Apart from that, it has been found from previous research and business insights that the vast majority of organizations deal with risks in a defensive manner. Having observed this phenomenon, it is worth examining the possibilities and providing solutions to detect warning signs and intervene in advance. Last but not least, the lack

of resources for SMEs is countered by sharing resources and information through strategic alliances. However, there is still argument raised by the strategic alliance, which is not the focus of this study.

As the significant contribution of SMEs to the world economy and the increased frequency of instability in the last decade due to a combination of external and internal environments, it is worthwhile to develop appropriate strategies to address the characteristics of SMEs.

2. SMEs under COVID-19

The common way of defining Small- and Medium-sized Enterprises (SMEs) is that SMEs are independent entities and are not parts of any large organizations. SMEs have a relatively small number of employees with limited productivity. Yet, some countries define SMEs in varying degrees of quantification. For example, there are 33 different definitions of SMEs based on employee numbers in South Africa, whereas Saudi Arabia identifies SMEs as less than 249 employees with an independent commercial registered enterprise [1].

It is argued that there are quite some inherent limitations for SMEs due to the lack of resources and networks. For instance, the shortage of advanced technologies and the missing R&D sources compared to large firms like Multinational Enterprises (MNEs). A very straightforward method that distinguishes the two types is market share. Also, SMEs have a rather concentrated product or service range and often have obstacles in reaching established supply sources, which is the opposite for large organizations.

Unlike MNEs, all of the above factors might exacerbate SMEs' vulnerability to uncertainty. Therefore, there is a great need to study and find solutions that enable SMEs to recover from the turbulence fast and look for sustainable growth in businesses, especially in this post-pandemic era. Meanwhile, OECD has suggested that digital transformation and the global value chains could create new opportunities for SMEs as a benefit from internationalization even before the pandemic begins [3]. This claim is in line with the research purpose and shows the importance of research on the response of SMEs to business resilience strategies.

3. Analysis of the SMEs under Turbulence

As mentioned earlier, SMEs are facing great challenges during the pandemic and their survival is at high risk. Therefore, it is essential to find solutions for SMEs to respond and recover from the uncertainty thus achieving sustainable growth. This research will discuss and propose suggestions to SMEs from three aspects: risk management, digital transformation, and strategic alliance.

3.1. Risks Management of SMEs

3.1.1 Type of risks

The outbreak and the lockdown have brought the operations of Small- and Medium-sized Enterprises to a complete halt or a suspension, which could pose significant risks to the survival of SMEs. With supporting evidence from published figures in 2021, the Standard Bank Group has defined a list of ten top risks for SMEs, which includes cash flows, business interruption, regulations and so on [4]. Through a group of statistics on the SMEs in China, a vast majority (86.22%) of SMEs did not have sufficient funding to support on-going operations for more than three months [5]. Unlike MNEs, SMEs are less likely to receive funding from government or bank loans, and rather rely on internal funds. In other words, it could be perceived that erratic cash flows could be seen as one of the risks that SMEs are facing.

Other than cash flow risks, the UNCTAD has addressed the risk of SMEs due to the dominance of digital markets that might distort the order of the normal business environment as it is not a conventional market, for example. In this digital transformation era, there is a consensus that the benefits of digital platforms would outweigh the drawbacks. Nevertheless, the report has emphasized that the reliance on digitalization might raise competition concerns and enforcement of existing laws

may be problematic, as it possibly not reflecting the true state of competition in the market [1]. Once the external environment changes, SMEs would have scarce capabilities and resources to respond. Potential risks faced by SMEs are multidimensional. Prior research has found that cybercrime could be the most severe risk that SMEs are faced with [6]. There are opposing views in today's society about this, but this is not the focus of the current study, it could be explored in details in further research.

3.1.2 Suggestions for risk management

It seems that solutions to risks are most likely to be defensive. It could be concluded from the way organizations coping with the incidents, such as the COVID-19 or the initiatives arising from global warming. Yet, McKinsey has proposed that the key to business resilience is to actively manage risks ahead of the times, including 'Prepare, Perceive and Propel' [7]. Prepare and perceive are two straight forward concepts, which aim to plan ahead, to be flexible and to build buffers. The purpose of the establishment of Standard Operating Procedures (SOP) is somehow to refine the key control points in daily operations, then mitigate potential risks. Similarly, Mthiyane, Poll and Tshehla have discussed the role of planning, for instance, budgetary planning could be considered as a strategic tool for managing risks [8]. In fact, the relevant strategies of early adoption of risk management for SMEs are scarcely mentioned in previous studies. It is presumably caused by the inherent limitations of SMEs, which are lacking resources and simple corporate structure.

