Risks and Opportunities Facing SMEs in the Post-Crisis Era

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1. SMEs and Economic Crisis

The SMEs sector is not only the most dynamic one in each economy, but it is one of the first to be hit by any serious external shock. SMEs are now considered the most sensitive sector and worst affected by the economic environment. The economic crises have adverse impacts on the most of SMEs, reducing the volume of sales and increasing the number of bankruptcies or closures.

Major stumbles in economic stable growth have had something to do with financial system problems. This was true of the Great Depression, true with the Asian financial crisis, and now again with the recent global financial crisis. Problems in financial sector have significant impacts on business activities, and especially affect the SMEs more.

The crisis has caught SMEs in a vicious circle of poor credit availability, impaired liquidity, rapidly aggravating terms and conditions of trade and discouraging business confidence. It hits SMEs in the following ways: drastic drop in demand for goods and services; tightening in credit terms, which is severly affecting their cash flows; increased payment delays on receivables which result in an endemic shortage of working capital and a decrease in liquidity; increase in reported defaults, insolvencies and bankruptcies.

Thus, there is a need to focus on SMEs and their performance during the time of crisis. The government tries to adopt packages of supporting measures to counteract the impacts of the crisis. But the scope and severity of the current economic downturn go well beyond the capability of any one government. It requires the cooperative actions by both developing and
developed economies. This is because any decision by a government might have some impacts on other side of the world.

2. The Challenges and Opportunities for SMEs

The challenges by economic crisis carry both risk and opportunity for SMEs. The main challenges the most of SMEs have to cope with are a marked decline in the demand for products and services, liquidity and credit related problems, sharp increases in the price of raw materials, considerable fluctuations in the exchange rate, and inflation pressure.

Regulation and compliance are burdensome and hard to deal with as is competition and mistakes in business management carry heavier risks. Running a business without access to experts bears higher risk. This phenomenon is spreading quite rapidly to a growing number of smaller companies. Furthermore, even knowing what is going on in the market or knowing where to find out any solution is beyond many small businesses.

On the other hand, the recent economic crisis has been requiring resource and service re-allocation by the government as well as business organizations. This is why the crisis can also be an opportunity for governments and businesses to carry out many reforms and innovations that are due or overdue to achieve more sustainable and inclusive growth.

For SMEs that identify the changes in the market and react promptly, this period may be proven favorable. In times of crisis, some SMEs, unlike the LEs, have the advantage of greater flexibility, being able to implement new services and launch new products more easily. Not like LEs, SMEs can make decisions more easily and thus become much more efficient based on prompt action and solutions adjusted to market circumstances.

3. Why SMEs face global challenges and how should they respond to them?

Technology development, networking, and competition act as challenges as well as opportunities for today's SMEs. First, the pace of technological changes is relentless. Given the rapid changes brought about by technologies, the rules of competition have changed. Knowledge and speed are the key factors of success in the new economy.
Second, the extent of interdependence and linkages among economies is increasing rapidly. As a result, difficulties in one country or region inevitably affect other countries and regions within a short space of time. Today, there is synchronous downturn in all major economies which have a big impact on the smaller economies.

Third, competition in the region and around the world is expected to intensify. Companies are no longer restrained by physical boundaries. Countries have to compete to attract investments, not only creating a pro-business environment, but also by developing policies to entice the best talents to their countries.

Then how do we respond to these challenges? Productivity enhancement through innovation is one possible answer. In the early years, productivity was largely regarded as a cost reduction strategy of minimizing inputs with output maximization. As quality gained prominence and become the most important task across the countries, the attention paid to improving quality of goods was extended to improving and engineering systems and processes. In recent years, innovation has become the new focus of productivity. Entrepreneurs are concerned not only with adding value to products and services, but creating value in order to build greater wealth.

While these propositions are not new, SMEs must continuously strive to improve productivity in the era of uncertainty. In these changing times, success in the past is no predictor of what will happen in the future. Organizations, small or large, are facing unprecedented pressure on sustaining their profitability and growth. This is a time where new challenges abound demanding entrepreneurial innovation, where the future is not what will happen at a distance.

4. SMEs are optimistic

In spite of today's volatile global economy and slow economic recovery, SMEs remain optimistic about their prospects according to some of surveys across the countries. Economic recovery could come in the form of increased global trade, especially growth within the region and with abroad. Many list investments in marketing and sales over the next few years as the highest priority, while infra structure, information technology and research for product development were identified as additional areas of focus.
Actually SMEs are expected to show a strong revival. SMEs owners are highly creative, adaptable, and quick to seize new market opportunities. One reason for optimism is the problem-solving approach of many SMEs and entrepreneurs who quickly and creatively respond to the market. As demand for goods in domestic market has declined during recession, firms that would previously have traded domestically are now looking further afield and branching out international trade.

Another reason for optimism is that many SMEs are shown to adapt at finding opportunities during the hard times. Many entrepreneurs are considering starting a new business, despite the economic gloom.

5. Not all SMEs will have the same opportunities

However, not all SMEs will enjoy these opportunities. Even more than LEs, SMEs need to access external sources of information, knowledge, know-how and technology, in order to build their own innovative capability and to reach their markets. They can only partly secure access through markets for goods, services, IPRs and human resources, and must also engage in networks, particularly those that nurture the tacit knowledge and other non-tradable competencies that are critical for pursuing innovation-based competitive strategies.

Now that the economy has stabilized with little chance of the crisis aggravating further, people have cautiously begun to discuss an exit strategy, preparing for post-crisis economic normalization that would include restructuring SMEs after the government discontinues emergency financial support for them.

It is time for SMEs to have strategic planning, which gives SMEs a critical advantage in adverse economic circumstances. Informal and dynamic strategic planning should allow SMEs to adapt to changes in the market and respond quickly to consumers' demands, thus helping them to survive and thrive in economic turmoil.

Individual SMEs were found to use different approaches to make strategy. Instead of deliberate, analytical and drawn-out formal processes, they tend to use approaches that were
more suitable to their unique circumstances. They have been scanning the market for opportunities to develop ideas into new products and services and leveraging off a range of available resources including employees, consultants, customers, and suppliers to refine their strategic decisions.

While the majority of firms had not engaged in formal strategic planning, those who did were very successful. The most successful SMEs put time aside to reflect on their strategic direction, using feedback from market place as input into and to fine tune their strategic decision. Importantly, they also used innovative ideas from their employees and empower their employees to participate in decision making.