



Upward-facing shot of a building. (Image: Rudy Dong via Unsplash).

Small and medium enterprises' resilience and viability in turbulent times

Inertia is not an option for small and medium enterprises (SMEs).

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October 2022 | [Share](#)

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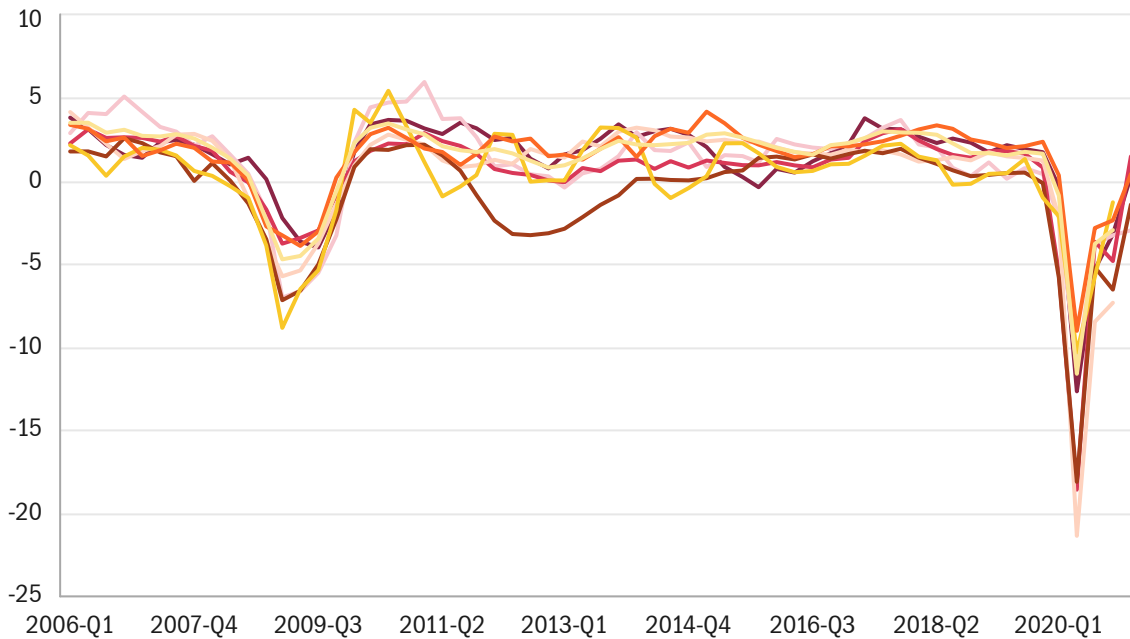
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Adaptability and resilience capabilities are crucial for navigating competitive and turbulent business environments. Businesses have been exposed to major disruptions and unprecedented challenges in recent years, such as the armed conflicts in Syria and Ukraine, the global financial crisis in 2008, the

2016 Brexit referendum, and the COVID-19 pandemic. According to the OECD¹, the COVID-19 pandemic triggered the most severe economic recession in decades, resulting in a significant decline in GDP growth (figure below). How can SMEs best manage the increasingly complex business environment and in our new volatile, uncertain, complex and ambiguous (VUCA) times?

The COVID-19 outbreak triggered the most severe recession in decades



Canada Germany France United Kingdom Italy Japan United States OECD - Total

Note: GDP growth rates (%), G7 countries, and OECD total (2006 Q1-2021 Q1).

Source: [OECD National Accounts database](#).

Resilience and adaptability are indispensable for leading organizations through continuous cycles of change. As the concept of resilience touches upon the individual, organizational, societal and technological systems, new approaches that combine sociotechnical systems² have become necessary. Bearing that in mind, resilience can be described as a journey of transformation, continuous improvement and renewal rather than an end state.

