

## SMEs intervention in Mexico: Case study

**Keywords:** SME, COVID-19, Economic interventions, Business relationships, Financial Accessibility for SMEs.

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### ABSTRACT

Historically, Small and Medium Enterprises (SMEs) in developing countries have always suffered from a lack of support from local governments (Aftab et al., 2021; Bartik et al., 2020; Basuno et al., 2010; Lu et al., 2020). Although they do hold a significant position in their contribution to the overall GDP of the country, they are left to their own devices in finding a solution to their problem. In 2020 the temporary closing of non-essential businesses due to COVID-19 as part of a sanitary contagion method took a toll on many SMEs in Mexico and affected the overall economy. In a state where 94.6% of SMEs are micro-size, 4.46% are small, and 0.46% are medium size businesses (INEGI, 2022) there were a series of programs that were implemented by the regional government as well as a university center focused on economics and business topics. This case study aims to contribute to understanding SMEs' challenges during a health and economic crisis and provide insights into future policy needs that should include university involvement.

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## INTRODUCTION

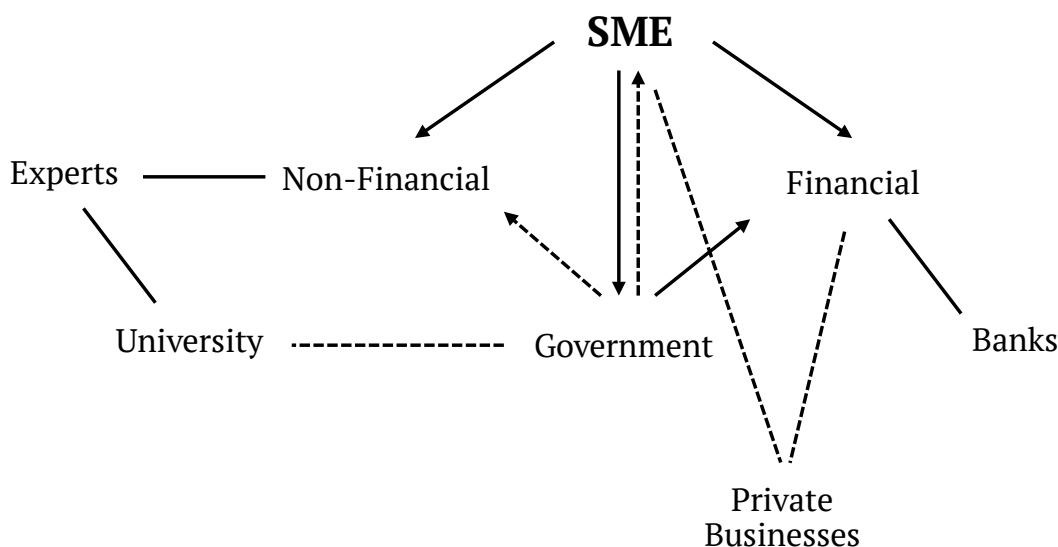
Studies have proposed that during a situation of economic crisis similar to that of what was seen during the initial stages of the Covid-19 pandemic, government interventions, specifically economic ones, can be of benefit, especially for local businesses that contribute significantly to the overall regional GDP (Antwi-Boasiak et al., 2021; Sullivan & Wolfe, 2021). Certain sectors, during this latest pandemic, were far more strongly affected due to their economic activity that was deemed as not essential and were temporarily closed or limited due to mobility restrictions and local health measures (Ashford et al., 2020; Aspachs et al., 2021). Support for local banks did help provide quick loans with flexible repayment plans, restructured payments in the forms of moratoriums or flexible means of payment as well as government-sponsored subsidies that benefited SMEs in an attempt to stimulate economic activity and keep the economy going (Oyewele, Adebayo & Kehinde, 2020; Zarembe, Kizys, & Aharon, 2021; Danielli et al., 2020).

