

# The role of SMEs' resilience capabilities in response to COVID-19 era: Evidence from Kazakhstan and Mongolia

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**Abstract:** In many low and middle-income countries, small and medium-sized enterprises (SMEs) play an important role in providing employment, increasing the level of gross domestic product and export share, and in alleviating poverty and inequality. Therefore, governments and international donor organizations take action to diversify and provide access to sustainable financial means for SMEs and support them in many ways. The sudden outbreak of COVID-19 has impacted all-sized enterprises including micro, SMEs, large enterprises, and MNEs negatively, especially in the least developed and developing countries. This is because micro-sized and SMEs were more vulnerable to the pandemic due to their limited financial resources and low resilience capability. Resilience capabilities and innovative characteristics are crucial for SMEs to survive and to respond quickly to sudden phenomena unpredictable in advance. Big enterprises with financial and other resilience capabilities typically address and solve any issue in a timely manner. Even if the theoretical framework of the enterprises' resilience is well-grounded and studied extensively, most literature in the field mainly focuses on large entities, and only few have explored SMEs. Thus, this study can significantly contribute to practical and theoretical knowledge, especially for SMEs in landlocked countries such as Mongolia and Kazakhstan. This research helped to develop recommendations that are helpful for SMEs to survive during potential threats such as COVID-19, natural disasters, extreme weather conditions (EWCs), and economic recessions.

**Keywords:** resilience capability; SMEs; COVID-19; Kazakhstan; Mongolia

## 1. Introduction

In many low- and middle-income countries, small and medium-sized enterprises (SMEs) make up 90% of the total registered firms all over the world and they play an important role in providing employment, increasing the level of gross domestic product (GDP), increasing export share, and alleviating poverty and inequality (Kersten et al., 2017). Thus, in regard to its contribution rate, SMEs are always ranked first and MNEs and large enterprises are also crucial contributors to a country's economy with respect to their value addition and job creation potential at the same time.

Since 2019, the sudden outbreak of the COVID-19 pandemic has impacted all-sized enterprises all over the world including micro-enterprises, SMEs, large enterprises and MNEs negatively. Micro-sized enterprises and SMEs in the least developed and developing countries were especially strongly affected (Zighan et al., 2022). Among all types of enterprises, the impact on micro and SMEs were tragic because they typically have limited financial resources and low resilience capability that hinder them from responding quickly to the COVID-19 recession (Bhamra et al., 2011; Klein & Todesco, 2021). In addition, in the post-Soviet Central Asian republics, the foreign policy of opening could fundamentally change the dynamics of regional competition and cooperation (Gyene, 2021). Resilience capabilities and innovative characteristics are important aspects for SMEs to survive in a harsh situation that happens suddenly and respond quickly to such sudden phenomena such as COVID-19 including economic recession, financial crises, and outbreaks of the pandemic, which last for a long period of time over a wider distance. But either governments or firms themselves cannot

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predict and act upon it. Likewise, the COVID-19 pandemic demands all-sized enterprises' attention in this uncertain moment (Ciasullo et al., 2022). Many big enterprises with sufficient levels of financial and resilient capabilities and experience addressed issues connected with COVID-19 and returned to their work at a great speed. On the other hand, big enterprises compete eagerly in the market in order to restore their capacity and margins. This fierce competition in turn leads SMEs to be more competitive in terms of their financial capacity in order to survive (Zighan et al., 2022, Sullivan-Taylor & Branicki, 2011; Turkyilmaz et al., 2021; Erdeiné Késmárky-Galli et al. 2020). That is why researchers in this emerging field of literature as well as policymakers, CEOs, owner-managers, and managers of SMEs are involved in a quest for a strategic set that helps them to enhance their chances of survival and to maintain business continuity (BC). Most researchers studying organization resilience over the recent few years proposed that firms can overcome challenges they face by increasing their financing performance and creativity.