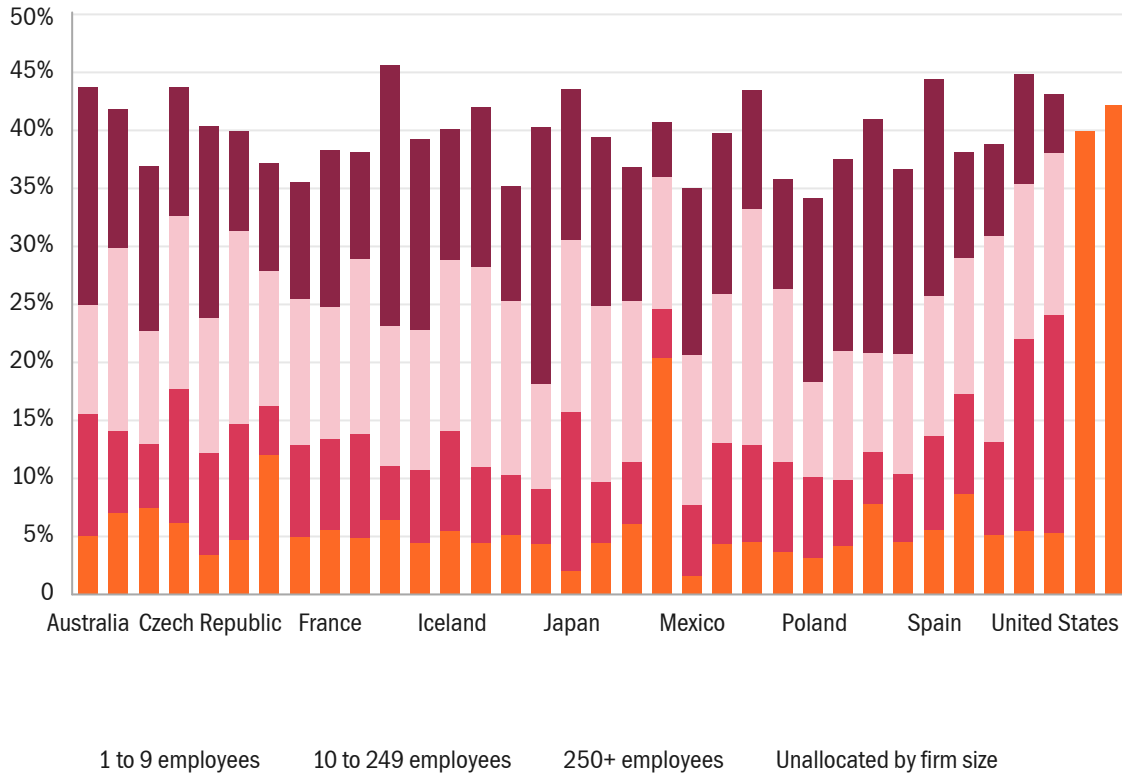
Understanding resilience in the SME context

SMEs play an essential role for achieving sustainable global economic growth, pushing the boundaries of innovation and increasing employment in both urban and rural areas. Yet sustaining SMEs' performance and explaining their viability poses a major challenge. SMEs make up 99 per cent of all private sector companies in OECD countries³. In the UK, for example, SMEs account for 61 per cent of total employment and 52 per cent of total turnover⁴. On average, SMEs account for 75 per cent of jobs

in OECD countries, i.e. for the bulk of employment in the sectors most adversely affected by the pandemic, such as manufacturing, construction, retail, air transport and hospitality⁵(figure below).

Resilience and adaptability are indispensable for leading organizations through continuous cycles of change.

Share of total employment (%)



Source: [OECD Annual National Accounts database](#).

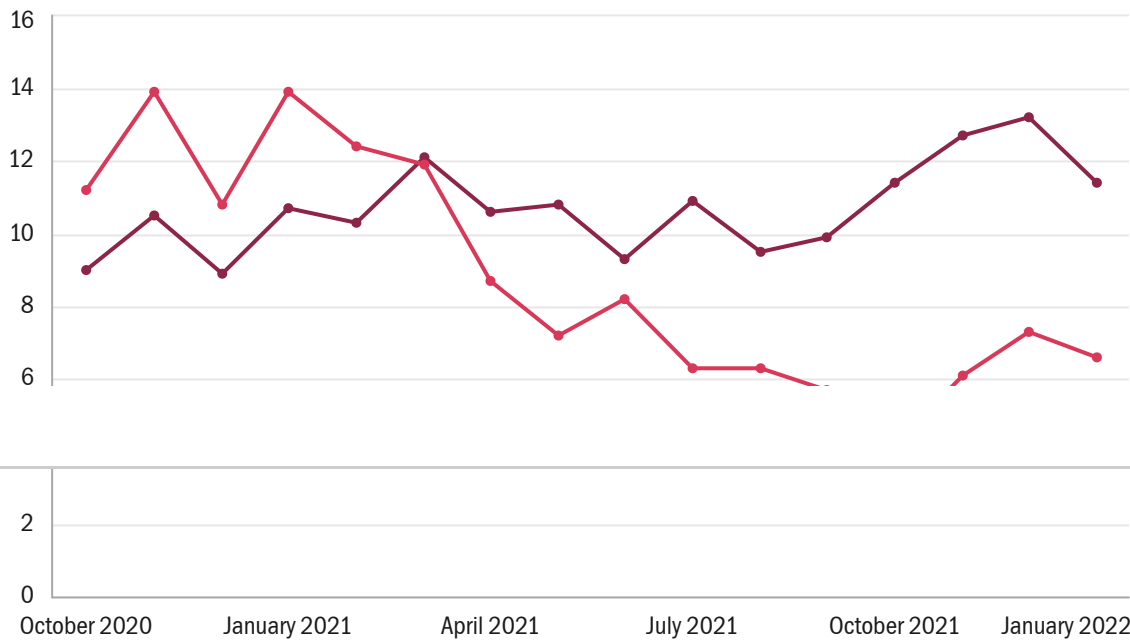
How can SMEs enhance their adaptability and resilience in today's increasingly turbulent environment?

