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## Article

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Article

# Strategic Responses in the COVID-19 Period: A Study of Selected Micro, Small and Medium Enterprises in the Western Cape

Fungai Chiruka , Zivanayi Mazhazha-Nyandoro, Renier Grosch and Ntandoyenkosi Sibindi \*

Department of Management and Entrepreneurship, University of the Western Cape, Bellville 7535, South Africa; 4010710@myuwc.ac.za (F.C.); zmnyandoro@gmail.com (Z.M.-N.); rgrosch@uwc.ac.za (R.G.)

\* Correspondence: nsibindi@uwc.ac.za

**Abstract:** The COVID-19 pandemic devastated businesses globally, leading to significant economic and social challenges. Micro, Small and Medium Enterprises (MSMEs) are particularly vulnerable to environmental turbulence, while their survival and resilience are critical to the national economic recovery of countries globally. This study adopted a qualitative approach to examine the strategic responses adopted by MSMEs and the impact of the strategies on survival and resilience during the COVID-19 pandemic period. The sample size comprises ten (10) MSMEs and data collection using a semi-structured interview schedule. The key findings indicate that the MSMEs adopted cost reduction and diversification strategies to mitigate the impact of the abrupt COVID-19 lockdowns and the subsequent financial and cashflow problems, threats to business continuity and survival. The study conclusions indicate that adopting a combination of cost reduction and diversification strategies improved the business continuity and survival of MSMEs during the COVID-19 pandemic. The study recommendations include the need for government and stakeholders to enhance the capacity and competence of MSMEs in strategic and operational planning, investing in technology, innovation, creativity, training and development of strategic agility and fostering adaptive organisational cultures that enhance flexibility, resilience and survival when faced with economic and business environment disruptions in future.



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**Keywords:** business environment; COVID-19 pandemic; resilience; strategic agility; strategic responses; micro; small and medium enterprises

## 1. Introduction

Micro, Small and Medium Enterprises (MSMEs) are recognised as the key drivers of employment creation and economic growth (Ayandibu & Houghton, 2017). Globally, MSMEs account for about 90% of enterprises and employ about 63% of the global workforce (Organisation for Economic Co-operation and Development (OECD), 2020); contribute towards the reduction in poverty, unemployment, and inequality (Fiseha & Oyelana, 2015). MSMEs in South Africa are recognised as the key drivers of employment creation, economic growth (van Scheers, 2016) and competitiveness (Mmbengeni et al., 2021), and employ between 60–70% of the national workforce (Robu, 2013). The COVID-19 pandemic lockdowns, travel bans, and curfews negatively impacted business sectors worldwide (Albers & Rundshagen, 2020; Duarte Alonso et al., 2020; Nguyen et al., 2021; Le & Phi, 2021). The COVID-19 pandemic exacerbated the survival of MSMEs in South Africa, which were

experiencing slowing national economic growth and limited capacity (SEDA, 2021). Organisational agility (Seetharaman, 2020; Robu, 2013) determined the extent and speed of adoption of survival strategies (Bigelow & Chan, 1992) in response to COVID-19 pandemic environmental disruptions. The study examines (i) the strategic responses, (ii) the factors influencing the adoption of the strategic responses and (iii) the focus of strategic responses adopted by selected MSMEs in Cape Town, South Africa, during the COVID-19 era.

Consequently, the research question reads: How do MSMEs respond strategically to abrupt and disruptive uncertainty and turbulence in business environments? Ten (10) MSMEs were contacted to answer this question, and the responses shed light on the nature of the strategic responses during the COVID-19 era.

The study has seven sections: Section 1 presents the introduction, background, problem statement, aims and objectives. Section 2 provides a discussion of the literature review and the gaps in the current literature. Section 3 highlights the research methodology adopted. Section 4 presents the study findings. Section 5 provides a comprehensive discussion of the study. Section 6 provides discussion, conclusions and recommendations of the study. Section 7 highlights the limitations of the study and future directions.

