

SME Resilience in the context of global challenges - Lessons from Fast-forwarding and Rewinding

SME Week Youth Essay Competition 2021

Introduction

Over the years, the world has acknowledged the importance of not placing all eggs in one basket. Nevertheless, the truth is that most of the eggs of the world's economy are still concentrated in one basket and that basket are the Small and Medium-Sized Enterprises (SME). SME represent about 90% of businesses and more than 50% of employment worldwide, with an even higher importance for the economies of developing countries (*World Bank SME Finance: Development News, Research, Data | World Bank, n.d.*). The global economy relies on SME and so their resilience is symbiotic.

Having this interdependent relationship in mind, drawing public policies for the sector should be done with special care and trying to avoid making mistakes, specially the two classic and most common ones: drawing conclusions too quickly from recent events and looking at the future as a set of certain and predictable events. Although we will make these mistakes in this essay, for pure academic speculation, we should start by clearly stating that it is extremely early to reach significant conclusions from the COVID-19 pandemic. This precise pandemic tells us and, particularly, the 2019 us, that, no matter how rapidly science evolves or how precise technology becomes, the future is mostly unpredictable.

This essay does not intend to be a manual on SME resilience but rather a compilation of the essential lessons we can learn with the ongoing pandemic and how we can use them to better face the future, but also present, challenges. Resilience is the goal, and this essay aims at giving a small contribution on how to become more resilient. To start this exercise, we will fast-forward until the unimaginable world of 2030 and look, from the future, at the evolution of three European companies. Then, we will look at the key findings that SME came to during the last year and a half. And, at last, we will try to understand from those findings and conclusions what competences and skills would have been useful for entrepreneurs to better face the pandemic and which ones

sould they acquire to better face future challenges. Fundamentally, we will fast-forward and rewind. Most of the knowledge comes from there.

Fast-forwarding to 2030

We arrive in 2030 and the world we find is completely different from the world when this essay was written back in 2021. After interviewing some people in the SME sector, we found out about three small companies that are useful to understand how the sector has adapted to the past and current challenges. Those companies are Kostas Fabrik, Fradd and Presto. Welcome to 2030!

Kostas Fabrik is a small business based in Thessaloniki, Greece, that used to be specialized and mainly focused on jacket production. Ten years ago, the company had around 20 workers, when the COVID-19 pandemic began. To survive the darkest times in the history of the corporation, with a dramatically decrease in jacket demand at their physical store and the incapability of moving sells online in a timely manner, the managers decided to shift their production towards face masks and, within a month, 95% of their time and work force was spent on mask production. But that did not last long: when the mask production increased and the article started to be produced and sold internationally at a dramatically lower price, the company went through harsh difficulties again: they were about to stop working again. At that time, Mr. Kostas, the current owner of the firm and son of its founder, was studying the dramatic increase in plastic quantities in the Thermaic Gulf, in the Thessaloniki coast, and thought on how to help personally and professionally fighting that scourge. And that was the time when the company completely shifted its purpose. Kostas Fabrik decided to start promoting sea cleanup events with the Thessaloniki community and to financially support the organizations that were already scooping up plastic, buying them the garbage they were taking off the sea. After gradually updating their technologies to be able to use some of the most interesting plastic transformation techniques, Kostas Fabrik started producing jackets out of reused plastic and deeply involving the community in the process. The community realized that buying Kostas' jackets would help stopping plastic pollution and

fighting climate change in their region and, consequently, the sales went up dramatically.

Fradd is an advertising enterprise based in Lisbon and founded in 2019 by a young entrepreneur called Frederico. The company was specially affected by the pandemic as it was starting their market exposure and did not yet have the desirable financial stability to resist big shifts in supply and demand. Temporarily, and to survive the pandemic, they used their available technology and knowledge to shift their business model towards online events, such as livestreamed music shows and large remote conferences. As this stopped being necessary as onsite events started happening again, a similarly difficult challenge appeared: the automation of the advertising sector. By 2022, most of the ads and advertising strategies were already designed and implemented in minutes, by the client itself, with a very low number of clicks and a similarly low budget spent. Frederico understood that either they changed or vanished. So, by 2025, all the company ten employees were having very intense IT training, specializing themselves in the field of Artificial Intelligence and slowly but steadily shifting from a simple advertising enterprise to a significant company that uses artificial intelligence to build adds that fit the clients and the audiences as no other company in the country currently does.

Presto is an Italian restaurant in the region of Brussels. During the 2020 lockdown, as most restaurants across the world, they had to close their physical place and shift towards alternatives that allowed them to continue their business activity. Unsurprisingly and as most restaurants, their solution was to shift towards take-away meals. Although the take-away activity allowed them to keep some profit coming in and preserving the working places of their employees, it was not enough to keep their space and the only solution was to return it to its landlord. In 2021, they continued take-away but, after a seemingly endless lockdown, people wanted a physical space to go, and Presto did not have that to offer. So, after a few months trying to survive exclusively on take-away, they found an interesting solution in the beginning of 2022: despite keeping their take-away service working, they opened a physical space shared with several other small restaurants of the region. A space that rapidly became known in the region for its friendly environment and for its environmental protection standards. It was a solution

similar to what happens in malls around the world: the restaurants are separate companies but the space for clients to have their meals is shared between every restaurant. They inverted the cycle of aggressive competition between the local companies and started cooperating with each other, sharing some of the operational costs of the business and making it more stable to every interested party involved.

