

## CHALLENGES FOR SMALL BUSINESSES IN A CHANGING ENVIRONMENT

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*Economic crises, intense market competition, military conflicts and other factors reduce the resilience of small transport companies. The aim of the study is to identify the situation and problems of small businesses and to make recommendations for strengthening the resilience of small businesses. Methods: analysis of scientific literature, analysis of statistical data, logical analysis and synthesis.*

It is recognized that the size of the company can affect the relationship between companies. Larger firms have more resources to devote to products and important customer relationships, which increases their competitiveness [11]. Differences in firm size can affect how many firms have access to resources and the number of firms in the ecosystem [2]. Large companies are better prepared to deal with unforeseen events because they have more resources. Small companies are less resilient [5]. The authors argue that, although small firms are more vulnerable to unexpected disruptions, they can adapt more flexibly to change under uncertainty. Small enterprises are particularly vulnerable in the face of pandemics such as COVID-19 or war. Researchers carried out a literature review and identified seven main impacts of pandemic risk on small businesses - restrictions on the movement of people, financial constraints, operational challenges, logistical difficulties, delayed business renewal, short-term policy focus and staff knowledge [4]. The COVID-19 crisis means that companies have to adapt to new environmental conditions in the short term and cope with unforeseen changes in the long term [8]. Scientists found out, that exogenous shocks affect all firms in some way, they may be far more damaging to small businesses than to larger firms, such that business size is one of the central distinguishing factors in how firms differ in their experience of and vulnerability and resilience to crises [6]. The authors consider that the size of the firm and the nature of its activities determine its resilience during and after shocks, as measures can only be successful if they are tailored to specific sectors and take into account the capabilities of small firms. More nuanced understandings of how different types of crises (economic, political, violence, disasters, pandemics) interact with the degree of formality of

businesses, sectoral dynamics, and the political institutional context firms operate within can offer a more fine-grained understanding of both the impacts of shocks and the agency, resilience and vulnerability of small businesses [6]. Small businesses often have lower cash reserves and weaker supply chains, limited supply chain capabilities, are lagging behind in the adoption of new technologies and tools, and find it difficult to adapt their business activities to changing situations [4]. According to Zutshi et al. (2021), small firms face challenges such as business switching, reduced ability to repay loans, employee turnover and under-utilisation of resources [10]. Temporary shutdowns of small businesses lead to the loss of permanent workers. Small firms respond differently to the same crisis [4]. The pandemic crisis has had a positive impact on some companies, as it has created opportunities to respond effectively by adapting new business models [7]. Research suggests that small firms may be better placed than large firms to change their business model in times of crisis by identifying, evaluating and exploiting new opportunities. According to Miklian and Hoelscher (2022), shocks such as war can threaten the very existence of a business, change its business model and processes, or lead to a reorientation of firms [6]. The Allianz Risk Barometer (2023) identifies cyber incidents, macro-economic changes, the energy crisis and legal changes as the most significant risks for small businesses [1].

Small and medium-sized enterprises play an important role in the Lithuanian and other economies. According to the Lithuanian Statistics Department, small enterprises accounted for 97% of the enterprises operating in Lithuania and employed 33% of the workforce. Small businesses account for 24% of total value added [9]. All these figures reflect the importance of small and micro-enterprises in the national economy. However, despite their importance, small businesses face significant barriers to their resilience and business development. The number of enterprises with 0-9 employees has been increasing and accounted for 95% of all enterprises operating in Lithuania in 2022. The number of enterprises with 10-19 employees has been declining in 2022 compared to 2018 and accounted for only 2.4% of the total number of enterprises in Lithuania [9]. The high number of micro-enterprises reflects the high level of entrepreneurship among the Lithuanian population and its contribution to gross domestic product, employment and personal income. According to official national statistics, at the beginning of 2023, 84.4% of active enterprises had fewer than 10 employees, while 11.8% had between 10 and 49 employees [9]. The number of small enterprises in the logistics sector increased marginally by 5% between 2018 and 2022, to a total of 8,800. The number of small enterprises in the construction sector grew by 37% in

comparison to 2018, with the most significant increase in the number of small enterprises in the construction sector from 2021 onwards, at 5.4%. The most significant increase in the number of small enterprises was a 3% decrease in small enterprises in the accommodation and food services sector in 2022 compared to 2021. In 2021, new home sales were at a record high. Growing demand for real estate has stimulated the creation of new businesses in the construction sector [9]. The Covid-19 pandemic and the subsequent economic downturn affected the accommodation and food services sector. The introduction of restrictions on economic activities led to losses in this sector in 2020. A significant number of companies in the sector have been forced to close down. According to the Department of Statistics, the deregistration of small and micro-enterprises in Lithuania has been declining from 2018 to 2020. However, the deregistration of these enterprises has been increasing in 2021, and the number of deregistered enterprises in 2022 is higher than the number of registered ones [9]. It can be assumed that a large number of small businesses have closed down, unable to carry out their regular activities due to the effects of COVID-19 such as cash shortages, changes in customer demand, supply chain disruptions etc. Some companies have managed to overcome their financial difficulties, benefited from state aid and continued to grow their sales, or even found business niches and set up new companies.

The number of small logistics companies also declined during the period under review, with more than 300 companies closing down. The factors that have been identified for the decline of small logistics companies: due to their low economic capacity, they are no longer able to compete with large logistics businesses; large logistics companies are successfully participating in, and winning, freight transport tenders, which are financially the most beneficial for freight forwarding companies [3]. Small logistics companies are more specialised, while large logistics companies often provide other services in addition to freight transport, such as distribution, parking and storage. The wider range of services provided makes large logistics companies more attractive to potential customers. Another advantage of large logistics companies is that large logistics companies receive much higher discounts on insurance, fuel, lubricants and other necessities, giving them a competitive advantage over small, small and medium-sized businesses.

## **Conclusions**

The global health crisis, military unrest, and high economic uncertainty have contributed to the closure of small businesses. Small enterprises face financial difficulties, logistical difficulties, operational challenges, short-

term policy attention, staff turnover and a lack of knowledge on how to build enterprise resilience.

To maintain or increase their resilience to unexpected events, small businesses should adopt resilience-building measures, such as diversification of activities, cost reduction, cooperation with other enterprises, the introduction of new technologies and innovations, the training and development of staff, and the systematic use of measures to reduce staff turnover.

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