## 2. Literature Review

Countries and researchers define MSMEs differently, emphasising inter alia, the number of employees, revenue per annum, capital, and total assets turnover (Yoshino & Taghizadeh-Hesary, 2018). China, Japan, Singapore, Malaysia, Thailand, and Vietnam define MSMEs as firms with fewer than 200 employees and capital of less than \$12 million (Chacko & Harris, 2006); while for the European Commission (1996), MSMEs employ less than 250 employees and have an annual turnover under EUR 50 million. Relatedly, Govori (2013) defines SMEs as entities employing less than 250 people, with assets of no more than EUR 43 million, generating revenues of no more than EUR 50 million annually. In turn, the South African government defines and classifies MSMEs as micro-businesses employing less than ten (10) employees, small businesses as those with fifty (50) employees, and medium businesses as those employing a maximum of one hundred or two hundred (100 or 200) employees (The Department of Trade and Industry (DTI), 2018). Researchers in South Africa indicate variations in terms of the number of employees and annual turnover (e.g., Pike et al., 2018; Ayandibu & Houghton, 2017; Rantseli, 2011; Olawale & Garwe, 2010).

### 2.1. The Role of MSMEs in an Economy

MSMEs are responsible for the creation of approximately sixty to seventy per cent (60–70%) of jobs globally (Organisation for Economic Co-operation and Development (OECD), 2009). The MSME sector is widely recognised worldwide as an important facilitator for employment creation, expansion and creation of markets (Lloyd, 2003). In addition, MSMEs are considered the most significant contributors to economic growth, contributing approximately 60% of the total GDP in major economies such as Japan and China, 65% in the USA, and 52% in Europe (Ayyagari et al., 2011). Thus, MSMEs are key players in economic development through job creation and poverty alleviation in local areas (Hessels & Parker, 2013). In developing economies, MSMEs play a critical role in addressing issues such as poverty, inequality, generation of revenue, and unemployment (Fiseha & Oyelana, 2015). For example, in Bangladesh, the MSME sector contributes approximately 32% to the total GDP of the economy, employing about 20.3 million people. It is the driving force for economic growth and employment creation as well as an enabler for economic inclusion and socio-economic stability (Sarker et al., 2022). Thus, MSMEs play a vital role in the growth of economies worldwide in terms of greater impact on employment creation in both developing and emerging economies compared to developed economies

(Robu, 2013). Broadly, MSMEs are recognised as engines for economic development, potentially enabling developing countries to achieve projected growth objectives and significantly contribute to the GDP of different countries (Abor & Quartey, 2010; Alshebami, 2024).

### 2.2. MSMEs in the South African Economy

The MSME sector in South Africa plays an essential role in economic development and accounts for more than 70% of the workforce and 80% of new jobs (van Scheers, 2016). MSMEs play a significant role in solving economic challenges such as unemployment, poverty, and inequality in South Africa (Fiseha & Oyelana, 2015). In addition, it drives job creation, wealth distribution, poverty reduction, and improvement of the quality of life of individuals, families, vulnerable groups, and communities (Mbedzi, 2011; Mmbengeni et al., 2021). MSMEs contribute significantly to economic growth by providing new products, services, and innovation (Olawale & Garwe, 2010), especially as registered entities contribute towards the government treasury for public sector expenditure in education, infrastructure, and health (Fiseha & Oyelana, 2015). In recognition of the MSMEs' contribution to economic and social development, the South African government has identified the MSME sector as a key driver for accelerated economic growth (Ayandibu & Houghton, 2017).

### 2.3. The COVID-19 Pandemic and Global Lockdowns

The coronavirus disease 19 (COVID-19) was first detected in Wuhan, China, in early December 2019. The virus quickly spread around the world as confirmed cases were reported in almost every country before it was declared a global public health crisis referred to as SARS coronavirus 2 (SARS-CoV-2) (Mohan & Nambiar, 2020). On 11 March 2020, the World Health Organization (WHO) coined COVID-19 and declared the novel coronavirus disease a pandemic (WHO, 2020). By the beginning of March 2020, there was a rapid increase in new cases and COVID-19-related deaths outside of China. As of 8 June 2020, 213 countries and territories had reported over 7 million confirmed cases and over 400,000 deaths (World Population Review, 2020). The severity of the virus led to global lockdowns as countries attempted to control the spread of the virus (Globaldata, 2020; Organisation for Economic Co-operation and Development (OECD), 2020). The COVID-19 pandemic resulted in countries imposing domestic and international travel bans, stay-at-home lockdowns and social distance protocols, which virtually closed down business operations (Albers & Rundshagen, 2020; Duarte Alonso et al., 2020; Nguyen et al., 2021; Le & Phi, 2021). The global lockdowns resulted in decreased demand, cash flow deficits, raw material constraints, and labour difficulties during the COVID-19 pandemic (Dai et al., 2021).

