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Tactics of small and medium-sized enterprises in times of the COVID-19 crisis

Taktyki małych i średnich przedsiębiorstw w czasach kryzysu COVID-19

ABSTRACT

Small and medium-sized enterprises (SMEs) are the foundation of any economy, and during the Covid-19 pandemic, they were at the center of the economic crisis. This was essentially the result, characteristic of SMEs, of a lack of sufficient resources to build a reserve for unforeseen contingencies. Therefore, the article's main objective is to identify the tactics adopted by SMEs in response to the challenges of the Covid-19 crisis in its early stages, as identified by the results of an empirical survey of 538 SMEs in Poland and the Czech Republic. Overall, the results suggest that SMEs are lagging in building resilience to the Covid-19 crisis, are unable to cope with the limitations of operational skills and remain helpless in the face of not only the scale of the crisis but above predictability and the associated uncertainty about the future.

Keywords: SMEs, Covid-19 crisis, proactive and reactive tactics.

STRESZCZENIE

Małe i średnie przedsiębiorstwa (MŚP) stanowią kręgosłup każdej gospodarki, a w czasie pandemii Covid-19 znalazły się w centrum kryzysu gospodarczego. W dużej mierze było to wynikiem, charakterystycznego dla MŚP, braku wystarczających środków na zbudowanie rezerwy na nieprzewidziane ewentualności. Dlatego też głównym celem artykułu jest identyfikacja taktyk przyjętych przez MŚP w odpowiedzi na wyzwania związane z kryzysem Covid-19, w jego wczesnej fazie, zidentyfikowanych na podstawie wyników badań empirycznych przeprowadzonych wśród 538 małych i średnich przedsiębiorstw w Polsce i Czechach. Generalnie wyniki sugerują, że MŚP są opóźnione w budowaniu odporności na kryzys Covid-19, nie potrafią poradzić sobie z ograniczeniami umiejętności operacyjnych, pozostają bezradne wobec nie tylko skali kryzysu, ale przede wszystkim jego nieprzewidywalności i związanej z tym niepewności co do przyszłości.

Słowa kluczowe: MŚP, Covid-19 kryzys, taktyki proaktywne i reaktywne.

INTRODUCTION

The Covid-19 pandemic has had a significant impact on the global economy (McKibbin & Fernando, 2020; Morales & Andreosso-O'Callaghan, 2020; Sansa, 2020; Şenol & Zeren, 2020), also in the European Union, including the Czech Republic and Poland and had to affect the sector of small and medium-sized enterprises (SMEs- (defined as organizations

with fewer than 250 employees (OECD, 2005)). In most countries, SMEs have been at the center of the crisis caused by the Covid-19 pandemic, which has led to legitimate concerns that many of them will not survive the next few months (OECD, 2020), and widespread SMEs failures can have a substantial impact on national economies and global growth prospects.

Therefore, in response to the crisis, national governments have been quick to recognize the particular situation of SMEs and have introduced measures to support them, such as measures to provide liquidity by deferring payments, measures to provide additional and more readily available loans to strengthen the resilience of SMEs; measures to avoid or mitigate the impact of unorganized redundancies by extending the possibility of temporary layoffs and wage subsidies; masks to allow SMEs to defer payment of taxes, social security contributions, etc. These actions were characterized by varying degrees of effectiveness, but the essential financial one as been the response of SMEs to this crisis.

Therefore, the main objective of this article is to identify the tactics adopted by SMEs (proactive or reactive) in response to the challenges of the Covid-19 crisis in its early stages. We deliberately use the term tactics because of the surprise of the new situation, the uncertainty about the timing of the pandemic, and thus the uncertainty about the scale and duration of the eventual crisis. The initial phase of the COVID-19 pandemic crisis in organizations is characterized by maximum unpredictability, dynamic course, avalanche-like speed of action, and extreme intensity (Fink, 1986). As a result, SMEs did not have time to analyze the situation in depth or strategically and formulate an effective response to it.

The article presents the results of empirical research conducted among 538 small and medium-sized enterprises in Poland and the Czech Republic in the initial phase of the Covid-19 crisis. At the core of this study is the conviction that in the initial phase of such crisis escalation, it is essential to recognize and understand the specifics of SMEs' emerging attitudes to ensure faster adjustment to an entirely new situation and tactics in the form of declared practices potentially helping to survive and to secure the chance to restore SMEs performance as soon as possible.

