

Small and Midsize Companies Business Strategy under Covid-19 Taking Sri Lanka as Analysis Case

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Keywords: Small and Midsize Business, Small and Midsize Enterprise, Business Strategy, Challenge, Covid-19.

Abstract: Small and midsize companies exist and are being defined differently in every nation. Compared with large companies, there is a certain gap between the number of employees and the business scale of small and medium-sized companies. Therefore, it is an unremitting challenge for small and medium-sized enterprises to survive under the background of a universal monopoly. Five huge problems affecting the survival of small and medium-sized enterprises include management problems, financial problems, entrepreneurship problems, cash flow problems and external factors. The paper aims to analyze the strategies in Small and Midsize Businesses. The focus of the analysis is on the misuse of strategies in both small and midsize companies. In the paper, the researcher provides the specific example of small and midsize companies which are facing challenges normally in Sri Lanka to explore, when the paper analyzes the strategies in small and midsize companies' business, the researcher considers the three challenges of the Covid-19 on the development of small and midsize companies. In addition, the postponement of sports events also brings great challenges to small and medium-sized enterprises in the sports industry, tourism, and hotels. Since most small and medium-sized enterprises respond to the epidemic by selling their assets, accepting more debt, or even laying off workers, it is not conducive to improving the core competitiveness of enterprises, but also to the long-term development of enterprises.

1. Introduction

1.1. Background

Small and midsize firms are organizations that keep up with incomes, resources, or various workers under a specific limit. Every nation has its way to define a small/midsize company [1]. Certain size rules are required to be met and incidentally the business/field in which the target organization works is considered at the same time. In the United States, there is no particular method for distinguishing small/medium-size enterprises [2]. The European Union (EU) offers more clear definitions, portraying a small firm as an organization with less than 50 workers and a midsize firm as one with under 250 workers. Notwithstanding small and medium-sized firms, there are miniature organizations, which utilize up to 10 representatives. Similarly, the necessities for the classifications contrast every country. "SME" (Small and midsize enterprises) is ordinarily utilized by the EU, the United Nations (UN), and the World Trade Organization (WTO). While in the United States these companies are much of the time alluded to as small-to-mid-size businesses (SMBs). In Canada, small, medium, large enterprises are simply classified by the number of employees: "Small businesses are businesses with 1 to 99 employees; Medium-sized businesses are businesses with 100 to 499 employees; Large businesses are businesses with 500 employees or more" (Statistics Canada).

For small/midsize enterprises, it is an unremitting challenge to survive under a general background of rampant monopoly [3]. There are mainly five aspects that were identified as the gigantic problems which constantly threaten the survival of small and medium enterprises which include management problems, financial problems, entrepreneurship problems, cash flow problems and external factors [4].

1.2. Related research

Robert Sher shared the idea of what small and midsize enterprises are on the Harvard Business Review. A small and midsize business (SMB) is a company that, due to its size, has different IT requirements — and frequently encounters different IT difficulties — than major corporations, and whose IT resources (typically budget and employees) are sometimes limited [1]. Cam Merritt provided the most standard comprehension of what are the characteristics of a midsize company. A midsize company is a medium-sized company, larger than a small business but not big enough to be considered a large business. More specifically, the company must make a certain revenue, or total yearly income, as well as have a certain number of employees to be midsize. A midsize company is measured by criteria such as Federal Business Size Criteria and International Size Standards [2]. Cox L.K in her research, found out that the initial not many long periods of business, small enterprises face various difficulties. Some are harder than others to survive — and, as per the U.S. Bureau of Labor Statistics, around 20% of private ventures fall flat before the finish of their first year. Before the finish of their fifth year, half go under; and by the 10th year, that number ascents to 80% [3].