### 2.4. Business Environment and Strategic Responses

The business environment embraces the internal and external factors that influence business operations (Delmar & Wiklund, 2008). The external factors influence the company's decisions (Grant & Jordan, 2015) and the assessment of opportunities and threats within the economic, governmental, market, supplier, technological, geographic, and social factors (Glueck, 1980; Cant, 2021). Organisational strategic responses focus on strategy, operational efficiency, financial flexibility, and leadership to improve performance and achieve long-term success (Hofer, 1980). The strategic responses triggered by trends and events in the organisation's business environment (Smart & Vertinsky, 1984) provide the basis for crafting strategic plans (Porter, 1996) and the decisions and actions to meet the intended goals (Pearce & Robinson, 2005; Whittington et al., 2020). Timely adaptation and alignment of operations with the perceived changes in the competitive environment (Chepkwony, 2001) define an organisation's strategy agility in sensing changes and shifts in the business and market environments (Khoshnood & Nematizadeh, 2017). In many ways, the level of agility differentiates first movers from first followers regarding creating

new services, products, and offerings for changing customer and client needs (Lungu, 2018; Nkuda, 2017; Doz & Kosenen, 2010).

### 2.5. *The Impact of COVID-19 on the Business Environment*

The World Health Organization (WHO) named the disease COVID-19 on 11 March 2020 and declared the novel coronavirus disease a pandemic (WHO, 2020). The severity of the virus led to global lockdowns as countries attempted to control the spread of the virus (Globaldata, 2020; Organisation for Economic Co-operation and Development (OECD), 2020). As countries imposed domestic and international travel bans, stay-at-home lockdowns and social distance protocols, social and economic activities were virtually closed down worldwide (Albers & Rundshagen, 2020; Duarte Alonso et al., 2020; Nguyen et al., 2021; Le & Phi, 2021). The key challenges for organisations posed by the COVID-19 lockdowns included decreased demand, cash flow deficits (Wellalage et al., 2022; Miklian & Hoelscher, 2022; Khan, 2022), raw material constraints, labour difficulties (Dai et al., 2021), disruption of supply chains worldwide (Sajjad, 2021; Udofia et al., 2021; Hohenstein, 2022), financial fragility, and insolvency risk (Khan, 2022; Salunkhe et al., 2021; Simon et al., 2021), in addition to challenges with regard to access to capital (Golubeva, 2021; Zaid et al., 2020). Organisations responded to the global COVID-19 lockdowns by introducing remote working and crafting strategies to ensure business continuity and survival (Bigelow & Chan, 1992).

### 2.6. *MSMEs Strategic Responses to the COVID-19 Pandemic Environment*

MSMEs adopted new strategies for adapting to changed market conditions caused by the COVID-19 pandemic (Chofreh et al., 2021; Whittington et al., 2020). Poignantly, MSMEs are more vulnerable to external factors such as pandemics (Beatrix & Irawan, 2021). Business continuity and survival requires agility, flexibility, collaboration, and reactive human resource management strategies (Ali et al., 2021) to realign, reconfigure and reorganise resources in tandem with changes in new COVID-19-induced environment (Ozanne et al., 2022). Singh et al. (2022) argue that strategic responses require dynamic capabilities critical for perceiving, seizing, and reconfiguring operations in times of economic turmoil.

Strategic responses included cost reduction through cost-cutting in operational areas, retrenchment and downscaling strategies (Shafi et al., 2020; Giunipero et al., 2021; Klöckner et al., 2023; Albers & Rundshagen, 2020; Albers & Rundshagen, 2020; Kraus et al., 2020) and improving the financial performance and entrepreneurial orientation of MSMEs during the COVID-19 pandemic (Nguyen et al., 2021). Digitalisation strategies enabled swift adoption of new business strategies (Priyono et al., 2020), value addition (Bhattacharyya & Thakre, 2021), and adoption of technologies, such as video telephony, 5G digital networks, the Internet of Things (IoT), cloud computing, machine learning, and artificial intelligence (Amankwah-Amoah et al., 2021) and digital platforms such as WhatsApp for shopping (Xu et al., 2021) and digital operational platforms (Organisation for Economic Co-operation and Development (OECD), 2020). At the same time, innovation strategies, focused on recovery strategies for performance improvement and minimisation of costs and risks (Caballero-Morales, 2021), enhanced innovative and adaptive revenue generation strategies (Dai et al., 2021) and efficiency improvement and quality service delivery (Duarte Alonso et al., 2020). Diversification strategies, on the other hand, targeted the introduction of related and non-related product and service offerings using online platforms and expanding mobile financial services (Das et al., 2022; Kahveci, 2021). The cumulative thrust of the strategic responses was ensuring business continuity through leveraging capabilities, improving productivity and performance (Papadopoulos et al., 2020),

and adopting new organisational procedures, business models and commercial offerings (Saarikko et al., 2020).

