



## Challenges and Opportunities of Building Resilient MSMEs in Zambia

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**ABSTRACT:** This research paper addresses the challenges and opportunities in building resilient Micro, Small and Medium Enterprises (MSMEs) in Zambia. The paper also examines the different forms of resilience and their implications on organisational resilience. The findings indicate that challenges encountered by MSMEs in building resilient business organisations can be addressed in different ways including through the development and implementation of monitoring and response capabilities, learning abilities and anticipation. The research study relied on secondary data sources and was able to conclude that building resilient MSMEs was vital for the survival of these business organisations.

**KEYWORDS:** Entrepreneurial Resilience, Enterprise, Government, Individual Resilience, Organizational Resilience, Resilience.

### INTRODUCTION

Resilience is increasingly being acknowledged as an important factor for the survival of businesses in today's business environment. The recent challenges and opportunities brought about by the Covid-19 pandemic, highlight the significance and necessity of building resilient Micro, Small and Medium Enterprises (MSMEs). The Business Survey Report of June 2020 on the impact of Covid-19 on Zambian enterprises has given weight and justification on the need and importance of building resilient MSMEs in Zambia (Ministry of Commerce, Trade and Industry, 2020). According to the Survey Report, the Covid-19 pandemic has adversely affected businesses in general and MSMEs in particular (MCTI; 2020). The Government of the Republic of Zambia has made a number of critical policy recommendations intended to assist businesses to bounce back from the negative impact of the Covid-19 pandemic. The MSMEs' ability to respond to changes brought about by the Covid-19 pandemic largely depends on whether MSMEs are able to effectively align their business strategies, operations, management systems, risk management framework, governance structures and decision support capabilities to continually changing exposures and circumstances. Often described as the ability to respond quickly to unexpected situations, resilience denotes how well business organizations together with the individuals working within them, are positioned to face challenges and adapt to changing needs. Creating MSMEs that are able to thrive in an environment of complexity and uncertainty is particularly important to Zambia because the MSME sector plays an important role in the developmental agenda of the Zambian economy, in terms of both job and wealth creation. Literature on MSMEs in Zambia show that MSMEs account for about 97 per cent of business activities and about 88 per cent of the labour force (Civil Society for Poverty Reduction, 2014; MCTI, 2020). The sector also contributes about 70% to GDP. Despite their huge footprint, MSMEs face numerous challenges such as global economic recession, complexities associated with global sourcing, and disruptions in supply chains owing to the Covid-19 pandemic.

### THE CONCEPT OF RESILIENCE

As a concept, the term "resilience" links to the following knowledge domains: psychology, ecological studies and engineering (Birkie, Trucco & Kaulio; 2014). Psychological studies on resilience discuss how individuals and groups handle situations that create emotional and psychological stress (Coutu, 2002). Ecological studies suggest that the resilience of an ecological system could be explained in terms of how much change is brought about by external factors can be endured by the system (Holling, 1973). The engineering perspective often relates to how much external pressure a material can withstand without losing its elasticity after pressure has been relieved (Hollnagel, 2006). A majority of discussions on the resilience of various socio-technical systems have built on these early perspectives (Birkie, et al.; 2014). It is usual for researchers on resilience to refer back to any one or more of these perspectives from multi-disciplinary sources. The following section examines different meanings of the concepts of resilience.