Covid-19 was first detected in the western region of Mexico around March of 2020 after the confirmation that the first case had been reported in February in the Central area of the country (Suarez et al., 2020) which provoked the temporary shut-down of many businesses and a disruption in the supply chain in some regions due to its health concerns and restrictions as well as limited mobility between states enforced by local governments. SMEs in developing countries like the case of Mexico tend to suffer from a lack of support from federal and local government agencies in general and more so in times of economic crisis (Aftab, Naveed, Hanilo, 2021; Bartik et al., 2020; Basuno, YUSDJA, Ilham, 2010; Lu et al., 2020). In Mexico, SMEs make up 42% of the national GDP and generate 78% of national employment. Of these, 95.4% are micro-enterprises, 3.6% are small and another 0.8% are medium-sized enterprises (INEGI, 2022). In developing countries with similar characteristics, there is a trend for SMEs to rely on their own created relationships with other businesses and local banks that can help them acquire cash liquidity, access to more markets as well as credit (Adomako et al., 2019; Lehmann & Neuberger, 2001; Mesquita & Lazzarini, 2008; Narjoko & Hill, 2007). This encompasses some unique challenges such as the inability to secure loans that are meant for larger businesses or not having the business connections necessary to access more clients or a bigger market outside their sector or location (Cole & Damm, 2020; Jimenez et al., 2012; Popov & Udell, 2012). In addition, micro and small enterprises might not have the hindsight that a business that has been in existence for a long period and that has a stable clientele and working system enjoys due to experience and the high demand for their product and services. These last businesses also tend to have a better understanding of their market and foresight into some of the challenges that they will have to face to keep on expanding.

During times of economic crisis such as one SMEs endured in 2020, there was a demand for government interventions of any degree to help keep businesses afloat. Banks introduced loans with certain interest rates and flexibility geared towards SMEs and large businesses (IMF, 2020; Banco de México, 2021). Some SMEs also began restructuring their business to accommodate new market demands as a way of maintaining a competitive advantage (Fitriasari, 2020). However, the challenges for SMEs have also been known to stem from an inability to easily access resources when compared to large businesses which can hinder an economy of scale from taking place and can affect its overall production costs negatively, making it vulnerable to outside influences (Grondys et al., 2021). Non-financial information can also be of vital importance for the survival of SMEs as they try to navigate through the turbulent economic crisis being experienced in 2020 in which the temporary

lockdown and mobility were limited by sector and economic activity. Such orientation can prove to help SMEs evaluate their decision-making, better assess their options as well as create connections to other businesses (Altman et al., 2010). As noted by Adam and Alarifi (2021) having access to valuable information and maintaining two-way communication with other members of the business community and business experts can be of help to create new plans and provide important insight into the process of implementing new ideas. A visualization of what contributes to financial and non-financial SME well-being can be seen in graph 1 below.

### Graph 1: Relationship between SME and other major actors



Source: Authors.

The graph shows how SMEs' needs can be categorized between financial and non-financial needs. Government can decide to play a role in supporting SMEs if it desires to do so, but SMEs tend to contribute to government decisions based on the percentage of SMEs contributing to the overall economy. The government then has the option of contributing with financial assistance usually, through loans, grants, or directly through banks. Although in the case of some countries in which there isn't a centralized banking system, the banks can be directly associated with a financial option for SMEs directly through interest rates and favor towards some SME businesses. Private-owned Businesses can help SMEs connect to financial assistance through their credit system or their bank based on recommendations. From the non-financial support, experts in the field of business that provide services can be identified by a university and can be part of a university system through affiliation or as alumni. University and government collaboration are not always established, these dotted lines mark that same idea that although at times they do it is not as direct in cases in which a university program seems of interest to the government. With this in mind, there was some initiative from local governments and organizations within universities to help

local entrepreneurs as well as local SMEs. One such organization was initiated through a university-sponsored program as an effort to provide a local business with several free consultancy services since knowledge is also a form of currency that will help SMEs make informed decisions. This case study is meant to describe some of the challenges SMEs go through during economic crises and advise government agencies as well as universities' involvement that can in possible future policies offer additional support to SMEs from not only a financial advantage but a strategic and insightful decision-making point of view. For the case study, we analyzed only data that is relevant to the study of relationships and business connections since these are seen as essential to SMEs in developing countries which include: the number of years in business, key issues, supply chain, and production cost (Markovic et al., 2021; OECD, 2021; Shanka & Buvik, 2019).

## **METHODOLOGY**

This case study is based on survey results that were gathered in 2020, during the pandemic regarding the main challenges and perspective issues for regional SMEs in a state located in central west Mexico that came about due to a collaboration between local government and a local public university. The results were the average responses by the business size of participants in the survey on a Likert scale.

