

# The Misconception on Small Business Survival during Economic Downturn

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**Abstract:** Although, SMEs have been seen as an indispensable tool for economic recovery, however many still believe that small businesses do not survive during economic downturn. “This is a common misconception that is not generally true. Solidly run small businesses actually hold their own during downturns”. As a result of this, the paper explores the small businesses survival during economic downturn. Finally, the paper highlights some measures that could assist the small businesses in surviving economic downturn.

**Keywords:** Research; survival; economic downturn; misconception.

## 1. Introduction

The potential contribution of SMEs to employment and income has been generally recognized (Okpara and Wynn, 2007). Past researches have shown that SMEs contribute about 20% to 45% full employment and equally contribute about 30% to 50% to rural income which are mostly house-hold (Okpara et al., 2007). Arowomole (2000) asserts SMEs are a very important component of societal development.

Still on this, Akande and Ojokuku (2008) noted SMEs have greatly contributed in the creation of jobs, innovation and to economic growths which has been given a global acknowledgement and recognition. They further asserted that SMEs all over the world account for a greater percentage of industries build up which are mostly in advanced countries. They argued that the capital needed, creation of jobs and nature of operations of SMEs have portray them to be the focus point of the developmental efforts in less developed countries most especially in their capacity as the hub of developing.

Similarly, studies have documented that SMEs account for about 88% of the small scale industries while 12% is credited to the medium industries in Malaysia. In Singapore alone, SMEs absorb half of the working population and consequently contribute about a third of the total value-added, forming 92% of their total number of the industrial establishments which include manufacturing, commercial and service sectors (Chea, 2009). In Nigeria, the importance of SMEs cannot be overlooked. Its contributions are quite obvious. Rebecca and Benjamin (2009) reported that the small and medium scale firms have been increasing to the extent that they account for about 70% of the industrial employment while the agricultural sector tends to absorb more 60% of the country's workforce.

According to OECD (2009), SMEs and entrepreneurs play a crucial role in almost every nation's economy and as such have become major employment creation and income generation, propels innovation and growth. OECD further noted that SMEs employ above half of the employees in the private sector. In the European Union alone, they accommodate above 99% of all enterprises in which 91% of these enterprises are said to be micro-firms having below 10 employees. This huge contribution makes SMEs indispensable for economic recovery.

Although, SMEs have been seen as an indispensable tool for economic recovery, however many still believe that small businesses do not survive during economic downturn. “This is a common misconception that is not generally true (Small Business Notes, 2009). Solidly run small businesses actually hold their own during downturns (Small Business Notes, 2009)”. In support of this, Ravi (2011) noted that many SMEs survived the recent economic downturn as a result of their uniqueness. He noted that there was a net increase of more than 100,000 in self employment in Canada in the recent downturn. However, he acknowledged that some SMEs were also badly affected, though, many of them recovered immediately. Although, recessions are times of “cleaning up”, when outdated or unprofitable techniques and products are dismissed and new technology is being adopted”, the employment outflow increases while the inflow falls. It is an economic period where the following problems are bound to surface; huge unemployment, poor wages, irregular payment of wages and general slow down in the economy and as such many therefore believe that SMEs would fold-up and cease to exist during a problematic period like this (Brunello, 2009; Iwere, 2010). However, this is not the case, it is a huge misconception as many still survive particularly those that are being solidly run by the owners, still hold their own during downturns (Ravi (2011; Small Business Notes, 2009). In the light of above, this

paper explores the small businesses survival during economic downturn. It highlights the measures for small business survival during downturn.

## 2. Literature Review

Economic downturn has been connoted with many names such as; economic meltdown, economic recession or crisis (Fabunmi and Isah, 2009; Emma, 2000). Although, there is no commonly accepted definition of economic downturn, however, IMF regards periods when global growth is less than 3% to be economic downturn. In economics, an *economic downturn* is a general slowdown in economic activity over a long period of time, or a business cycle contraction. Emma (2000) argued that economic downturn is so drastic that the business and trade activities slowed down, thus, affecting the entrepreneurs, the environment including the small businesses. Accordingly, Iwere (2010) noted that economic condition has a lot of influences on the business activities in any country. Adding to this, Brunello (2009) argued that during economic downturn human capital which includes; entrepreneurs, small businesses and other factors may suffer. Therefore, during economic the environment may become uncondusive and unfavourable for entrepreneurs and small business to function and properly conduct their business activities. For instance, (Ravi, 2011; MAN, 2009) noted that during economic downturn many firms and businesses are found to close down or seized to exist. Thus, affecting the overall performance of the entrepreneurs as well as the small businesses.

The effect of economic downturn cannot be undermined. It is very devastating, it is very visible in many areas such as; unemployment, downsizing of employees, folding of businesses and above all economy damage (Iwere, 2010). Ravi (2011) reported that the recent economy downturn affected virtually every sector of the economy including SME sector. If this is the situation, what then is the fate of the small firms during the problematic period like this? OECD (2009) reported that SMEs have been especially hard hit by the global crisis. They contended that small businesses are now more prone to economy downturn due to a number of reasons that includes the followings; "it is more difficult for them to downsize as they are already small; they are individually less diversified in their economic activities; they have a weaker financial structure (i.e. lower capitalisation); they have a lower or no credit rating; they are heavily dependent on credit and they have fewer financing options". In addition to this, it has also been observed that the small businesses more often than not shoulder the burden of the difficulties of the large firms and this makes them more vulnerable to economic downturn.