As suggested by Brende and Sternfels [7], 'Propel' could be achieved through building cross-functional teams. A team that contains finance, operation and others as a panel of experts enables organizations to respond and handle emergencies in conjunction with the respective areas of expertise as soon as the event occurs. Nevertheless, it seems unlikely to happen unless external forces are harnessed to achieve this goal through strategic alliances, which will be discussed in detail in the next section. Meanwhile, effective internal controls are introduced by Mthiyane, Poll and Tshehla as a way to improve operational efficiencies by providing accurate information for decision-making [8]. To sum up, the idea of taking active action for SMEs' risk management is still forward looking, and it is worthy to find alternative innovative solutions that would overcome the shortcomings of SMEs through further research.

3.2. Digital Transformation

3.2.1 Boosting effect of digital transformation

The iterative renewal of technology and sufficient data brings competitive advantages and new opportunities to organizations to a great extent. For example, many emerging technologies have been developed to invent medicines by large pharmaceutical companies in the context of the COVID-19. However, it might not be the case for small- and medium- enterprises (SMEs) as they do not have enough resources. Various previous literature has concluded the limitation of SMEs, which would be considered as low efficiency, lack of accessibility to technology, and receiving very little support and funding from the state. A lack of digitalization would exacerbate the vulnerability of SMEs. Thus, digital transformation might be one of the solutions for SMEs to recover from this turbulence. In fact, with changes in consumer behaviour, the pandemic has sped up the process of digital transformation and the adoption of technologies. New industry ecology has emerged, such as food delivery, online shopping and working from home due to the lockdown.

On one hand, it is widely believed that digital technologies have to boost effect on SMEs. Nandi, Sarkis, Hervani and Helms think information technologies with digitalization will provide SMEs with a timely and transparent source of information, and thus help SMEs build business resilience [9]. Moreover, researches conducted by Ragazou, Passes and Sklavos have illustrated that emerging technologies including blockchain, artificial intelligence, or 3D paintings already took place in some of the SMEs, but the study has shown 63% of SMEs have had no digital strategy according to Becker and Schmid [10, 11]. On the other hand, SMEs still have some considerable challenges in general in the face of digital transformation that require continuing research on the solutions, from both internal

and external. The internal limitation could be resource constraints and knowledge gaps. Whereas external challenges could probably be more from the lack of supportive environment created by the government and policies, which could be investigated further later. However, it is not a completely insoluble conflict. Barann and others have pointed out further research directions that SMEs are capable of addressing the digital transformation in pragmatic steps while complying with the specific nature of SMEs [12].

Previous discussion emphasizes on the importance and some limitations of digitalization and digital transformation on SMEs. While Becker and Schmid have used another perspective on the role and the implementation of digital strategies to SMEs, which is the suitability [11]. MNCs will also face digital transformation. Yet, studies have demonstrated that SMEs and MNCs have different focuses on the implementation of digital strategies. For SMEs, enterprises tend to apply basic, new software solutions for digital transformation due to their size, while the large organizations focus on the IT infrastructure. The disparity in the attitude towards digital strategies is far more than this, which has aroused the author's interest, and will further investigate this topic in later research.

3.2.2 Suggestions for digital transformation

Multiple researchers have acknowledged in their researches that digital transformation is not a simple addition of new technology to existing business activities, but it is more a process of starting a new business model. Therefore, it is infeasible to complete a digital transformation solely on SMEs themselves. The SME Digital Transformation Development Report 2022 has proposed at least three areas of advice to enhance the digital transformation of SMEs [13]. Firstly, create a fair competitive market order for SMEs, and continuously increase government and policy support for SMEs. Secondly, the report suggests strengthening talent cultivation for digital transformation to fill the knowledge gaps. Last but not least, SMEs are encouraged to develop international cooperation and boost strategic alliances in the post-pandemic era.