## THE MEANING OF RESILIENCE

The construct “resilience” consists of numerous and divergent themes, which is largely perceived as a broad concept. Different researchers have adopted different approaches to the definition of resilience in a business context; some with a focus on the organisation itself and its characteristics, while others focus on individuals within an organisation (Duchek, 2019). In defining resilience, we shall adopt a two-pronged approach by examining the meaning of resilience at both organisation and individual levels. Vogus and Sutcliffe (2007) defined organisational level resilience as “the maintenance of positive adjustment under challenging conditions such that the organisation comes out from those conditions much stronger and more resourceful.” Lengnick – Hall and Beck (2005) define resilience as an “organisation’s ability to effectively absorb, develop situation-specific responses to, and ultimately engage in transformative activities to capitalise on disruptive surprises that potentially threaten organisation survival.” Linnenluecke, Griffiths and Monika (2012) describe resilience as the “capacity of an organisation to absorb the impact and recover from the actual occurrence of an extreme weather event.” The emphasis of these three definitions is on “resistance, recovery and adaptation” (Duchek, 2019). On the other hand, the definition postulated by Ortiz-de- Mandojana and Bansal (2016) places more emphasis on “anticipation” as they define resilience as “the incremental capacity of an organization to anticipate and adjust to the environment.”

At individual level, the term “resilience” is variously defined by a numerous authors including Masten (2014) who defines resilience as an “individual’s ability to adapt in the face of trauma, tragedy and adversity.” Conor and Davidson (2003) describe resilience as “being an embodiment of personal traits or characteristics that allow an individual to succeed in the face of adversity.” Ahern, Kiehl, Sole and Byers (2006) describe resilience as consisting of “personality characteristics that moderate the negative effects of stress and support adaptation.” Fisher, Maritz and Lobo (2016) argue that the quality of resilience is attributable to individuals who, in the face of overwhelming adversity, are able to adapt and restore stability to their lives. Within the entrepreneurship field, individual level resilience is important, and contributes to entrepreneurial success (Fisher et al., 2016; Ayala and Manzano, 2014).

## METHODOLOGY

This research relied on secondary data sources that were largely available online. Secondary data refers to data collected for some other purposes (Saunders et al, 2019). Despite this, it was the researchers considered view that the available secondary data sources could still provide useful source of information to enable them address the question under consideration (Sekaran, 2003, Khotari, 2004) Therefore, the researchers reviewed the works of various authors that have conducted research and written books, journals and reports on the subject-matter under study.

## LITERATURE REVIEW

### Forms of resilience

Different forms of resilience explored in the context of MSMEs presents an opportunity to understand its different forms. In order to consider something as being resilient, its existence, functioning or survival must be disturbed (Quendler; 2015). The effect of the disturbance depends on the ability of the organisation or individuals within the organisation to cope and/or recover from the disturbance. This ability could be perceived from different perspectives; resulting in different levels of resilience; that is; resilience at organisational level (Carmeli, Friedman and Tishler; 2013; Hollnagel, 2006; Lengnick-Hall and Beck, 2005) or resilience at individual level (Alexander 2013; Aranda, Zeeman, Scholes and Morales; 2012). Resilience at organisational level could further be analysed into strategic, operational and portfolio levels. At individual level, an attempt to compare and contrast, and to draw a relationship between individual resilience and entrepreneurial resilience is brought out by the researchers.

### Resilience at organisational level

**Strategic:** Resilience at strategic level highlights the reasons why MSMEs may require monitoring and response capabilities, learning abilities and anticipation. MSMEs need to develop capabilities that enable them to predict or forecast what is ahead, in order to anticipate what may happen to monitor what is going on, in order to respond effectively when something happens and to learn from experiences (Hollnagel, 2009a). A useful approach that may offer MSMEs such monitoring and response capabilities is Business Continuity Management (BCM). BCM has been defined as “a holistic management process that identifies potential impacts that threaten an organization, and provides a framework for building resilience and the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities” (Business Continuity Institute, 2013). BCM should form part of the wider enterprise risk management. BCM is concerned with the maintenance of crucial business deliverables of an



organisation. BCM should form part of the MSMEs wider resilience plans (Krell, 2006). Events of 11 September 2001 (Dahlberg & Guay, 2015: 979), and incidences such as the current Covid -19 pandemic are drastic reminders that BCM should not be disregarded (MCTI, 2020). The bottom-line is that MSMEs need to engage in long-term planning to enable them cope with unforeseen incidences that may disrupt their business operations.