1. CONDITIONS OF THE SME'S FUNCTIONING – THE SITUATION OF ORGANIZATIONS DURING THE UNPREDICTABLE EVENTS

SMEs are the core of the European economy, making up 99.8% of all enterprises and two-thirds of employment (European Commission, 2019). However, because of their size and ownership structure, they also generally struggle with profitability and liquidity, thus becoming particularly vulnerable to external shocks (European Commission, 2019). Events such as crises (e.g., the global financial crisis 2007-2009) and disasters (natural, such as an earthquake or the SARS epidemic) and Covid-19 crisis are unpredictable events that defy prediction and become a challenge for SME operations due to their external nature, furthermore they create additional resource availability and liquidity problems.

The dominant view in the literature is that SMEs are vulnerable to crises and disasters. It points to the lack or existence of limited resources (human, financial, and technical) as major contributing factors (Dass, 2000; Laufs & Schwens, 2014;

OECD, 2020; Zimucha et al., 2020). On the other hand, it is increasingly recognizable that SMEs, despite being particularly vulnerable to external shocks due to their small size, can be more flexible and adapt faster to change, potentially benefiting them, especially in times of crisis (Freeman et al., 1983).

Although there has been a growing body of literature in recent years on the specifics of SME performance during crises or disasters, it remains fragmented. It mainly addresses the situation and challenges faced by SMEs in the wake of the global financial crisis of 2007-2009 (Freeman et al., 1983) (Bussoli & Marino, 2018) (Cioppi et al., 2014; Cowling et al., 2012; D'Amato, 2019; Harrison & Baldock, 2015; Mora & Akhter, 2012; Sharma et al., 2011) or disaster (Auzzir et al., 2018; Dietch & Corey, 2011; Mossakowski et al., 2010; Runyan, 2006; Webb et al., 2002)

Analysis of the subject literature shows that SMEs have fewer financial and technical resources to mitigate and cope with risks. Most SMEs also do not practice crisis or disaster risk management mechanisms such as insurance, supply and customer base diversification, and employee social protection (KPMG & CII, 2016).

According to the US Institute for Business and Home Safety (IBHS, 2007), at least 25% of SMEs do not reopen after a crisis or disaster, and many struggle to stay in business. Times of crises generate contradictory consequences for the functioning of SMEs that are difficult to verify clearly, especially in the initial phase. These consequences manifest themselves, among other things, in a decrease in revenues, a decrease in aggregate sales, and downward pressure on asset prices. Therefore, disasters such as the Covid-19 pandemic present SMEs with a severe dilemma: better to cut costs to survive in the short term but at the risk of reducing the ability to adapt adequately when recovery comes, or rather maintain greater capacity, incurring higher costs in the short term to preserve the ability to seize opportunities when recovery comes. It should be stressed, however, that this choice is often false, as SMEs have little flexibility to cope with sharp drops in demand, canceled orders, limited financing, and delayed payments. However, recent studies show that the Covid-19 pandemic represents an external shock of unprecedented magnitude, affecting European SMEs on both the supply and demand side (Balduzzi et al., 2020; Balleer et al., 2020; Bartik et al., 2020; Hassan et al., 2020). Considering the above, the following general research question was posed: (1) Were the actions declared by SMEs to meet the challenges of the Covid-crisis proactive or reactive?

2. RESEARCH METHODOLOGY

In order to answer the research questions posed, an empirical study based on a survey questionnaire (collected using the CAWI method) was conducted. The primary study was preceded by a pilot study using qualitative research in the form of in-depth interviews, which allowed for identifying preliminary types of tactics (proactive/reactive) in response to the

emerging Covid-19 crisis. Interviews were conducted with 11 SME representatives from Poland (7 interviews) and the Czech Republic (4 interviews). The primary study is based on a quantitative research survey containing closed and open-ended questions. This research was conducted in 538 SMEs which were located in Poland and in the Czech Republic, which were nonprobability sampling selected due to the exploratory nature of the study, time and cost efficiency, and limitations resulting from the pandemic Covid-19, with full awareness of the lack of representativeness of the research sample. The selected firms' owners or managers were chosen as the respondents.

3. RESULTS

Below, we discuss the results of the action on the tactics that the surveyed SMEs plan to take in response to the changes related to the Covid-19 pandemic and the associated uncertainty of the future. The conducted pilot studies allowed us to distinguish preliminary types of tactics in response to the emerging crisis. At the same time, it should be clearly emphasized that during the pilot study, the respondents were mainly unable to indicate what actions they would undertake, which, as they indicated, was associated with a significant level of uncertainty and helplessness. This was reflected in the main study. Among the identified tactics, one can distinguish proactive tactics, i.e., transforming the enterprise's operations and introducing new products or services for sale, and reactive tactics, i.e., suspending the enterprise's activities and liquidation.