### 3. Research Methodology

The qualitative study adopted an interpretivist paradigm to elicit the meanings, experiences, and perceptions of participants on the phenomena of research interest (Quinlan et al., 2016) and to explore the subjective reality, overarching and interconnected set of assumptions (Maykut & Morehouse, 1994) on the phenomena of research interest. Further, the research approach enabled a rich understanding of participants' experiences, perspectives, and thoughts (Hiatt, 1986) and lenses for making sense of the meanings they bring to the same (Denzin & Lincoln, 2005), further to explicating the set of interrelated practices and principles that define the nature of the research inquiry (Blanche & Durrheim, 1999) through in-depth insights and a rich understanding of the phenomena of research interest (Guba & Lincoln, 1994). The case study design presented in-depth insights and a rich understanding of the phenomenon within the real-world context (Yin, 2009; Eisenhardt & Graebner, 2007). The purposive sample comprises ten (10) MSMEs located in Cape Town, South Africa.

Data collection used semi-structured interviews. All the questions were clear to participants.

To facilitate a comprehensive understanding of the interview process, a table listing interview questions was included as supplementary material (refer to Supplementary Material Table S1). The formulation of these questions was grounded in established research (Duarte Alonso et al., 2020; Nguyen et al., 2021) to ensure both validity and reliability.

The study was granted ethical clearance by the University of Western Cape, under the Humanities and Social Science Research Ethics Committee (HSSREC) Reference Number HS21/10/10. Informed consent was obtained from all participants prior to the study. An explanation of the nature of the research was provided at the beginning, and participants were informed that participation in the study was voluntary and that they were free to withdraw at any stage. To ensure anonymity, no identification information was written on the questionnaire, and participants were assured that their responses were confidential and to be used exclusively for the purpose of the study.

Data analysis used content, thematic analysis and descriptive statistics. Table 1 below shows the profile, sub-sector and characteristics of the MSMEs in the study.

**Table 1.** Case profile.

Pseudonym	SME Category	Business Sector	Years in Operation	Position	Gender	Number of Employees	Annual Turnover
01	Medium Enterprise	Motor Industry	7	Owner	Female	70	R10-R50 million
02	Small Enterprise	Media and Advertising	16	Owner	Male	15	≤R10 million
03	Small Enterprise	Arts and Hospitality	4	Owner	Male	12	≤R10 million
04	Small Enterprise	Beauty	30	Owner	Female	22	≤R10 million
05	Small Enterprise	Manufacturing	8	Owner	Male	10	≤R10 million
06	Medium Enterprise	Construction	40	Owner	Female	60	R10–R50 million

Table 1. Cont.

Pseudonym	SME Category	Business Sector	Years in Operation	Position	Gender	Number of Employees	Annual Turnover
07	Small Enterprise	Education	17	Senior Manager	Female	50	≤R10 million
08	Medium Enterprise	Relocation	29	Senior Manager	Female	80	R10–R50 million
09	Small Enterprise	Marketing	10	Owner	Male	16	≤R10 million
10	Small Enterprise	Business Consulting	3	Owner	Male	12	≤R10 million

Source: Researchers' construct.

A unique code was allocated to each sector. For example, a code for participant 01 was written as 01QSE7MI, with 01—identity number, Qualifying Small Enterprise (QSE), years in operation (7), and Motor Industry (MI). Codes were generated to aid readers in establishing patterns during data analysis, reporting of findings, and discussion sections. MSMEs were classified based on their general classification, as shown in Table 2 below:

Table 2. Sample profile.