This paper aims to fill the following research gap: what are the main roles of the resilience capability for SMEs in developing countries, especially in landlocked countries bordering big markets such as China and Russia. The paper is structured as follows: after the introduction, Section 2 presents the literature review, which is followed by the methodology section. Then, the results are discussed in detail in Section 4. Section 5 concludes the research with further discussion and limitations.

## 2. Theoretical background and literature review

The recent crisis caused by the COVID-19 pandemic is considered unique and worse than other economic depressions, financial crises, terrorist attacks, and natural disasters in human history in terms of impact on both macro and micro levels. As a result of this crisis, whole supply chains were disrupted because of the unpredictable lockdown and restrictions, which led to a scarcity of goods and raw materials worldwide. Also, a shortage of labour force has occurred, which eventually affected the production channel and reduced production capacity to a great extent. Particularly, SMEs with limited financial and non-financial resources have been facing more challenges compared to those firms with increased financial power that already got back on track (Sullivan-Taylor & Branicki, 2011; Iborra et al., 2020; Bite et al., 2020). The scholars described that the firms can easily manage issues facing them with the help of resilience (Zighan et al., 2022, Kitukutha et al., 2021; Ciasullo et al., 2022). The impacts of the COVID-19 pandemic on Arab capital markets were examined by analyzing both the normal index and the ESG (environment, society, and governance) index. It was found that COVID-19 caused a shock in both indexes (Mousa et al., 2022). For instance, some business enterprises applied digital tools and automation technologies in their operation to maintain usual business processes. On the other hand, some firms lost their business because of the sudden change in traditional business cycles and environments (Ciasullo et al., 2022). That is why scholars are interested in those characteristics of firms that made them resilient in the face of adversity and scholars are seeking answers to these questions. Resilience is seen as a crucial capability that helps firms to survive in current unstable and competitive business environments (Ates & Bititci, 2011). Concerning SMEs' resilience, two key areas are discussed in the literature. The main difference between these two research streams is how and when firms give a response to sudden phenomena such as the COVID pandemic and if they can survive during a crisis.

As far, there is no single agreed definition of resilience. According to psychologists, resilience refers to the ability to recover but on an individual level: this term means the ability to recover from complications in one's life. In entrepreneurial literature, resilience refers to the capability to recover or get back on track after a shock or crisis that is unpredictable or occurred suddenly (Turkyilmaz et al., 2021). In general, the capacity and ability to get back on the former business track after a shock or crisis are described as resilience in the management field (Bhamra et al., 2011, Zighan et al., 2022). In more detail, Herbane (2019) claims that resilience is the process of dealing with challenges arising from major crises with the help of one's own capabilities in a timely manner (Herbane, 2019). In other words, firms can instantly adapt to threats that are happening around them and innovate their way of doing business to cope with challenges and survive. As mentioned in Zighan et al.'s (2022) study, most firms are heavily dependent on other parties' support such as governments since they

have decreased capability compared to big enterprises. In Figure 1, two principal paths for resilience are depicted: absorptive resilience and adaptive resilience.

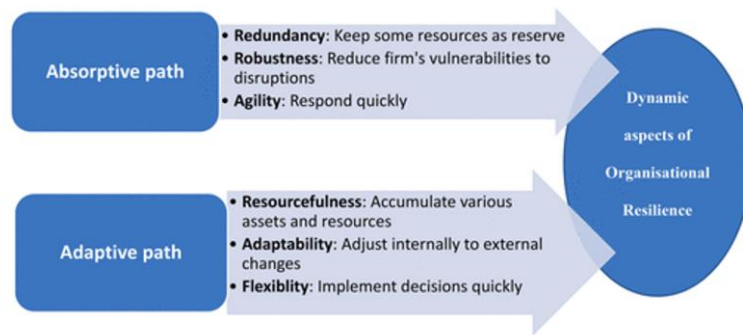


Figure 1. Dynamic organizational resilience. Source: Zighan et al. (2022)

In a study by Saad et al. (2021), the key factors that influence SME’s resilience are entrepreneurial characteristics such as age, gender, lifestyle, human capital, entrepreneurial orientation, social capital, firm characteristics including financial capital, size, business age, and types, and business environments including socio-cultures, institutions, macro-economic conditions, location, and infrastructures (Saad et al., 2021; Turkyilmaz et al., 2021).