Based on the data in Table 1, it is difficult to draw any unequivocal conclusions, except that the surveyed companies are primarily unable to declare what actions they will take, which is associated with a significant degree of uncertainty and helplessness in the face of the situation caused by Covid-19. It can be very carefully assumed that the examined SMEs are slightly more inclined to adopt proactive tactics than reactive ones – only 9% are considering the liquidation of the enterprise, but at the same time, over 47% are not able to view such a potential solution clearly. On the other hand, 40% declare the possibility of suspending an enterprise's activities, and almost the same number cannot indicate the willingness or reluctance to undertake such activities. For the tactics defined as proactive, more than half of the surveyed SMEs consider transforming the enterprise's operations. However, almost every fourth of respondents does not declare that it is difficult to say whether they will use such a tactic. Regarding the tactics

Table 1. Types of tactics

Declaration of adopting a tactic	TYPE OF TACTICS											
	REACTIVE TACTICS						PROACTIVE TACTICS					
	Suspension of the enterprise's activity			The liquidation of the enterprise			Transforming the enterprise's operations			Launching new products/ services		
	Total	Polish SMEs	Czech SMEs	Total	Polish SMEs	Czech SMEs	Total	Polish SMEs	Czech SMEs	Total	Polish SMEs	Czech SMEs
Yes	40%	48%	7%	9%	10%	2%	57%	69%	15%	40%	46%	13%
No	23%	6%	87%	44%	30%	98%	19%	5%	74%	22%	9%	73%
It is hard to say	37%	46%	6%	47%	60%	0%	24%	26%	11%	38%	45%	14%

referred to as the transformation of activities and the introduction of new products or services for sale, almost the same number of respondents declare their willingness to undertake such activities, as well as no clear indication. Generally, therefore, the number of "it is hard to say" answers indicates that the surveyed SMEs cannot indicate what actions they will undertake.

The differentiation of the indicated tactics is visible, however, at the level of the difference of indications between Polish and Czech SMEs. Almost half (48%) of Polish SMEs surveyed consider suspending the enterprise's activity. In contrast, in the case of Czech SMEs, such a tactic potential is indicated by less than one in ten respondents (7%). Importantly, in the case of Czech SMEs, only 2% allow for the liquidation of enterprises, while in the case of Polish SMEs, it is allowed by every 10 respondents. A similar differentiation can be seen in the case of proactive tactics. Only 13% of Czech SMEs and almost half (46%) of Polish SMEs plan to introduce new products or services for sale. Similarly, transforming enterprise operations is allowed by 68% of Polish SMEs and only 15% of Czech SMEs. However, due to the high percentage of "it is hard to say" answers, it is difficult to indicate the dominant trends clearly. Polish respondents are more likely to adopt proactive tactics and suspend or even close their activities, which respondents exclude from Czech SMEs.

4. DISCUSSION

This article aimed to identify the tactics adopted by SMEs in response to the challenges of the Covid-19 crisis in its early stage. While these goals have been achieved, the work has its imitations. First, the sample was limited to 538 SMEs in Poland and the Czech Republic. While a reasonably uniform economic, cultural, and geographic context helps minimize biases, it may also limit the generalization of research results. Secondly, the research concerned the tactics undertaken by SMEs only in the early phase of the pandemic, during the so-called first lockdown. Thirdly, the sample was not representative due to the study's exploratory nature, the time and cost efficiency, and the limitations of the Covid-19 pandemic, with full awareness of the implications. Further empirical efforts are needed to verify the tactics actually implemented by SMEs from both countries and perhaps a preliminary assessment of their effectiveness in surviving the Covid-19 crisis.

The crisis caused by the Covid-19 pandemic differs from any experienced before and has affected SMEs, revealing their greater vulnerability. This disproportionate impact is related

to, among other things, the fact that SMEs are overrepresented in the sectors most affected by the crisis (trade – especially retail trade and services, especially accommodation and food services, real estate, professional services, and other personal services). Furthermore, SMEs are typically more financially fragile, have smaller cash buffers than their larger counterparts, and find it harder to tap into different sources of finance. Moreover, SMEs lag in the uptake of digital tools and technologies, which can help build resilience in the Covid-19 crisis and help to face more operational skills constraints. These vulnerabilities of SMEs were also revealed in the research results that are the subject of this article, showing their helplessness in the face not only of the scale of the crisis but, above all, its unpredictability and the related uncertainty about the future. On average, 1/3 of the surveyed SMEs could not clearly indicate whether they would undertake any action (regardless of whether they would be proactive or reactive). However, it should be emphasized that the presented results only concern the situation in the early stage of the pandemic and show the scale of the shock. Nevertheless, it should be emphasized that SMEs suffered both on the supply and demand sides due to the Covid-19 crisis. Unstable and unpredictable conditions, after more than a year of the pandemic and repeated lockdowns, should force SMEs to rethink their business strategy and change the operational model, which, however, requires empirical verification, thus marking the field for further potential empirical research.

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