Producing jackets, making advertising campaigns or selling food in restaurants are business as old as one can imagine. But the way these three companies adapted to change proves us that it is possible to have pre-existent SME successfully using challenges as opportunities to learn and grow. Firstly, Kostas Fabrik is an example of a company committed to their social responsibility. The relationship with the community, either with citizens or organizations, is the best possible way of marketing, and their devotion to help fighting the global challenge of climate change is very much valued by the costumers. What they have been realizing is that when a customer chooses between two similar products from two different companies, the customer will most likely choose the company whose values align better with the values of himself or herself. Secondly, Fradd is a SME that proves us the importance of keep learning and keep promoting the qualification of the workforce. When the work they did started to be done in a more more professional and cost-effective way by digital tools, their workers learned how to shape those tools to keep producing innovative and superior products that distinguish them from the rest of the market. Bringing artificial intelligence into their business way before other companies allowed them to reach 2030 with way more stability than those other companies. Finally, Presto is an example of how rapidly adapting to challenges can be determinant for the survival of your business and of how cooperation is most of the times safer and more sustainable than competition. They show us that same companies in same business sector can have completely different approaches and that clients value that diversity and standards when they choose where to spend their money.

Rewinding to 2021

We are back in 2021, in a world that has not fully recovered from the COVID-19 pandemic and has not committed adequately to the biggest challenge of our time:

fighting global warming. The pandemic affected with high prominence huge international companies, like the ones from the aviation sector, but also, maybe in a less observable way, SME. Is it useful to try to understand the reasons for this and how to minimize the effects of this calamity and future ones. The financial situation of these companies is probably one of the biggest reasons: a big percentage of them are ill prepared to face a big cut on revenue and are unable to face future expenses if, for some reason, the sales or financial movements momentarily cease to exist (Bartik et al., 2020). But the challenge of digitalization is also a crucial cause. On one hand, small and medium corporations and their employees have yet, and specially in comparison with other type of corporations, a very critical lack of digital competences (Organization for Economic Cooperation and Development, 2020). On the other hand, there is also a deficiency of capability to move businesses online, either upstream, with these companies struggling to move to remote work (Adian et al., 2020), or downstream, with a short percentage of sales happening online and the incapability of increasing it because of the lack of competences and means (International Organization for Migration et al., 2021). Furthermore, the skills and competences of the manager play a vital role in the resilience of SME and so it is important to look at the future of SME by that perspective.

When constantly facing rapid evolving challenges, from climate change to global pandemics or financial crisis, an entrepreneur must be creative enough to see opportunities where others see difficulties. No business can prosper when facing so many, so harsh and so unpredictable challenges without creativity. This is not, however, an isolated skill and is deeply connected with two other fundamental skills: the capability to strategically think your company, planning how it will act – specially at a financial level - in every possible scenario and the desire to constantly learn. An entrepreneur that thinks and faces the challenges of today as he did in the 90's will most likely not succeed in a market focused on questions like the digitalization or the environmental sustainability.

Another set of competences is necessary when you are running a business, especially when that business has a small or medium size, and you directly contact with a big percentage of your staff members: social capacities. Although a lot of challenges are now in binary code behind computers or in big servers buried somewhere on the

other side of the globe, a big part of them is still related with the human relations. That goes until the basis of businesses history and will continue as long as humans keep working and interacting with other humans. Therefore, there are two abilities which have been fundamental across the years and will still be crucial in the next ten or twenty years. One of them is leadership: the capacity to motivate and influence others toward the common goal of the company. The other one is mental health and is now, due to the pandemic, more valuable than ever, with evidence showing us that four in five small business owners say COVID-19 has negatively impacted their mental health and around one third experiencing depression (Simply Business, 2020). Entrepreneurs face many personal and professional challenges and should pay special attention to their mental health, with studies showing that symptoms of psychological distress can be reduced through brief and low-cost interventions delivered to SME owners and managers (Martin et al., 2020) and that better mental health improves exponentially human motivation and productivity (World Health Organization, n.d.).

Fast-forward and Rewinding

Fast-forwarding and rewinding are crucial exercises not only in cinema but also in the business sector. Fast-forwarding to imagine how SME will be in ten years and how they can face global, regional, or local challenges as development opportunities. Rewinding to better identify the lessons that history, specially though and dark times, left us, and to build on that to be more sustainable and successful.

COVID-19 taught us many lessons and most of them are yet to be fully understood. The biggest one is the one that Darwin told us decades ago: the ones that survive better are the ones that adapt faster. This applies to species, but it also applies to companies, entrepreneurs, and workers. The SME that will prosper in the future are the ones that adapt better to the multiple challenges that they will face and use them to become more resilient. May they know how to do so.

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