Code	SME Category	Business Sector	Years in Operation	Status of Informant	Gender
01QSE7MI	QSE	Motor Industry	7	Owner	Female
02EME16MA	EME	Media and Advertising	16	Owner	Male
03EME4AH	EME	Arts and Hospitality	4	Owner	Male
04EME30B	EME	Beauty	30	Owner	Female
05EME8M	EME	Manufacturing	8	Owner	Male
06QSE40C	QSE	Construction	40	Owner	Female
07EME17E	EME	Education	17	Senior Manager	Female
08QSE29R	QSE	Relocation	29	Senior Manager	Female
09EME10M	EME	Marketing	10	Owner	Male
10EME3BC	EME	Business Consulting	3	Owner	Male

Source: Researcher's construct.

The data from the semi-structured interviews were analysed using content analysis. Archive for Technology, Lifeworld and Everyday Language (Atlas.ti) software was specifically used to aid data coding and analysis (see Figure 1). Transcribing the interviews and reading the data to identify key themes and patterns were the first steps in the content analysis process. Following that, codes were created to categorise the data based on these themes. The codes were refined and revised iteratively by comparing the data. After the coding was completed, the data were organised into categories and subcategories using the software. The frequency of each code was determined to identify the most common themes that emerged from the data.

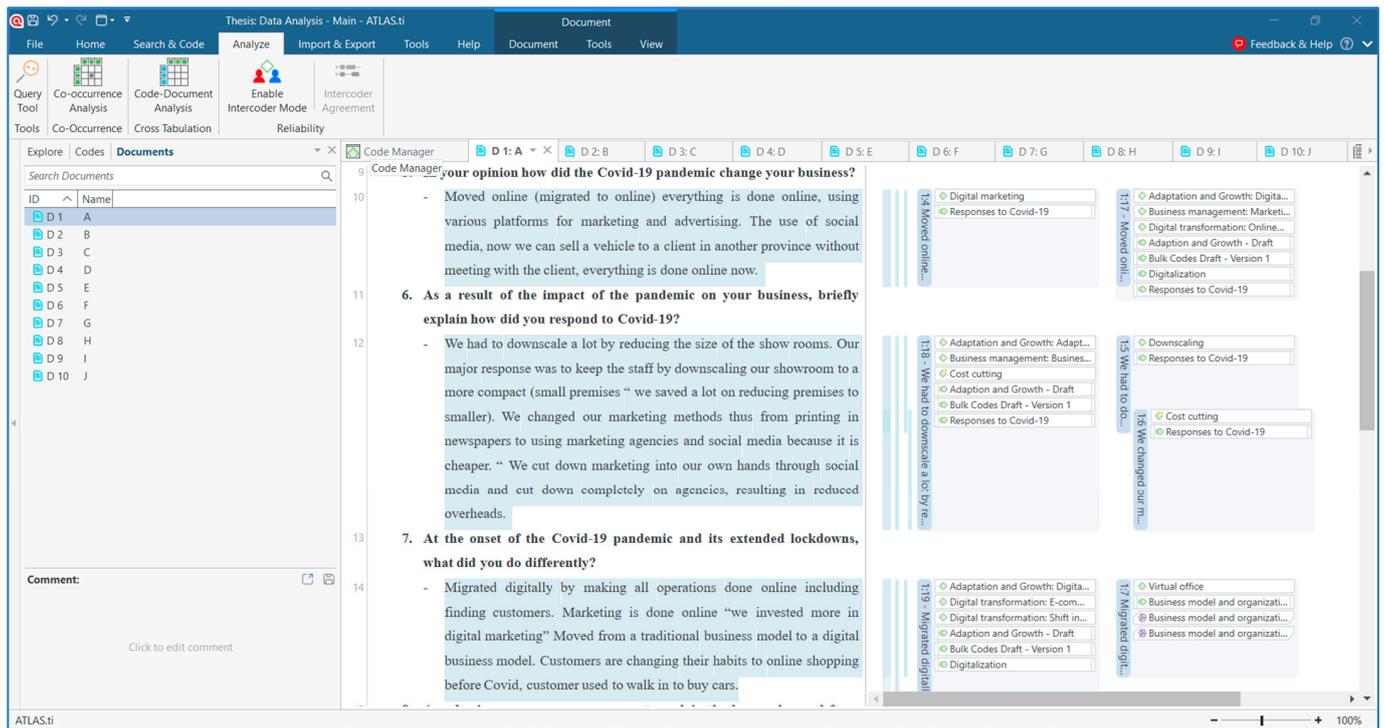


Figure 1. ATLAS.ti coding window. Source: ATLAS.ti 23.1.1.0.