**Operational:** At operational level, resilience could be examined from the perspective of supply chain management (Birkie et al.; 2014). According to the Supply Chain Council (2010), operational processes in a supply chain comprise five first level processes, namely: “plan; source; make; deliver and return.” Birkie et al. (2014) opine that since these processes are interrelated, they may be subject to some weaknesses that have the potential to create uncertainties or may deter the operation from performing effectively. A number of these challenges warrant consideration here. “Planning”, for instance, is usually subject to forecasting errors; due to the dynamic and complex nature of the environment in which businesses operate. Accurate forecasting allows for investment in inventory, equipment and related decisions to be taken with a degree of certainty (Slack, Chambers, & Johnston; 2007). Unfortunately, this is often not the case. Forecasting is based on a number of assumptions relating to a host of factors, all of which are subject to change. “Sourcing” is open to different supply arrangements, namely: local versus global sourcing; single versus multiple sourcing; among others (van Weele, 2010). Global sourcing, which is characteristic for most organisations, including MSMEs in Zambia; results in complex supply chains made up of many culturally diverse suppliers, with unique processes. With this complexity of the supply chain, come risks - many of which are created by events that cannot be foreseen such as the Covid-19 pandemic; which have potential to disrupt supplies and reduce profits (Waters, 2011; MTCI, 2020). Central to the “make” operation are facilities: the buildings, machinery, equipment and process technology of the operation; including staff (Slack et al.; 2007). Challenges facing the “make” operation are such factors as the strength in the coupling of processes within an operation, product variety and assortments, and availability of input resources (Christopher & Peck, 2004). In order to “deliver” the required goods and services to meet customer needs, the “make” operation should function effectively and efficiently (Craighead et al., 2007). Additionally, any disruptions downstream in the logistics chain may affect the ability of an operation to get goods and services into a market and offer crucial services to customers (Juttner, 2005). The “return” operation addresses the reverse flow (also known as reverse logistics) of products and services after delivery and consumption, such as procedures for returns and handling of customer complaints; product recalls, support services such as installation and warranties, as well as recycling efforts (Christopher; 2011). Quality management issues challenge the “return” operation.

Considered from the perspective of supply chain operations, resilience at the operation level therefore refers to the MSMEs’ ability to ensure continuity of operations in times of operational disruptions. It consists of a proactive, structured and exploration of an organisation’s internal capabilities to resist and prevail against unforeseen events. It is important to note that coping mechanisms that address vulnerabilities in the supply chain are not entirely covered by these supply chain roles (Birkie et al.; 2014).

**Portfolio:** MSMEs often face the challenge of choosing between either focusing on the current product line, or diversifying their business portfolio through the introduction of multiple new product offerings within the same industry in order to enhance their financial performance (Pangboonyanon & Kalasia, 2018). It is common, however, for most MSMEs to concentrate operations on a multiple range of products within their core industry since they lack adequate resources to develop a suitable diversification strategy for venturing into a new or unrelated industry (Lynn & Reinsch, 1990; Colombo et al., 2014; Hashai, 2015). Consequently, MSMEs often employ within-industry diversification strategy and concentrate on offering several product lines within their targeted industries (Colombo et al., 2014; Hashai, 2015; Lynn, 1998; Zahavi & Lavie, 2013). Zahavi & Lavie (2013) have defined within-industry diversification as “the degree of variation in a firm’s portfolio of related products within its industry boundaries”. A firm pursuing such a strategy usually offers multiple product lines within a particular industry (Li and Greenwood, 2004; Stern and Henderson, 2004). There are a number of benefits for doing this. According to Hashai (2015), “within-industry diversification may permit firms to leverage specific knowledge on technologies, the firm’s customer base, its sales and distribution facilities or its experience with existing products, to enhance their performance as well as penetrate additional product categories within their core industry.” It allows MSMEs to focus on developing and taking advantage of their competences in their core industries, whilst at the same time enabling MSMEs to benefit from scope economies, which results in enhanced performance and a competitive advantage for the MSME (Pangboonyanon and Kalasia, 2018).