According to a recent survey, 80 per cent of British SMEs stated that their businesses had demonstrated resilience during the pandemic⁶. The majority of British SMEs (79 per cent) adapted their business during the pandemic, with 75 per cent anticipating a positive future for their organization⁷. In another survey conducted by ONS, 54 per cent of respondents stated they were very confident that their organization would maintain business continuity in Q2 2022⁸.

Despite this positive outlook, between February 2020 to April 2021, 70-80 per cent of SMEs in 32 OECD countries registered a loss in revenue of 30-50 per cent⁹. In the UK, over half of respondents (53 per cent) claimed that the COVID-19 pandemic was the main reason for the drop in turnover, while 12 per cent asserted that a mix of the pandemic and Brexit were to be primarily blamed¹⁰. According

to the ONS survey ¹¹, 11 per cent of UK businesses reported that they had no cash reserves, while 7 per cent had little or no confidence that they would survive the following three months (figure below). Most importantly, some SMEs continued to experience a decline in revenue as the world began to emerge from the pandemic. Considering the scarcity of resources, how can SMEs enhance their adaptability and resilience in today's increasingly turbulent environment?

Business confidence to survive



English ▼

No cash reserves Low or no survival confidence

Note: Survive (survival confidence, businesses not permanently stopped trading). For presentational purposes, response options have been combined. Data are plotted in the middle of the period.

Source: ONS (ONS, 2022a).

Resilience frameworks must consider SMEs' characteristics

The characteristics of SMEs influence their approach to resilience building ¹². SMEs tend to be reactive; their decision-making processes are often poorly defined and their overall level of strategic planning is low ¹³. This is further exacerbated by the challenge SME managers face to simultaneously balance multiple short- and long-term priorities due to constant firefighting and resource limitations. Long-term strategic resilience is easily overlooked when vital daily operational issues and customer demands take precedence.

SMEs' resource constraints, such as lack of human resources, financial capital and time, limit their ability to adapt and operate effectively ¹⁴. Moreover, cash flow problems and lack of external financing often prevent SMEs from being able to properly fund their operations and pursue innovation and