#### 4. Findings

This section presents the study findings on the main factors cited by respondents with respect to strategic responses (see Table 3 below).

Table 3. Strategic responses per sample case.

Pseudonym	SME Category	Business Sector	Years in Operation	Strategic Responses
01	Small Enterprise	Motor Industry	7	Cost reduction, retrenchment, and digitalization
02	Medium Enterprise	Media and Advertising	16	Retrenchment
03	Medium Enterprise	Arts and Hospitality	4	Digitalization
04	Medium Enterprise	Beauty	30	Cost reduction, diversification
05	Medium Enterprise	Manufacturing	8	Cost reduction, retrenchment
06	Small Enterprise	Construction	40	Diversification, cost reduction, retrenchment
07	Medium Enterprise	Education	17	Cost reduction, digitalization
08	Small Enterprise	Relocation	29	Retrenchment, diversification
09	Medium Enterprise	Marketing	10	Diversification, digitalization
10	Medium Enterprise	Business Consulting	3	Digitalization

Source: Researchers' own construct.

##### 4.1. Strategic Responses Adopted by MSMEs During the COVID-19 Period

Table 3 above indicates that Micro, Small and Medium enterprises adopted the same strategic responses, with some implementing more than one strategic response. The following sections consider and discuss cost reductions, such as cost cutting, retrenchment and downscaling strategies, and diversification and digitalisation strategies.

#### 4.2. Cost Reduction Strategies

MSMEs adopted cost reduction and retrenchment strategies in response to the COVID-19 pandemic-induced lockdowns. The cost-reduction focal areas included shutting down non-core business operations, reduction of staff salaries (Shafi et al., 2020) and restructuring resource portfolios (Giunipero et al., 2021). Thus, the main focus was mitigation and reduction of exposure to financial fragility in the midst of cash flow challenges due to the restricted business operations during the COVID-19 pandemic. The severity of business continuity and survival was echoed by Respondent 04, Beauty business owner, who stated that:

*“I had many clients coming for a full package that consists of five different treatments, but because of COVID-19 most clients were coming for only one or two treatments instead of a full package because they have either lost their jobs or their salaries have been cut. That impacted me also because if they cannot afford a full package, it means my sales and profits would go down...”*

Cost reduction strategies are implemented during economic crises (Latham, 2009) and focused on improving financial performance and supported growth-focused strategies during the COVID-19 pandemic (Nguyen et al., 2021). MSMEs adopted cost reduction strategies to mitigate cashflow challenges (Salunkhe et al., 2021), insolvency risk, and financial fragility and business closures during the COVID-19 pandemic period (Rashid & Ratten, 2021; Laorden et al., 2022; Kim et al., 2021).

##### 4.2.1. Retrenchment Strategies

Respondents highlighted that they had difficulties retrenching employees that had worked with them over a long time and who had few prospects for new job opportunities during the COVID-19 pandemic period. Respondent 05 in the Manufacturing sector reported that:

*“Laying off employees was not a pleasant decision to execute but we had to retrench 90% of employees as we were not able to afford to keep the business running at full capacity. Our overheads were skyrocketing, and salaries contributed 95% of our total expenditure...”*

The retrenchment strategy is implemented in response to economic downturns (Albers & Rundshagen, 2020; Kumar & Ayedee, 2021; Capel et al., 2020) and periods of economic crises such as the COVID-19 pandemic period (Wenzel et al., 2020). Retrenchment of staff was implemented to mitigate the impact of cash flow constraints (Singh et al., 2022; Wellalage et al., 2022; Miklian & Hoelscher, 2022; Khan, 2022) due to decreases in demand and financial constraints faced by business organisations during the COVID-19 pandemic period (Salunkhe et al., 2021).

##### 4.2.2. Downscaling

Respondents indicated that they downscaled in areas such as premises and operations during the COVID-19 pandemic period. Most respondents highlighted that downsizing office space reduced rental costs, electricity and water bills. The savings were redirected towards business areas such as marketing and procurement of inventory and related areas, thereby improving profit margins. Respondent 06 in the Construction sector reported that:

*“We had to downscale to a smaller factory from a bigger one, by reducing the factory space we realized that a bigger space is not necessary at all. This allowed us to cut down on rental costs by 50% and reduced our electricity and water bills. As a result, we have been able to maintain profitability despite the reduced revenue during the pandemic...”*

Downscaling operations reduced costs and improved profitability during the COVID-19 pandemic period (Klößner et al., 2023). MSMEs implemented downscaling strategies

(Miklian & Hoelscher, 2022) to mitigate liquidity challenges and higher levels of insolvency risk during the COVID-19 crisis (Simon et al., 2021).