### 3. Methodology

In this paper, the qualitative analysis method has been adopted as the main research method. Research papers, articles, and book chapters published since 2005 in journals listed on Google Scholar, Web of Science, Scopus, and other databases were used as the main data source. The topic of the articles and papers were mainly organizational resilience, SMEs’ resilience, the post-COVID-19 pandemic, and the survival strategy of SMEs in the post-COVID-19 are. The general selection criteria applied for searching and selecting research papers and other literature were resilience capability of SMEs in Kazakhstan and Mongolia, challenges for SMEs during the crisis and in the post-pandemic period, sustainability of SMEs in Kazakhstan and Mongolia, and strategies related to the survival of SMEs in developing countries.

Table 1. Types of articles. Source: Authors’ compilation.

Types	Number	Percentage (%)
Empirical-qualitative	6	27.2
Empirical-quantitative	4	18.1
Empirical-mixed	8	36.3
Conceptual	1	4.5
Consulting report	2	9.0
Systematic literature review	1	4.5
<b>Total</b>	<b>22</b>	<b>100%</b>

Generally, we divided the data collection into two different stages using two different sets of keywords. In the first stage, we used the keywords “SMEs or small and medium-sized enterprises, organizational resilience or resilience capability, COVID-19, pandemic or crisis, and challenges”. Then, “SMEs in Mongolia, SMEs in Kazakhstan, sustainability, survival of SMEs, SMEs in developing countries, and resilience capability or resilience of SMEs” were used as keywords in the second-stage search of the above-mentioned databases. The data collection executed between 1<sup>st</sup> and 10<sup>th</sup> March 2022 resulted in 33 articles, of which 9 were eliminated. The reason for this was that they did not focus on the context of the SMEs’ resilience capability. Table 1 shows the articles we used as a source of secondary data for the research. As shown in Table 1, empirical-mixed papers represented nearly one-third (36.3%)

of the articles, followed by the papers using empirical-quantitative (18.1%) and qualitative (27.2%) methods.

With the purpose of determining the presence of potential themes and concepts, after collecting all the necessary data, we made a content analysis based on the data collected only in the first stage. The data analysis was conducted using the MAXQDA software, but the initial review was done by the authors. As for the data collected in stage 2, we reviewed and collected the main concept from the data and interpret it at the beginning of Section 4. Based on the data, similar challenges for SMEs in Mongolia and Kazakhstan are shown in the result and finding section as well.

## 4. Findings

Even if SMEs in Mongolia generate 67% of the total job opportunity, produce 20% of GDP, and 2.3% of total export, SMEs create relatively low levels of value-added products or services and export share. But SMEs in both countries are ranked in a high position in regard to their magnitude and employment (Altnaa et al., 2021). In turn, in Kazakhstan, 96.3% of total registered businesses are SMEs, which provide 80.5% of total employment opportunities and contribute 24.8% to the total GDP (Ismail et al. 2011; Turkyilmaz et al., 2021; Shaikholla et al., 2021; Shaikh et al., 2021).