Ron Carruci researched a running midsize company under pandemic with the employees working remotely over time. He suggested that organizations must be strategically aware to be successful. All managers must have the ability to think strategically. Managerial decisions have a strategic impact and help to bring about strategic transformation. Strategic management is critical to the success of any firm. A defined strategy is required for strategic success [4]. Kellmeny. J and Jane W Gibson suggested that on a personal level, people should seek out career routes that will allow them to engage in professional activities that they like. However, there is plenty that can be done on an organizational level to make the job more enjoyable. The first requirement is for the leadership team to believe that having fun is a good way to ensure organizational success. Having a good time should be taken seriously, and having a good time at work may be a good business strategy [5]. Adoukonou et al. stated that independent companies address almost 100% of all businesses in the United States, however, over half of the independent companies have fizzled before 5 years. Environmental change, digitization, and online media add to a change in outlook in shoppers' propensities, as more purchasers have become ecologically and civil rights cognizant. Business pioneers who can't pursue the purchasers' directions and changes of propensity may not prevail with regards to supporting their organizations [6].

Gray D H came out with the theory that vital arranging is typically seen, on reception, as a different discipline or an administration work. It includes the distribution of assets to modified exercises determined to accomplish a bunch of business objectives in a dynamic, serious climate. Vital administration, then again, regards vital thinking as an unavoidable part of maintaining a business and sees key preparation as an instrument around which any remaining control frameworks—planning, data, pay, association—can be incorporated. This interdependency normally becomes visible when a business experiences difficulty executing the aftereffects of an unsupported vital arranging process [7]. Kulupparachchi et al. provided the data of SMEs in Sri Lanka. In their data collection, North Western Province was recognized as the review region which is comprised of two locals, Kurunegala and Puttlam. Essential information was gathered utilizing a pre-tried organized poll from an arbitrarily chosen test of 152 recently enlisted coir-based, milk-based and grill firms which are the most unmistakable and set up SMEs nearby. Assortment of information was completed during the period from first March to ninth April 2016 with the assistance of advancement officials of the Public Enterprise Development Authority [8]. Nico A et al. concluded that midsize businesses must take advantage of these benefits and commit to these three competencies to succeed in a changing landscape: consistent investments in R& (systems, people, and capital) First, Extensive data collection across the marketplace to identify opportunities and threats. Second, Innovation should be viewed as a team sport rather than a series of eureka moments by bright individuals. Third, Small and medium-sized businesses are unprofitable [9].

Papulova et al. studied the data collected from small to midsize manufacturers in Slovakia. In their suggestion, within the running enterprises, regardless of whether overseeing working capital, reshaping cost constructions, or driving digitalization, CEOs and CFOs from center market ventures

should beat misalignment among administration, assemble purchase across their associations, and coordinate this work for development by zeroing in on change the board. Accomplishing a purchase is anything but a one-time practice for them, all things considered. They should convey to all partners the development procedure, the worthy drivers of progress, the periods of the advanced excursion, and the normal results [10]. Gary W et al studied the achieve growth in under-recognized medium-sized companies. In Gary et al's research, CEOs, and top supervisors of midsize firms will more often than not depict their upper hand as far as who they know (associations) and what they're ready to do (abilities) — and that these factors change and communicate to work with development. Their discoveries offer a model of how average size organizations can oversee associations and capacities to accomplish wanted development targets [11]. Esha Thukral stated that SMEs are altogether impacted by the Covid - 19 pandemic as they overrepresent hardest - hit areas, for example, retail, neighborliness, food administrations, amusement administrations, and development. The revelation and the spread of Covid - 19 without any fix have driven states to go to radical lengths, including the lockdown of enormous pieces of society and social separating bringing about conduct changes. Some SMEs are reacting to the emergency by applying inventiveness to issues to acquire openings. Nonetheless, it is a direct result of the flexibility that they can see a chance in disorder and endure questionable occasions, yet, to change those changes over to the real world, some administration mediations are expected to address the adverse consequences of lockdown limitations by renewing the enterprising environment [12].

1.3. Objective

The paper aims to analyze the strategies in SMB. The focus of the analysis is on the misuse of strategies in both small and midsize companies. In the paper, the researcher will provide specific examples of small and midsize companies which are facing challenges normally in Sri Lanka to explore the misuse of strategies in both small and midsize companies. Due to the impact of the Covid-19 pandemic, there will be challenges in the small and midsize businesses. Therefore, when the paper analyzes the strategies in small and midsize companies' business, the researcher will consider the impact of the Covid-19 on the development of small and midsize companies.

