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The Impact of COVID 19 and Geopolitical Tensions on Small to Midsized Enterprises

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EXTENDED ABSTRACT

Small and mid-sized enterprises (SMEs) have a potentially important role to play in the global economy (SBA, 2019). International business, however, has long been considered the domain of large multinational corporations; however, a growing number of SMEs engage in some form of international business. Many SMEs may not be fully exploiting their potential to grow in international markets despite reductions in transportation and information costs that have occurred due to technology improvements and globalization that have greatly reduced the cost of international market entry (Delehanty, 2015 and Wood et al., 2015). These costs are particularly important for SMEs who lack scale economies that allow large firms to negotiate cost reductions on large shipments. SMEs also typically have a small staff (if any) that can be dedicated to developing international markets and exploring different methods of shipping (Drzeniek-Hanouz and Doherty, 2013). While many SMEs have exploited the reduced search costs associated with locating customers over the Internet, and the general growing prevalence of e-commerce activities to generate international sales, many SMEs appear to be falling short of their potential (Shooshtari et al., 2017 and Wright et al., 2017).

With respect to challenges, SMEs often consider competing domestically tough enough and firms may not have the additional resources, capacity, and wherewithal to take on international markets. They considered international trade more complicated because of higher documentation requirements such as shipper's letter of intent, commercial invoices, etc., and other complexities such as compliance with NAFTA/USMC rules and language barriers in dealing with foreign entities.

Other internal barriers include resource constraints on managers' time and a lack of managerial expertise that is needed to develop foreign markets. Many SMEs cannot afford to conduct their own market research and instead they must rely on personal contacts or experience, often operating opportunistically rather than pursuing a comprehensive international strategy (Rundh, 2015, Francioni et al., 2015). Flexibility in both production and marketing may be needed when proceeding into international markets and many SME managers lack the experience needed (Love and Roper, 2015).

COVID 19 and the Geopolitical Tensions

The small to mid-sized enterprises generally face greater challenges in entering global markets compared to larger more resourceful firms. The COVID-19 pandemic disrupted global operations with significant health and business consequences. Many firms continue to face supply chain disruptions, but SMEs are more vulnerable than many larger firms. In a recent report by McKinsey & Company, Dua et al., (2020) find that many small businesses entered the COVID-19 crisis with low financial resilience. Among respondents to their survey, close to a third were operating at a loss or just breaking even before the crisis. Humphries et al., (2020), OECD, (2020), and ITA, (2020) indicate that many small businesses were operating on very small cash reserves that would quickly be depleted. SMEs faced both demand and supply shocks due to the pandemic. Furthermore, what were once thought of as global supply chains turned out to effectively be Chinese supply chains for many SMEs. Thus, some SMEs were overly exposed to China and were hurt by the shutdown there. Adapting to new business conditions is likely to require a significant investment in technology and the creation of digital platforms for all firms. Baumgartner et al., (2020) maintain that in recent months, structural supply-chain fragility has become a chief business concern as the ongoing repercussions of the COVID-19 pandemic continue around the world. Because of COVID, companies are looking to add flexibility and resilience to their supply chains and not have them centered on China. Making these changes is not an easy process. They offer three major recommendations to firms to deal with this crisis, including rethinking the traditional business models, securing value-chain competitiveness, and digitization of their supply-chain network.

According to the Dua et al., (2020) study, even if SMEs can use technology and new business models as a means of survival in the post-COVID-19 world, many lack the capital, people, and access to technology that their larger counterparts have. SMEs also disproportionately operate in industries hardest hit by the pandemic and the shutdowns (Prasad, 2020, OECD, 2020). Eggers, (2020) argues that if SMEs can react appropriately the pandemic may allow innovative small businesses to take advantage of changing opportunities. Many will still need assistance. In short, the pandemic is likely to be an existential crisis for numerous SMEs and many are likely to require financial and technical assistance from both government and private-sector sources to survive (ITA, 2020, Prasad 2020, OECD, 2020).

Given the inherent disadvantage of SMEs in operating in international markets, the current geopolitical tensions have only exacerbated their ability and willingness to conduct business internationally. In the current climate, many SMEs may simply conclude that the added risk and uncertainty of doing business internationally is just not worth it. It may not be a significant loss for SMEs to pull back from doing business internationally especially if their global operations were only tangential to their domestic operations.

The combined impact of COVID 19 and geopolitical tensions could be mutually reinforcing in dissuading SMEs from doing business internationally or to pull back their current international operations. As stated before, the fact that global supply chains turned out to effectively be Chinese supply chains for many SMEs have made the current political tensions with China even more challenging for these smaller firms. Thus, some SMEs were overly exposed to China and

were hurt by the shutdown there. The indications are that we may be in the early stages of geopolitical tensions with China so the problem is not likely to go away for many years to come. According to Shih (2022), the COVID 19 pandemic and the geopolitical tensions plus the war in Ukraine have put the fragility of the global supply chain top of mind. The global shortage of advanced semiconductor chips and the dependence of U.S., European and Japanese economies on foreign supply chains have raised protectionism and the push toward domestic resilience and the rapid growth of industrial policy initiatives. With regard to logistics, larger firms fared better than smaller firms that suffered disproportionately and were slower to see the wave of problems coming their way.

Adapting to new business conditions is likely to require a significant investment in technology and the creation of digital platforms for all firms. This isn't particularly surprising as Sharma et al. (2020) indicate that most small businesses don't engage in international risk assessment. In terms of government assistance to these smaller firms, state and federal programs should broaden their marketing to SMEs to better show them the assistance they can provide. They should also facilitate more venues to share success stories and challenges in their region among firms in similar lines of business. The growth of the Internet and social media may provide new means to virtually deliver low-cost programs aimed at providing market and legal knowledge, assisting in trade leads, etc. via these media rather than by holding trade promotion events aimed at SMEs that may require travel time and costs. Some SMEs that can succeed in global markets won't try unless they are encouraged and trained to break through psychological barriers to that cause them to exaggerate the risks and undervalue the opportunities.

The role of small and medium enterprises in international business has been growing and becoming more important (Torres-Ortega et al., 2015). Programs that encourage mentoring of SMEs interested in international business by those already successfully engaged in international activities may provide benefits that generic programs offered by federal, state or local agencies do not. States in particular may wish to make available local mentors to SMEs to help overcome perceived barriers due to lack of knowledge, exaggerated belief in the risk of doing business internationally, or perceived poor ROI from such activities.

The combined effects of COVID 19 pandemic and rising geopolitical tensions are discouraging to SMEs operating in international markets but they can be overcome or in the least mitigated. Some of the obstacles facing SMEs are structural and may be difficult to overcome. Others are psychological and can be addressed with appropriate and targeted assistance measures, both public and private, which combined with SME agility and entrepreneurial ability could pave the way for greater international success.

Keywords: *Small to Midsized Enterprises, International Entry Strategy, Global Supply Chains*

References are available from the authors upon request.

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