### *Main challenges for SMEs in developing countries during the COVID-19 pandemic*

1. First, the challenge that emerged as a result of COVID-19 was constant cost pressure. In normal times, SMEs always work under pressure of meeting the due time of fixed operating costs such as rent, utility, salary, insurance, and payments, but SMEs were in an uncertain position as to whether they can cover all the fixed costs with their limited financial ability when their business operation is stopped partially and completely at the beginning of and amidst COVID 19. (Zutshi et al., 2021; Shaikh et al., 2021; Ciasullo et al., 2022).
2. The second challenge for SMEs was that the cash flow to firms had stopped, which caused them to find themselves in money supply shortage for covering costs of human resources and of raw material supply. In response to this challenge, some SMEs decided to keep open, reduce the number of workers or work alone, apply digital technology, and innovate products and services based on their capacity and capability (Branicki et al., 2017; Klein & Todesco, 2021; Zutshi et al., 2021).
3. From the beginning of COVID until now, the whole supply chain channel has been disrupted to a great extent, which impacts productivity negatively. Most SMEs reserve raw materials in small amounts because of their limited financial capability (Herbane, 2019; Islam et al., 2020). But smaller firms tend to manage issues related to raw materials easier than big firms because they are flexible and need smaller amounts of raw materials.

### *The role of building resilience capabilities for SMEs in developing countries*

Based on the findings concerning challenges for SMEs during the COVID-19 pandemic and post-pandemic, we identified five main roles that assist SMEs and owner-managers or managers to survive.

#### *1. Opportunity to rethink if their service and product quality are good for SMEs*

Demand on the market has decreased by a great extent promoting SMEs to reconsider if their services and products are competitive in terms of value addition and quality. Therefore, SMEs started to reshape their business strategy and tried to stay alive for the long term (Branicki et al., 2017; Klein & Todesco, 2021; Zutshi et al., 2021).

### *2. Increase entrepreneurial orientation for managers and owners of small businesses*

SMEs are highly dependent on the entrepreneurial orientation of owners or managers toward business strategy. Many big enterprises with sufficient levels of human resources, experience, and financial capabilities respond to the raised issues and refer to losing their market, troubles related to supply chain, and so on returned to their work at a great speed, while SMEs did have not these capabilities. Therefore, building resilience requires changing the way of thinking about business strategy for owners and managers of SMEs (Sullivan-Taylor & Branicki, 2011; Ali et al., 2021; Turkyilmaz et al., 2021).

### *3. The opportunity of adopting advanced technology for daily activities*

After the spread of COVID-19, all over the world, many software developers created easy-to-use applications and platforms for managing daily business activities and real-time communication. Among these platforms, MS Teams software, Kanban boards, zoom meetings, Trello, and Proof hubs are used as tools for communication, managing workflow, re-organizing teams, storing documents, and managing projects (Herbane, 2019; UNDRR, 2020; Ahmed et al., 2021).

### *4. Collaborating with the other institutions and maximizing their potential with the help of financial and non-financial support*

During the post-pandemic period, governments of all countries are taking measures to enable the survival of their SMEs. The scholars in the business administration and management field try to investigate and create knowledge regarding organizational resilience, challenges, and ways of mitigating concepts. Therefore, SMEs should act proactively and collaborate with all organizations to think outside the box for recovering quickly from the crisis or shocks (Iborra et al., 2020; Jambulov, 2021).

### *5. Adapting to changes in the business environment in a quick manner and responding quickly*

The SMEs observed adapted to the business environment and assessed customer potential preferences for the future. Also, they prepared strategies that allow them to improve continuously and secure business (UNDRR, 2020; Zutshi et al., 2021; Shaikholla et al., 2021).

## **5. Conclusions**

Concerning the COVID-19 and post-COVID-19 crises, we set the aim to study the role of resilience capabilities of SMEs in developing countries in a broader frame. To do so, we investigated the challenges that occurred and have been occurring during the COVID-19 pandemic and post-pandemic (in some countries). Based on challenges, we framed how these challenges impact on the thinking of the organization, owner-managers or managers and developed a framework that included the role of resilience. Results of the study underlined that there are five main roles of building resilience capability for an organization and for owner-managers or managers.

To sum up, in this study, we examined whether resilience capability is essential for SMEs in developing countries and why. Literature on the resilience of SMEs published since 2005 in the above-mentioned databases was used as a data set. We hope our findings contribute to the theoretical debate on SME resilience, the role of organizational resilience, and whether resilience itself is vital for SMEs' development. In general, this study investigated several roles of resilience assumed by SMEs, owner-managers, and managers.

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