Towards April 2020 up to mid-2022 a recurring survey was filled out to understand the needs of SMEs around the western state of Mexico. During that month, only 3.7% of businesses received some form of financial assistance whether that was government or a third party, with 92.2 % being SMEs nationwide. This economic intervention from government agencies covered 99.1% of the assistance received with the rest being supplemented by chambers of commerce and other financial institutions (ECOVID, 2020). A few factors were considered that would be important when formulating a questionnaire that would help better understand the growing needs of SMEs in the region. Some of these included the lending relationship with banks, as well as its size and years in the business as part of its overall risk evaluation as had been noted in certain studies as indicators of evaluating risk (Ayyagari et al., 2007; Grondys et al., 2021). Taking into account the literature review on practices supporting SMEs that included financial and non-financial support such as the direct financing of micro-businesses, tax stimulus, financial guarantees from central banks, tax reliefs, low-interest loans, moratoriums, extended loan repayment plans, and payment flexibility, a structured program was initiated to look into what non-financial support the public university could be of service. It was determined that non-financial issues involved a need to understand issues concerning labor laws, financial advice relevant to the current financial policies that were changing rapidly, supply chain concerns, digitalization of a business, length of time operation of the business has to remain halted or temporarily closed, how to recover or restructure their product and/or service, access to liquidity, competitive advantages, and overall survival of the business. Since mobility and access to the public university's campus were limited, it was thought best to make the survey and the meetings virtually. The public university contacted local government officials and discussed their interest in providing non-financial services to SMEs.

A list of questions was made and tested to check for relevance to local businesses' needs during the trying times of 2020. The questions were exhausted to a total of 11 sections based on feedback from preliminary survey testers whose backgrounds had to be current owners of an SME, experts, and university staff (Annex 1). These questions were meant to identify the type of business and their most urgent needs so as to connect them to the correct expert consultant in that field quickly so as to help them partially survive. This was done

on volunteer bases free of charge for the first five sessions per client and with professors and experts from various departments within the public university including business administration, faculty of economics, school of accounting, engineering department, and a third-party organization within the university that served as the main organizer and implementer of the program. Those questions were then made available online and could be managed through volunteers and students who would receive prior training in handling incoming data efficiently and connecting each request to the correct area that would then be responsible for connecting the SME to the expert for their sessions. Each SME would be assigned to an individual for follow-up and feedback both with the SME and the expert directly. In the area of privacy and confidentiality, it was suggested that individuals from both sides would agree to the standard terms and conditions but only within the five sessions offered by the university. In case the individual needed further assistance or had matters that required higher confidentiality standards, they would no longer be under the program and were encouraged to contact the expert externally from the platform. All SMEs within the state were invited through a formal press conference hosted by the public university and local government to contact a hotline in case of specific non-financial needs they faced. Volunteer experts were categorically placed under five main areas: accountants, lawyers, coaches, and experts who provide relevant services in those fields. These fields were based on the initial research and evaluation of the literature review followed by advice from SME experts and professors from relevant fields of study. Although the survey was primarily used to connect concerned SME business owners with a professional advisor, it also provides insights into the situations faced by many SMEs, especially in times of economic crisis and uncertainty.

## FINDINGS

The collaboration with the local government and a local public university provided non-financial support for SMEs that reported suffering impacts on their supply chain and a rise in production cost regardless of how much time they had operating in their sector. The main unique topics of concern for micro businesses were their need and request for administrative advice from experts and small business ideas on how to re-engineer their processes. All types of SMEs required advice on fiscal policy related to business and found that as a beneficial service to have.

The survey was conducted on 480 SMEs of which 88.5% of respondents were micro size, 9.7% small, 0.2% medium, and 1.4% large from within the state. A set of questions was asked containing relevant information regarding the characteristics of their business, the area in which they need assistance, current challenges, and forms of communication. Of the businesses that participated in the survey, an average of 50% had been open for less than a year, 3.1% for up to three years, 2.6% for up to five years, and 6% for more than ten years of business experience, and 18.9%. As can be seen in table 1 below, the type of business with less than one year of experience tended to be micro, small, and medium size businesses. In terms of experiencing a level of slight complications, table 2 indicates that small businesses were more likely to request re-engineering processes, whereas micro, medium and large businesses were more likely to require financially related consultancy services. The re-engineering process included virtual and downloadable tools such as how to map the current business, and analyze each of the processes with guidance from the expert as to how to identify gaps or disconnected pathways in their current process with

questions being answered during sessions and some type of homework being provided for owners to report back about. For more detailed guidance after the five sessions, it could be taken individually by the expert and business owner outside of the university’s platform.