Despite the benefits associated with the within-industry diversification strategy, there is a downside to the strategy. MSMEs may face increased vulnerabilities owing to their reliance on the core industry due to over-specialisation and asset specificity (Raymond & St. Pierre, 2004). Though studies that specifically address the negative impact of within-industry diversification strategies on MSMEs are rare, some researchers have addressed this question rather indirectly by investigating the influence of customer dependence on MSMEs (Kalwani & Nayarandas, 1995). Kalwani & Nayarandas (1995) suggest that a high level of dependence on a small number of customers could expose an MSME to risks. This is because the MSME is likely to suffer from all the volatility of its major customers, but in a more amplified manner (Raymond & St. Pierre, 2004). The global economic crisis of 2008 provides useful lessons for Zambian MSMEs on the dangers of within-industry diversification; which is likely to be re-enacted during the COVID-19 pandemic era (Freel, 2000). Because of the impact of the global financial crisis of 2008 on the mining industry in Zambia, most MSMEs had faced closure or a scaling down of their operations (Mwanza; 2009). When the major mining firms such as Konkola Copper Mines (KCM) and Mopani Copper Mines (MCM) scaled down their operations and contracts on the Copperbelt Province of Zambia, this reduced the available business opportunities for the local MSMEs who relied heavily on extractive industries (Mwanza, 2009). The influence of customer dependence on MSMEs regarded as a significant business risk and in the current Covid -19 pandemic crisis, as a strategic question for MSMEs.

## Resilience at individual level

**Individual:** Individual resilience is frequently portrayed as being synonymous with entrepreneurial resilience, albeit this is not the case (Bullough & Renko, 2013; Ayala and Manzano, 2014; and Adnan et al., 2016). Rather, individual resilience and entrepreneurial resilience “are adjacent and potentially complementary ideas” (Branicki et al., 2017). Individual resilience assists in predicting entrepreneurial success and considered vital in shaping organisational outcomes for MSMEs (Ayala and Manzano, 2014). The resilience of individuals has widely been theorised outside of the context of entrepreneurship, and considered an attribute that an individual may have (Zagelmeyer & Gollan, 2012; Bardoel et al., 2014). Werner & Smith (2001) offer persuasive insights into resilience attributes of individuals. Factors that differentiating resilient individuals from non-resilient individuals are “problem – solving skills, favourable perceptions, positive reinforcement and strong faith.” (Werner and Smith, 2001) This suggests that resilience abilities of individuals could be acquired through training in order to generate resilience outcomes (Lengnick-Hall et al., 2010). The positive outcomes of individual resilience are that it is able to increase worker performance and job satisfaction, enhance the psychological health of individuals and raise employee commitment (Avey et al., 2011).

However, individual resilience considered alone is only a partial representation of entrepreneurial resilience because entrepreneurial resilience crosses over individual and organizational resilience, and does not fit neatly into either category (Branicki et al., 2017). A principal part of entrepreneurial resilience is the effect that entrepreneurs’ resilience, or non-resilience, has on the MSMEs (Huggins and Thompson, 2015). In entrepreneurship literature, resilience tends to be presented as an attribute possessed either by the entrepreneur (Bernard and Barbosa, 2016) or as “an outcome of entrepreneurial life experiences.” (de Vries & Shields, 2006). According to Ayala and Manzano (2014), attributes of entrepreneurial resilience include “hardiness, resourcefulness and optimism.” “Hardiness” is described as “an entrepreneur’s ability to exercise personal control;” whereas resourcefulness simply means “the skill, capacity and resources possessed by the entrepreneur to manage hostile conditions”; and finally optimism refers to “the ability of the entrepreneur to maintain a positive outlook in the face of difficulties.” (Fatoki, et al., 2018) Other attributes related to entrepreneurial resilience include the “ability to make realistic plans, self-assurance, a positive self-image, communication skills, and the ability to manage strong impulses and feelings” (Bulmash, 2016). Entrepreneurial resilience aids an entrepreneur to respond to the dynamic business environment. The strong point for MSMEs may therefore lie in the entrepreneurial mind-set of their owners, which in turn enables MSMEs to be “flexible, adaptive, and innovative” (Vossen, 1998). According to Fatoki et al. (2018), “entrepreneurial resilience has a significant positive relationship with success at both individual and organisational levels.”