2. Misuse of strategies in small and midsize companies

The strategic decision of a company can determines whether it can achieve the goals set by the company. To achieve the business vision of the company on schedule, the decisions and actions made by the company are called company strategy. The strategy of the company is positively helpful in recruitment guidance and resource allocation [3]. Meanwhile, the business strategy of companies is conducive to cross-departmental cooperation, and the correct company decision can support the overall direction of the development of companies. Business strategies include yet are not limited to selling more products in a cross-cutting way, innovating products or services, improving customer service, developing young markets, and making products more differentiated. In addition, pricing strategies, improving technical advantages, consumer maintains, and business strategies to improve the sustainability of the company are also conventional corporate strategies. However, the business strategies used by companies of different sizes also need further consideration. Therefore, even if the business strategy used by large-scale companies is effective, it may not be used by small and medium-sized companies. In addition, small and medium-sized companies usually learn from the experience of large-scale companies when making corporate decisions. Without considering the actual situation, if small and medium-sized companies abuse the strategic experience of their peers without consideration, it may not only fail to achieve the expected effect but also damage the economic development of the company.

SMEs are the main force to promote economic growth and development in all countries. SMEs in different industries can increase GDP. Meanwhile, employees working in SMEs improve their living conditions to improve the development of the whole economy. In the United States, SMEs account for more than 95% of the size of enterprises, and more than 60% of new jobs in the United States are also

provided by SMEs [6]. However, the life span of most SMEs will not exceed five years. The reason why SMEs are easy to die is that the decision-makers of enterprises have made wrong decisions in business strategy. Most of these wrong decisions are caused by the abuse of peer enterprise strategies. Compared with large enterprises, SMEs are more likely to lack key information that can help make strategic decisions in terms of sales and investment. At the same time, these enterprises also face the problems of insufficient leadership, lack of innovation in products and services, and lack a clear strategic positioning and development plan for the long-term development of their own companies [5]. In addition, due to the abuse of business strategies, SMEs will generally encounter the phenomenon of operating costs, turnover not reaching the expected goal, and bureaucracy in the senior managers of companies.

3. Specific examples of challenges small and midsize companies face normally

For SMEs, because they are not as well-known as large companies such as Apple, Amazon, and Huawei, it will be more difficult for smaller enterprises to attract customers and more demanding for the quality and innovation of their products. Although the marketing personnel of well-known companies will not wait for potential customers but try to find new customers while trying to maintain the stickiness with old customers. However, for small enterprises, in addition to the lack of customers for popularity reasons, these small companies spend much more time and money in the process of obtaining customers than large-scale and well-known enterprises. In the past five years, the cost of obtaining new customers for small and medium-sized companies exceeded 60% [7]. Compared with small companies, large companies will spend some energy on business strategy to maintain the stickiness with old customers because the company scale has developed mature and the customers, they cooperate with have become saturated. The loyalty of small companies is not high due to their late establishment. Therefore, even if small and medium-sized companies devote most of their energy to maintaining customer stickiness, end customers may choose another company for various reasons such as experience, products and services. However, small and medium-sized companies are facing great challenges because they can't earn back the time and money costs spent in maintaining customers, and finally can't make capital turnover to maintain the cash flow.

In Sri Lanka, for example, the failure rate of SMEs in Sri Lanka exceeds 45% [8]. In addition to a series of problems such as lack of an advanced business plan, out-of-control budget and low quality of employees, many SMEs in Sri Lanka have made wrong decisions in looking for a business. Due to national social relations, collectivism and other reasons, many SMEs in Sri Lanka choose to maintain stickiness with old customers rather than looking for new customers. This brings certain risks to the business operation of the whole company. A lot of uncertainty makes most SMEs go bankrupt due to the lack of working capital and the continuous loss of business sales. Considering SMEs cannot achieve their business objectives, it is easy to cause tension between assets. In addition, their financing options are limited, which is difficult to meet the requirements of major stakeholders. Therefore, they can't make ends meet and can only stop operations. Due to the wrong decision made in terms of customer source, it is unable to attract new debt or equity financing, and can only go bankrupt if it fails to meet the "performance threshold" required by the market.