One thing that was affected due to the pandemic was the supply chain of business-to-business providers that were struggling to meet the demand for certain goods due to shortages, limited mobility policies, and rising transportation costs and container shipping prices. In this particular region, it affected SMEs regardless of time in business. Similar situations were announced to be a major issue around the world as well due to multiple circumstances in other countries that affected the arrival of goods from one country to another (Coibion et al., 2020; Paunovic &Anicic, 2021). As for the cost of production, it was one that hit all types of businesses in these circumstances since inflation rates, blocks in the supply chain, availability of products, and mobility was overall affected worldwide as well as within the country. These insights helped build connections between the public university with SMEs and the government to an extent that can be something that might be able to continue even after the 2020 temporary lockdown. The program itself has received a positive response with it being highly recommended and included to further university-government intervention programs for SMEs in the region with other intervention programs like woman-owned businesses and first-time entrepreneurs. It has provided an example of what actions can be done from the university’s side towards dealing with real-world problems that can benefit SMEs by connecting them to experts that they wouldn’t have access to so easily or that they hadn’t considered as a possible ally.

TABLES

Table 1: Years in operation per business size

TYPE	>1 YEAR	>3 YEARS	>5 YEARS	>10 YEARS	<10 YEARS
MICRO	0.491	0.20	0.084	0.098	0.124
SMALL	0.51	0.063	0.021	0.148	0.255
MEDIUM	1	0	0	0	0
LARGE	0	0	0	1	0

Table 2: Percentage of services demanded

TYPE	TRAINING	RE-ENGINEERING	FISCAL	OPT	LABOR	COACHING	MARKETING	FINANCES	FUNDS	DIGITAL
MICRO	0.4	0.122	0.371	0.16	0.026	0.092	0.087	0.042	0.03	0.007
SMALL	0	0.574	0.148	0.17	0	0	0.063	0.021	0	0
MEDIUM	0	0	1	0	0	0	0	0	0	0
LARGE	0	0	.60	0	0	0	0	0	0	0.2

**Table 3: Percentage of supply chain status**

TYPE	SUPPLY CHAIN IS GOOD	SUPPLY CHAIN IS SOMEWHAT RESPONDING	I HAVE HAD COMPLICATIONS WITH MY SUPPLY CHAIN
MICRO	0.188	0.244	0.567
SMALL	0.066	0.177	0.755
MEDIUM	0	0	1
LARGE	0.2	0.2	0.6

**Table 4: Percentage of production cost**

	PRODUCTION COST NOT AFFECTED	SOMEWHAT AFFECTED	PRODUCTION COST AFFECTED	SEVERELY AFFECTED
MICRO	0.136	0.16	0.298	0.404
SMALL	0.09	0.045	0.75	0.113
MEDIUM	0	0	1	0
LARGE	0	0	0.6	0.4

**DISCUSSION**

In the case of developing countries in which SMEs play a significant role in the overall economy in terms of creating jobs and contributing to the GDP, policies that incorporate financial and non-financial interventions might benefit from including public universities as allies in guaranteeing access to experts that can help business owners see a different perspective and/or consider more variables in their decision-making process. This can benefit economic growth as well as innovation in various economic sectors.

Interventions during economic crises are essential in providing support for SMEs as an attempt to keep businesses from closing since they play an important role in creating jobs especially if they already contribute a significant amount to the regional and national GDP and overall economic development (Chen et al., 2007). With Covid-19, non-essential businesses were temporarily closed worldwide, causing disruptions in supply chains and rising production costs. The lessons learned from Covid-19 should include providing business support to SMEs that would otherwise lack a means of connecting to experts that can help them adjust to change since they might suffer from limited insights due to the nature of their work or the overall way of business. Experts might provide new perspectives due to constant research in the area, interaction with various businesses, and being up-to-date with what is up and coming or what works as well as a clear understanding of some of the opportunities and barriers due to local culture (Alves et al., 2020; Chrisman & McMullan, 2004; Fitriasari, 2020). Although financial support is also



necessary, it might be more complicated to secure on time or might not be the only means capable of assuring survival especially during trying times, in addition, access to credit can be limited due to risk factors and/or limited clientele base (Song, 2020; Thorgren & Williams, 2020). In addition, supply chains can sometimes have external complications that are unavoidable in which international interdependence hinders access to certain goods and services making quick adjustments slower especially for SMEs (Coibion et al., 2020; Paunovic & Anicic, 2021).

The issue with economic contagions is that they are a surprise to most by nature and the ability to survive by SMEs will depend on access to funds as well as flexibility and motivation. As some studies have shown, it can be a combination of service, product quality, clientele base, leadership, motivation and the overall cultural organization that will decide how likely the SME is to survive despite economic challenges (Altman, Sabato, & Wilson, 2016; Markovic et al., 2021; Shanka & Buvik, 2019). Which non-financial support is critical in SMEs that are learning as they go or are adjusting their business to clientele needs and wants that might not always be clear due to their limited perspective of an issue or a lack of understanding of the market demand. One of the options that were chosen by small businesses that should serve as an indicator of their shortcomings was that of training on key topics involving business administration. Becoming aware of what these shortcomings are, can help better gear public policies that support the collaboration and contribution of public universities with local governments which would benefit not only SMEs but overall economic development.