It is important to acknowledge the disputed and conflated relationships between small business owner-managers and entrepreneurs, and entrepreneurship (Branicki et al., 2017). Not all MSME managers are entrepreneurs and not all entrepreneurship happens in the setting of MSMEs (Messeghem, 2003). Compared with larger business organisations, MSMEs are characterised by their size and their relative lack of formal structure. In comparison to larger business organisations (Branicki et al., 2017). At a conceptual level, MSMEs are acknowledged as unique organizational settings; owner-managers having formal roles or positions; and entrepreneurs and entrepreneurship as reflecting unique attitudes and behaviours (Rauch & Frese, 2007).



## CHALLENGES AND OPPORTUNITIES OF BUILDING RESILIENT MSMEs IN ZAMBIA

The pivotal role of MSMEs in job and wealth creation constitutes an important reason for building resilient MSMEs in Zambia (MCTI, 2008; Mwarari & Ngugi; 2013). Review of literature show that MSMEs are capable of becoming resilient even though they might not have the kind of resources that large businesses have (Dahlberg & Guay, 2015). Sullivan-Taylor and Branicki (2011) argue that MSMEs can have an advantage over larger businesses since they are normally less bureaucratic, they often engage in rapid decision making, faster communications and have shorter business processes. It is accepted that MSMEs may have capabilities to cope with uncertainties as they become used to surviving in turbulent environments. MSMEs are more flexible and responsive in their operations (Dahlberg & Guay, 2015: 977). However, MSMEs face numerous challenges in building resilience.

MSMEs are often perceived as being more vulnerable than larger businesses, and therefore less likely to survive after a disaster (Stokes, 2002). Businesses are faced with more hazards and risks than ever before, owing to the increase in the turbulence and uncertainty in the environment they operate in. The Covid- 19 pandemic, for instance, has posed a number of challenges to MSMEs in Zambia that include loss of customers for businesses, supply chain cuts, high commodity prices and problems with late payments, among others (MCTI, 2020). Therefore, even in instances where MSMEs may possess capabilities to shield themselves from severe consequences emanating from disruptions in business activities, the consequences of such disruptions can be severe, especially in the absence of proper long – term planning. The Business Survey Report of June 2020 on the impact of Covid-19 on Zambian businesses reveals that the Covid - 19 pandemic has resulted in partial closure of MSMEs. In extreme cases, MSMEs have been forced to completely shut down operations (MCTI, 2020).

The best approach to building resilient MSMEs would be to put in place measures that mitigate the consequences of disruptions to business operations (Stolker, 2008: 8). This may be achieved by creating resilient organisations by addressing organisational resilience at strategic, operational, portfolio and individual levels.

## CONCLUSIONS

From the literature review and the discussion on challenges and opportunities of building resilient MSMEs, we can conclude that building resilient MSMEs is vital for the survival of these business organisations. Overall, there are various opportunities for creating resilient MSMEs. Given the challenges faced by MSMEs, creating resilience within organisation may require developing monitoring and response capabilities, learning abilities and anticipation. This is likely to be attained when MSMEs engage in business planning. Additionally, devising appropriate sourcing strategies, diversifying MSMEs business portfolio and developing individual resilience abilities through appropriate training schemes can result in the creation of resilient MSMEs.

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