

Business resilience: finding a way forward

By [Aylin Ates](#) - Posted on 9 November 2022

How can SMEs best manage the increasingly complex business environment? Dr Aylin Ates examines small and medium enterprises' resilience and viability in turbulent times in this latest blog post.

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 [OECD](#), the COVID-19 pandemic triggered the most severe economic recession in decades, resulting in a significant decline in GDP growth. How can SMEs best manage the increasingly complex business environment and in our new volatile, uncertain, complex and ambiguous (VUCA) times?

Resilience and adaptability are indispensable for leading organisations through continuous cycles of change. As the concept of resilience touches upon the individual, organisational, societal and technological systems, new approaches that combine sociotechnical systems 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% of all private sector companies in [OECD countries](#). In the UK, for example, [SMEs account for 61 per cent of total employment and 52 per cent of total turnover](#). 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 hospitality.

According to a recent survey, [80 per cent of British SMEs](#) stated that their businesses had demonstrated resilience during the pandemic. The majority of British SMEs (79%) adapted their business during the pandemic, with 75% anticipating a positive future for their organization. In [another survey conducted by ONS](#), 54% of respondents stated they were very confident that their organisation would maintain business continuity in Q2 2022.

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%. 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 blamed. According to the [ONS survey](#), 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. 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?

Resilience frameworks must consider SMEs' characteristics

The [characteristics of SMEs influence their approach to resilience building](#). SMEs tend to be reactive; their decision-making processes are often poorly defined and [their overall level of strategic planning is low](#). 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. 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' digitalisation capabilities](#) as a foundation for resilience. 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, around 70 per cent of SMEs stated their need for more targeted support in digitalisation, innovation, training, reconnecting with supply chain partners, and better cost management.

Explaining resilience through replicable best practices and highly linear stepwise processes is not effective. Recent research suggests that SME adaptability and resilience increasingly depend on key organisational 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 prioritise 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 prioritise what matters most for the business. The ability to implement a focused strategy and business model enables SMEs to become highly adaptive.

Finally, [SMEs are increasingly participating in a range of ecosystems](#) 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 resources](#).

A distinct focus on a higher organisational purpose promotes consistency and the establishment of commitment-based relationships to the firm and ecosystem. Policymakers and SME support organisations 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.

[This post first appeared on UNIDO's blog.](#)

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