4. Challenges and development of the small and midsize business during Covid pandemic

The negative impact of Covid-19 has endangered the normal life of people and work all over the world. It is a fatal blow to many SMEs, because the retail, entertainment, food service and construction industries representing SMEs are directly affected by Covid-19. As the government has taken strict measures to control the spread of the virus, most SMEs cannot operate normally because of lockdown and social distance. In other words, SMEs that lack resilience finally choose bankruptcy under the influence of pandemics, and the surviving SMEs are also facing various challenges. Firstly, due to the outbreak of Covid-19, the production of primary and secondary industries in the world will be greatly reduced and factories will be closed. According to UNCTAD estimates, this will lead to a direct

reduction of FDI by more than 12% compared with 2019 [8]. SMEs that rely on foreign suppliers to provide goods will face the problem of a fragile supply chain. Secondly, in terms of sports competitions, all events (including the Tokyo Olympic Games originally scheduled for 2020) have been delayed because Covid-19 is fatal to life and health. This not only delays the development of the sports industry but also leads to the profitability and development of stakeholder industries, such as hotels and tourism [9]. Even if the epidemic ends, the tertiary industry will have to wait at least a year to resume normal business because of the restrictions on overseas travel in various countries. Thirdly, affected by Covid-19, some SMEs chose to sell their assets, accept more debt, or even lay off workers. From the perspective of the long-term development of companies, these choices will reduce the core competitiveness of the whole company. Facing these challenges, SMEs that can survive take advantage of their resilience and government intervention to reduce the negative impact due to Covid-19 restrictions by revitalizing their innovative business strategies.

5. Conclusion

Small and medium-sized companies are organizations that keep up with income, resources, or various workers under specific restrictions. Each country has its way to define a small and medium-sized company. The European Union (EU) provides a clearer definition, describing small companies as organizations with less than 50 employees and medium-sized companies as companies with less than 250 employees. In the United States, most of these companies are called small and medium-sized enterprises (SMBs). There are mainly five aspects that were identified as the gigantic problems which constantly threaten the survival of small and medium enterprises which include management problems, financial problems, entrepreneurship problems, cash flow problems and external factors. The business strategies used by companies of different sizes also need further consideration. Therefore, even if the business strategy used by large-scale companies is effective, it may not be used by small and medium-sized companies. Compared with large enterprises, SMEs are more likely to lack key information that can help make strategic decisions in terms of sales and investment. At the same time, these enterprises also face the problems of insufficient leadership, lack of innovation in products and services, and lack a clear strategic positioning and development plan for the long-term development of their own companies [9]. In addition, due to the abuse of business strategies, SMEs will generally encounter the phenomenon of operating costs, turnover not reaching the expected goal, and bureaucracy in the senior managers of companies [10]. Therefore, small and medium-sized companies are facing great challenges because they can't earn back the time and money costs spent in maintaining customers, and finally can't make capital turnover to maintain the cash flow [11].

In Sri Lanka, for example, the failure rate of SMEs in Sri Lanka exceeds 45%. In addition to a series of problems such as lack of an advanced business plan, out-of-control budget and low quality of employees, many SMEs in Sri Lanka have made wrong decisions in looking for a business. Due to national social relations, collectivism and other reasons, many SMEs in Sri Lanka choose to maintain stickiness with old customers rather than looking for new customers. This brings certain risks to the business operation of the whole company. Moreover, the negative impact of Covid-19 causes a fatal blow to many SMEs, because the retail, entertainment, food service and construction industries representing SMEs are directly affected by Covid-19 [4]. As the government has taken strict measures to control the spread of the virus, most SMEs cannot operate normally because of lockdown and social distance. The production of primary and secondary industries in the world will be greatly reduced and factories will be closed. Even if the epidemic ends, the tertiary industry will have to wait at least a year to resume normal business because of the restrictions on overseas travel in various countries. From the perspective of the long-term development of companies, the core competitiveness of the SECs which deal with the pandemic with assets selling and staff reduction strategies will be decreased. Facing these challenges, SMEs that can survive take advantage of their resilience and government intervention to reduce the negative impact due to Covid-19 restrictions by revitalizing their innovative business strategies.

To sum up, the Covid-19 pandemic has caused social changes, which influence business, and especially SMEs. SMEs are exploring the pandemic through their inventiveness and advancement. Their capacity to react to these progressions relies upon the business visionary's versatility to proceed with inventive and creative thoughts and government growth - oriented monetary arrangement [12].

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