The case study involving a public university with the overall SMEs in the western region of Mexico provides further insights into the need for SMEs during times of crisis. However, such a study also sheds light on the possible strategic advantage of public universities in being part of the plan to help support SMEs and entrepreneurial initiatives with local government. These types of collaborations and cooperation can help the business community strengthen their relationship with other businesses that might be offering desirable products and services as well as access to valuable insight and information that might help them keep their business going by connecting them to a university center that possibly already has some connection with another business (Chrisman & McMullan, 2004). Strengthening these partnerships from a public policy level could provide a way to meet the financial and non-financial needs of SMEs for economic development and social well-being (Alves et al., 2020). Especially in developing countries in which SMEs' resilience includes factors of success through collaboration, strategic diversification, and self-motivation, these types of incentives can help them go a long way (Ahmed et al., 2021; Adam & Alarifi, 2021). In the case of Mexico, a particular region with a significant amount of SMEs and with an important contribution to the overall economic growth in the region makes these policies strategic to follow and implement. Other developing regions can implement them as a means of forming a community that involves government, private and public sectors, and universities along with other educational institutions that can through their experts offer much-needed support to SMEs who are struggling. Public universities can be points of contact with other local businesses that can through these collaborations help bring in a circular economy in cases the supply chain is interrupted for a prolonged period of time or get acquainted with other potential business partners since most public universities might have alumni and business partners that can help make this transfer of knowledge and networking possible. Within developing countries, not many cases in which the collaboration of public universities and government agencies have been documented although its existence might already be in place, perhaps in affiliation



and connection with other public and private sector participants and main actors. Further extensive research on these collaborations may help understand the dynamics that influence the regional development of a country and provide roadmaps that can help understand the complex interplay between beneficial financial and non-financial SME-focused policies. This can be of great relevance in developing countries in which SMEs are left on their own by most governments.

## **CONCLUSION**

SMEs face many challenges regardless of the economic times in the market and there is a need to include the universities in these types of non-financial support policies, especially in developing countries in which finding financial help can be deemed too risky by local governments. Universities, especially those considered public institutions, hold within them a network of experts and alumni that form part of the overall business community and can benefit from collaborations for the well-being of the overall economic development of the physical region it is in. A book edited by Kenney and Mowery (2014) mentions how public universities sparked regional growth in the case of California, which is located within a developed country. Although applying their experience to that of a developing country can be difficult, the current case study shows a non-financial intervention and alternative way in which two seemingly autonomous ecosystems can come together and collaborate in cultivating a new culture open to university interventions within the public policy economic sphere since SMEs will need additional support in their decision-making process as well as an institution that serves as a contact to other possible business partnerships.

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ANNEX 1: QUESTIONNAIRE

BASIC INFORMATION	Name, Business name, Business address, number of employees, years in business, type of business (sector)
PROBLEM	I will make it through this crisis completely I will make it through this crisis with some struggle I will make it through this crisis with difficulty Perhaps I won't make it through this crisis I won't make it through this crisis
NEED HELP WITH	Coaching, professional development (acquiring new skills), re-engineering my business, adjusting supply chain, marketing, digitalization, guidance in matters regarding fiscal policies, guidance in labor laws and regulation, optimizing processes, or other
CHALLENGES	Low sales, lack of a business strategy, new competitors, difficulty to keep employees, lack of liquidity, problems with supply chain, or other
MEANS OF SALES	Physical location Online business Hybrid (physical and online) I am currently closed
SUPPLY CHAIN	Having issues with receiving products, suppliers, and prices Having some issues My supply chain is under control
CONTROL OVER INVENTORY	I have control over supplies I have some control over my inventory I have minimum sales I don't have control over my supplies
COSTS	My costs are rising considerably My cost are somewhat rising My cost are not being affected
STRATEGIES	I have a business strategy I have a business strategy but have a few questions I don't have a business strategy but would like to have one I am not interested in a business strategy
DO YOU NEED TO RE-ENGINEER YOUR PROCESSES?	Yes, absolutely Maybe No
ONCE ALL BUSINESS CAN REOPEN WILL YOU GO BACK TO NORMAL?	It will improve immediately It will improve gradually It will improve somewhat It will improve slowly