#### 4.3. Diversification

MSMEs in the Construction, Marketing, Relocation and Beauty sub-sectors reported that they adopted diversification strategies that included entering new markets and offering new products during the COVID-19 pandemic period. Some rendered essential services in response to the emerging market demands. Respondent 09, a Marketing service provider, highlighted that:

*“Having realized that the pandemic was crippling almost all businesses, we then expanded our business into essential products. We started supplying personal protective equipment (PPE) and that enabled us to grow our business and keep us afloat during the pandemic. We also started growing our digital side of the business which offers services such as website designing, development, and eCommerce. This was important because we had to redesign the virtual space of the business to attract more clients. . .”*

Respondent 04, a Beauty and Skincare business owner, noted that:

*“My first step to diversification was to think outside the box, so I started selling PPE, luxuries, sweets, and biscuits. That brought more income into the business, and I realized that diversifying was crucial for the survival of my business. . .”*

Diversification strategies enhance business operational resilience (Chen & Paulraj, 2004). MSMEs operating in different sub-sectors adopted diversification and innovation to ensure continuous growth and stay competitive in the market during the pandemic (Das et al., 2022; Kahveci, 2021).

#### 4.4. Digitalisation

Respondents in the Arts and Hospitality, Marketing, Motor and Education sub-sectors reported that they adopted digitalisation in combination with other strategies during the COVID-19 pandemic.

Respondent 10 in the Business Consulting sector highlighted the following:

*“We started marketing online more and made sure most of our interactions with clients were online. This enabled us to develop a very strong online presence during the pandemic since we were running our marketing campaigns on different online platforms that allowed us to do our business online. . .”*

Respondent 01 in the Motor Industry stated that:

*“We migrated online, we started using various platforms for marketing and advertising. With the use of social media now we were able to sell a vehicle to a client in another province without meeting the client, everything is done online now. . .”*

Digital technology enabled businesses to change strategies more swiftly to the COVID-19-induced environmental challenges than in the past (Priyono et al., 2020). Digital platforms such as WhatsApp for shopping stimulated demand and ensured survival by facilitating the transition from traditional models of selling in physical stores (Xu et al., 2021). MSMEs embraced digital marketing tools to gain a solid online presence (Hamburg, 2021; Amankwah-Amoah et al., 2021).

## 5. Discussion

### 5.1. Interpretation of Findings

The prolonged COVID-19 lockdown restrictions reduced consumer spending and restricted attracting new customers (Shafi et al., 2020). The business disruptions exacerbated

the financial losses (Sobaih et al., 2021) and threatened the business continuity and survival of most MSMEs (Güngördü-Belbağ, 2021). Strategic responses adopted in the study focused on operating turnarounds (Hofer, 1980), emphasising business-level strategy cost-cutting strategies to improve financial performance (Simon et al., 2021; Klöckner et al., 2023), downscaling strategies to mitigate liquidity challenges and higher levels of insolvency risk during the COVID-19 crisis (Simon et al., 2021) in response to decreased sales and cash flow (Miklian & Hoelscher, 2022), and retrenchment strategies to reduce overheads and non-core assets (Albers & Rundshagen, 2020; Kumar & Ayedee, 2021; Capel et al., 2020; Wenzel et al., 2020). In turn, MSMEs adopted diversification and innovation strategies to ensure operational resilience (Chen & Paulraj, 2004), continuous growth and competitiveness during the pandemic (Das et al., 2022; Kahveci, 2021). At the same time, the adoption of digital technology enabled businesses to change strategies more swiftly than in the past (Priyono et al., 2020), and digital platforms such as WhatsApp for shopping stimulated demand and ensured survival by facilitating the transition from traditional models of selling in physical stores (Xu et al., 2021). Thus, MSMEs embraced digital marketing tools to gain a solid online presence (Hamburg, 2021; Amankwah-Amoah et al., 2021). Cumulatively, the operational turnaround strategies (Hofer, 1980) focused on enhancing revenue generation (Khan, 2022) and mitigating financial fragility challenges (Zhang & Sogn-Grundvåg, 2022; Salunkhe et al., 2021; Simon et al., 2021; Golubeva, 2021). The strategic responses adopted by MSMEs in the study during the COVID-19 pandemic focused on cost reduction, diversification and digitalisation.