However, despite all these highlighted above, the rate of small businesses survival is more higher when compared with they death during economic downturn (Ravi, 2011). Due to their unique characteristics of being flexible and agile, small businesses are easy to control or maneuver in both normal and problematic times. These therefore make

them to survive economic downturn more than the large firms (Ravi, 2011). OECD (2009) noted that crisis brings certain opportunities. As such economic downturn does not only come with problems but also with huge opportunities that could be transformed to wealth. Some have seen crises as always the time when change accelerates and new possibilities surfaces (Ravi, 2011; OECD, 2009). The crisis would facilitate diversification of resources to new activities in order to make growth greener and knowledge-based. By this, the small businesses would survive economic downturn and the misconception about their survival would become irrelevant and untrue.

Furthermore, small businesses survival during economic downturn requires some important measures. These measures would enable the small businesses and entrepreneurs to take advantage of the opportunities provided by the economic downturn. First, OECD (2009) noted that in a normal time, small businesses need special policies and programmes that could enable them to survive. This suggests that a different policy and programme are equally needed by the small businesses during economic downturn. For instance, governments need to use their small businesses as suppliers in area like procurement by ensuring small businesses get purchase orders from the government. SMEs should be positioned in such a way that they would provide these goods and services needed by the government. OECD (2009) proposed access to appropriate types of financing structures and facilities. These would let the small businesses and entrepreneurs make use of the advantage of the opportunities offered downturn in the area of innovation via the diffusion of information and communications technologies (ICTs). Innovation through the diffusion of information and communications technologies is also required by small businesses particularly those with new business models and high-growth prospects (OECD, 2009). With respect to above, government should also endeavour to guarantee risk capital or on the other hand involve more in co-investment with the small businesses. The small businesses should be extended enough incentives, by so doing it would encourage them to invest more during downturn and toiled towards greener goods and services.

The first point highlighted above leads to small businesses investment. The small business needs to invest during economic downturn. Investing during this period could be the best thing for them instead of closing down. For instance, having the mind to invest may bring about or open their eyes to discovering of some kinds of new business opportunities. After all, entrepreneurship or business is all about seeking opportunities in the environment (Ogundele, 2007). Therefore, no matter how bad the economy is, certain business opportunities are waiting to be discovered. This may seem crazy but it is more better and wiser than closing downturn the business. Small Buiness Notes (2009) has argued that one best way to survive economic downturn is through diversification. For instance, when the small business diversified, those that are not into international business may think of going global. Hence, this would motivate them to find alternative

market for selling their products (Fan, Huang, Oberholzer-Gee, Smith, and Zhao, 2007) and new customers are being created and by so doing, the business would earn additional revenue.

Again, finding alternative or complementary products to the existing products could be another measure for surviving downturn. Diversifying their product is a good advantage that would make the small business more stable due to the fact that a down product in one may be use to cushion the effect of another product. However, they should be very careful not to stretch their expertise by producing more products to the existing ones because firms must maximise their resources. The new opportunities and alternative products would suggest new way to do business or new customers' services through internet based business for retail, wholesale and global sales. This new way of doing business would save cost and improve firm's profit. Another measure for small businesses survival during downturn is the diversification of customers. Small business should think of diversifying their existing customers by shifting to other potential customers. This suggests that they should seek for new customers to sell or offer their products/service to. For instance, a business maybe selling their products to a particular group of people in terms of age, ethnic group, institution or gender, in this case, they could effect modifications on their products or services in order to attract new customer groups. By so doing, small business may succeed in expanding their audience or customers and consequently gain advantage over economic downturn.

Finally, Change in government policy towards SMEs could be another indispensable measure for small business survival during economic downturn. For instance, OECD (2009) has observed that SMEs need specific policies and programmes both during normal and turbulent times. As such government should endeavour to map out a favourable policy and programmes meant for them alone, this would go along way to assist them in surviving downturn.

### 3. Conclusion

The paper examines the misconception on small business survival during economic downturn. The discussion thus far reveals the need for every small business to neglect this misconception and forges ahead during economic downturn. Already, there is a strong belief that all businesses particularly the small business would seize to exist or close down during the downturn. However, small businesses which have been known for their surviving abilities during downturn would definitely survive if the following measures are taken into consideration. They include; special policy and programmes for small businesses, diversification of customer's based, investment policy and product diversifying (finding alternative or complementary products). It is only when these are implemented that the misconception on small business survival during economic downturn would become irrelevant and untrue. The contribution of this paper is very

obvious, the paper advances knowledge in the area of small business survival during economic downturn. Moreso, the issue highlighted in this paper has also very important implication for entrepreneurs and policy makers interested in fostering small business activity. Therefore, it is hoped that this paper would provide a stringboard for future research to take off.

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