3.3. Strategic Alliance

3.3.1 Role of strategic alliance

A strategic alliance happens when two or more parties join to share resources in pursuit of a common strategic goal. The joint venture is considered as one of the commonly forms of strategic alliance. While Markovic and peers have found that more organizations are engaging in the other type of alliance namely Business-to-Business Open Innovation (B2B OI), through which enterprises are able to obtain resources externally in uncertain times [14]. According to the research, the survival of SMEs in developing countries is more likely to rely on partnerships than the ones in developed countries as the SMEs have fewer endogenous drivers for innovation.

Regardless of whichever way strategic alliance is achieved, it will always bring new insights or benefits to both parties to the alliance. It is argued that strategic alliance will bring knowledge exchange and bring dynamics to organization capabilities, thereby enhancing SMEs' competitive advantage. One of the quickest ways to obtain new knowledge and skills is through building collaboration and learning from partners within the alliance. Alliance could diversify and mitigate risks among allies and ensure a higher degree of flexibility in the changing environment. Yet, acquiring knowledge is a difficult process in terms of organizational mechanism of knowledge acquisition and suitability that fits corporate development.

However, prior researches have pointed out the limitation of strategic alliance. The role of strategic alliances may be limited by two factors [15]. Firstly, it is the degree of resource complementary as how strategic partners are capable of exchanging or supplying resources and capabilities. The other is about the degree of trust within the partnership. These are not the main purpose of this research, which requires further research later.

3.3.2 Example of strategic alliance

In fact, there have been many practical examples as well as business insights that illustrate the importance of alliances for the recovery of SMEs in periods of instability. For example, McKinsey's

insight has suggested that one of the solutions for building resilient businesses is to strengthen networks. Sharing information and capabilities internally and externally thereby allows organizations to prepare for the crisis in advance [7]. Similarly, UNCTAD has identified that collaboration among enterprises across industries has become a trend among SMEs in 2022 [1]. In addition, large organizations are also on the move to provide services and supports to help SMEs cope with temporary difficulties. The third-party payment provider Lakala is a leading digital business service provider for merchants. By 2021, Lakala Payments has served over 27 million merchants, covering a wide range of industries including community retail shops [16]. In response to the problem that merchants could not deliver goods to consumers during the lockdown times, Lakala joined forces with two major takeaway platforms, Meituan and Dada for instant delivery [17]. It helps merchants to quickly respond to consumer demand and ensure operational efficiency. Thus, it follows that strategic alliance is vital to the survival of SMEs.

4. Conclusion

By concentrating on studying the performance of Small- and Medium-sized Enterprises (SMEs) in the COVID-19 era and the lockdown, it is clear to see that the epidemic has resulted in the disruption of businesses. Due to the predominance of SMEs' contribution to the overall economy, the disruption is detrimental. This paper aims to find out feasible solutions for SMEs to obtain and maintain sustainable growth in challenging times, such as epidemics, wars and so on.

This research argues that the capability of risk management, the degree of adaptation to the digitalization transformation and strategic alliance are found to have sufficient support for the survival of SMEs. Although SMEs have some constraints regarding resources, knowledge and skills, it does not stop acquiring alliances from partnerships in supporting their operations. Therefore, it is suggested that SMEs need to be cautious while choosing partners. It is found that the vast majority of SMEs are still reluctant to implement digital strategies in the businesses, although it is proved that digital strategies and technologies have facilitating effect on organizations. Thus, it is a viable plan for SMEs in the future to integrate digitalization into corporate strategy and thereby achieve sustainable growth. Last but not least, risk management has become a critical capability for all organizations, especially SMEs are more fragile in the uncertainties. Besides, organizations are more of taking defensive approaches to risks. To achieve the purpose of business resilience, business insights have advised that SMEs could react proactively to manage any coming turbulence.

Due to the limitation of this research, such as the topic being forward-looking and the range of companies affected being too broad, it is suggested that future research could focus more on specific industries, as well as continuing research in specific regions. Alternatively, the use of quantitative methods could be conducted to make the research with greater precision in future researches. With the advancement of technology and the deepening of digital transformation, there are unprecedented growth opportunities for SMEs. Thus, the research implications are significant.

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