### 5.2. Theoretical Implications

The strategic responses of MSMEs during the COVID-19 pandemic provide significant insights into the theoretical frameworks surrounding organisational behaviour and crisis management. The findings align with Hofer's (1980) propositions regarding turnaround strategies, emphasizing that MSMEs adopted a mix of diversification, retrenchment, and cost-reduction strategies to enhance performance amidst economic turmoil. This supports the notion that organisations can leverage strategic agility to navigate crises effectively. The study highlights the importance of external environmental factors, such as global lockdowns and financial fragility, in shaping these strategies, thereby reinforcing theories related to environmental scanning and strategic alignment.

### 5.3. Practical Implications

The practical implications of this study are profound for MSME management and policy formulation. Firstly, the findings suggest that MSMEs should prioritize diversification and digitalization as core components of their strategic planning. By exploring new markets and leveraging digital platforms, MSMEs can mitigate risks associated with market volatility and consumer behaviour changes during crises. This approach not only enhances their competitive edge but also ensures business continuity in uncertain environments. Additionally, the study underscores the necessity for MSMEs to implement cost-reduction strategies effectively. By adopting retrenchment measures, such as downscaling operations and reducing overhead costs, businesses can navigate liquidity challenges more effectively. This practical insight is crucial for MSME owners who must balance operational efficiency with financial sustainability during economic downturns.

Furthermore, the findings advocate for continuous monitoring and alignment of strategies with environmental changes. MSMEs should invest in training and development programs that foster innovation and adaptability within their workforce. This investment not only prepares organisations to respond to future crises but also cultivates a culture of resilience that is vital for long-term survival.

## 6. Conclusions

The results showed that MSMEs adopted strategic and turnaround strategies (Hofer, 1980) in responding to the COVID-19 pandemic external environment disruptions. Specifically, MSMEs, where possible, diversified operations from the core business and exploited new business niches they were not in before the COVID-19 pandemic. Broadly, the diversification and digital innovation strategies were combined with operational-focused strategies that emphasized cost containment and reduction through retrenchment of staff and downscaling operations. Overall, the study conclusions emphasize the significance of agility in identifying and implementing appropriate strategic responses by MSMEs during periods of economic crises, such as the COVID-19 pandemic.

## 7. Limitations and Future Research

This study offers significant insights into the strategic responses of MSMEs to external environmental disruptions, particularly in the context of the COVID-19 pandemic. However, several limitations must be acknowledged, which also present opportunities for future research.

One primary limitation of this study is related to time and funding constraints, which impacted the sample size and scope of the research. The focus was specifically on MSMEs located in certain areas of Cape Town, namely, the Central Business District (CBD), Southern Suburbs (Kenilworth), and Northern Suburbs (Parow). Consequently, the findings may not be generalizable to MSMEs in other regions of South Africa or to those operating in different economic contexts. The geographical specificity limits the applicability of the results and suggests that further research is needed to explore how these strategic responses manifest in varied settings. Additionally, the COVID-19 pandemic itself posed significant challenges during the research process. Mobility restrictions and limited face-to-face interactions hindered access to MSME premises, which may have restricted data collection efforts and affected the depth of insights gathered. These constraints could have influenced the study's ability to capture a comprehensive view of the challenges and opportunities faced by MSMEs during this turbulent period.

To build on this study's findings, future research should consider employing a variety of methodological approaches. Quantitative research and longitudinal studies could provide valuable insights into the evolution of strategic responses over time and across different regions and industries. By utilizing larger sample sizes and diverse methodologies, researchers can enhance the robustness of their findings. Moreover, it would be beneficial for future studies to investigate the efficacy of various strategies employed by MSMEs in different contexts, particularly comparing pre- and post-COVID-19 scenarios. Mixed-method or quantitative research designs could facilitate a deeper understanding of the underlying mechanisms that contribute to the success or failure of these strategies. Such studies could illuminate how factors such as organisational culture, leadership styles, and market conditions influence strategic decision making.

Comparative analyses across different countries or regions could also enrich understanding by providing cross-cultural perspectives on MSMEs' strategic responses. Identifying differences and similarities in how MSMEs adapt to external disruptions can inform best practices and contribute to a more nuanced understanding of global trends in MSME management.

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