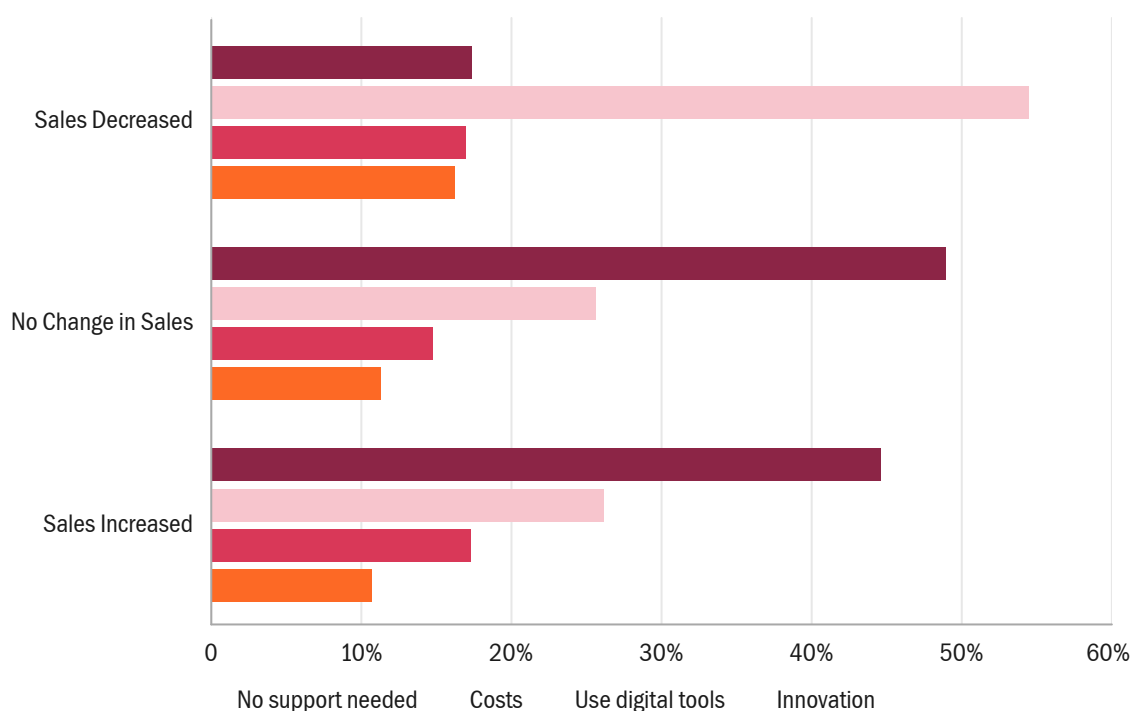
market opportunities. The scarcity of experienced staff and high turnover rates also negatively affect operations. The likelihood that an SME will be able to adapt and boost its resilience thus depends, amongst others, on its ability to recruit, train and retain skilled and capable employees.

Boosting SMEs' resilience capabilities

One policy solution is a stronger focus on developing SMEs' digitalization capabilities as a foundation for resilience ¹⁵. Specifying the underpinning capabilities for SMEs' digital transformation will help policymakers and practitioners gain an in-depth understanding of resilience. According to a survey conducted by Facebook and the OECD ¹⁶, around 70 per cent of SMEs stated their need for more targeted support in digitalization, innovation, training, reconnecting with supply chain partners, and better cost management (figure below).

One policy solution is a stronger focus on developing SMEs' digitalization capabilities as a foundation for resilience.

SMEs that experienced a large drop in sales are more likely to need future help to cover costs



Note: Share of SMEs stating that they need future support by change in sales 2020 vs. 2019 and type of support needed.
 Source: OECD calculations based on Facebook-OECD-World Bank, *Future of Business Survey*, (December 2020).

Save the Date

UNIDO's LKDF Forum 2022 will convene virtually on 19 and 20 October 2022 under the theme *Skills for Resilience: Are We Ready for a Skills Revolution?*

Explaining resilience through replicable best practices and highly linear stepwise processes is not effective. Recent research¹⁷ suggests that SME adaptability and resilience increasingly depend on key organizational capabilities embedded in SMEs: a perennial ethos and values-based management, strategic selectivity, a focused business model, and effective partnerships in the innovation ecosystem.

First, cultivating a collective mindset associated with the firm's ethos, values and accumulated experiences will underpin the development of a culture of lasting resilience and adaptability.

Second, due to scarce resources, SMEs need to prioritize strategic selectivity in what they do. This should be driven by their values and position in the ecosystem. Therefore, job selection and a clear understanding of where they want to position themselves in the market play a critical role in building resilience. Strategic selectivity capability enables SMEs to redirect their limited resources to the key areas of their business to ensure business viability. SMEs can thus avoid the trap of spreading their resources too thinly across various unfocused activities.

Third, once an SME has determined how and where to position itself in the ecosystem, it must commit to delivering a focused business model aligned with its values. This requires a foundational capability to prioritize what matters most for the business. The ability to implement a focused strategy and business model enables SMEs to become highly adaptive¹⁸.

Finally, SMEs are increasingly participating in a range of ecosystems¹⁹ that are constantly evolving, i.e. SMEs' affinity with the innovation ecosystem has become a key capability for achieving adaptability. SMEs can develop such capability by establishing strategic partnerships, engaging with the community, and managing integration. SMEs should establish ecosystem partnerships with the aim of uniting diverse competencies within the ecosystem. This approach is highly effective, particularly due to SMEs' limited resources²⁰.

A distinct focus on a higher organizational purpose promotes consistency and the establishment of commitment-based relationships to the firm and ecosystem. Policymakers and SME support organizations should focus on the development of productive partnerships in the ecosystem SMEs participate in. The capacity for resilience is enhanced through continuous adaptation to environmental changes since resilience, after all, is not about responding to one particular shock only.

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