

Accounting implications for SMEs: lessons from COVID-19 business recovery

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Review

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Abstract

Purpose – COVID-19 had a worldwide impact, setting an uncertain economic and financial scenario. Small and medium enterprises (SMEs) were disproportionately affected in comparison to larger companies, owing to having fewer resources available. Given the relevance of SMEs to the world economy and their vulnerability during the pandemic period, it is important that business recovery frameworks concentrate on supporting them. The purpose of this paper is for the authors to draw on their analysis to present accounting and strategic considerations required for SMEs to prepare for potential future crisis periods.

Design/methodology/approach – This commentary reflects on accounting implications and recovery strategies for SMEs around COVID-19. It offers a comparative analysis of previous crises affecting SMEs, academic perspectives on the business strategy response to the pandemic and practical suggestions on how SMEs can overcome the challenge stage.

Findings – This study highlights that accounting's role extends beyond the traditional retrospective reporting to prospective accounting readiness that assists SMEs' recovery and competitiveness. In addition, more accounting research tailored to SMEs is needed to better understand their real-world difficulties during disruptions.

Practical implications – These insights guide practitioners and regulators interested in addressing accounting issues related to the financial recovery of businesses, in particular SMEs. It also positions accountants as ongoing advisors, complementing compliance with readiness design, thus improving SMEs' strategic response in times of crisis.

Originality/value – This study frames business resilience as an accounting-enabled capability, as accounting provides decision-ready information and control systems that underpin timely response and recovery. This study then proposes accounting readiness, a forward-looking approach that links information to action to better prepare SMEs for future black swan events.

Keywords Accounting implications, Business recovery, Crisis response, Small and medium enterprises (SMEs), COVID-19

Paper type Viewpoint

1. Introduction

The global pandemic caused by COVID-19 plunged the world into social and economic upheavals not experienced in decades. Researchers from a multitude of fields came together



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to advise national governments (see, for example, [Group of 8, 2020](#)). One important requirement was to ensure an appropriate stimulation of the economy to minimise the effects of economic recessions, especially the economic and social impacts on small and medium businesses, which were severely affected during the crisis period.

The types of firms most impacted by the effects of COVID-19 were not the large publicly listed companies, which form most of the empirical financial accounting research. Rather, it was small and medium enterprises (SMEs) that were more vulnerable to COVID-19 than larger firms, experiencing significant reductions in their sales and cash ([Adian et al., 2020](#)). [Amin et al. \(2023\)](#) find that due to the COVID-19 pandemic, the decline in sales from the pre-pandemic level for SMEs was 34.8% in comparison to large firms, which was 22.6%. According to the Organisation for Economic Co-operation and Development (OECD), SMEs were the most economically shocked group as the majority of them either had to close operations or face significant falls in revenue. Losses were present in any type of small and medium business during the pandemic ([Fairlie, 2020](#)), where most vulnerable and less resilient small firms had liquidity, financial and revenue COVID-19 related challenges ([Dua et al., 2020](#)). Further, SMEs, particularly sole traders, women and minority entrepreneurs were disproportionately affected during the crisis, with greater risk exposure and a lower ability to strategically pivot ([OECD, 2021](#)).

As SMEs are an important group in the world economy, representing 99% of all businesses, hiring two out of three workers and contributing for 50% to 60% of value added in the OECD area ([OECD, 2020](#)), governments responded quickly to support their small and medium businesses, with extensive measures far beyond the 2008–2009 Global Financial Crisis (GFC). However, based on the Facebook–OECD–World Bank survey covering 32 countries, a large proportion of SMEs expressed the need for additional support in the future ([OECD, 2021](#)). Thus, these types of firms are identified as having the greatest need for research to further our understanding of how they are affected and can have a sustainable recovery from the pandemic, together with providing practical policy guidance tailored to SMEs.

Within this commentary, we consider the accounting implications resulting from COVID-19 with respect to business recovery. Following the first wave of COVID-19 infections that occurred in Australia and New Zealand in March 2020, both national governments imposed strict restrictions on social movements. Working from home became a norm, which has continued to persist in varying degrees. Restrictions also forced an economic hibernation, with many businesses required to temporarily close, causing a reduction in utility to owners and employees.

The role that accounting plays in this context is not limited to the production of general-purpose financial reports, nor to the use of internal control systems such as budgets. Rather, accounting is viewed as a broader financial literacy that is also involved in the formulation of business strategies and overall stewardship of firms. Accordingly, accounting is pivotal in the overall economic response and recovery at macro- and micro-levels, aligned with the evolving role of accountants as business advisors. Consequently, the profession has an active leadership responsibility for supporting SME's survival and competitiveness in a world of recurring disruptions.

In this light, our focus is to first discuss business strategic responses that can be implemented during a crisis period at a broader level. We further examine the pandemic through a comparative frame with prior crises affecting SMEs, identifying recurring patterns of vulnerability and resilience response. These earlier crises are used as reference shock archetypes to illustrate recurring mechanisms that also emerged during COVID-19. A relevant conclusion from this analysis is the importance of firms having sufficient cash reserves before, and the ability to generate adequate cash flows during, any economic hibernation to be able to appropriately implement any strategic changes.

We next integrate two complementary lenses, temporal and strategic, to explain how small and medium businesses stage recovery and respond during crises. Following on, we

outline an approach for SMEs to recover, emphasising the necessity of a practical plan, alternative sources of financing, professional business advisory support and targeted *ad hoc* regulatory measures. We then present accounting readiness as a pathway to strengthen resilience and preparedness for future crises, with actionable strategies for professional accounting practice. Finally, we conclude by discussing opportunities for future research.

2. Business strategy responses to COVID-19

In thinking about preparing to reopen businesses and workplaces during the crisis period, the best parallel that we had was the economic and business strategic response in the wake of the massive and widespread destruction of the Second World War. This was consistent with much of the rhetoric from national leaders that COVID-19 had resulted in a wartime period and its impact on the economy had been four times worse than the 2008–2009 GFC [1]. According to the Bureau of Economic Analysis, the US real gross domestic product (GDP) decreased 32.9% in the second quarter of 2020 [2], while it increased 1.9% in the second quarter of 2008 [3]. From a global perspective, G20 economies had a decrement on average of 11.8% in GDP in the second quarter of 2020 [4]. In addition, the US Government spent \$2.3tn during the COVID-19 pandemic in comparison to \$700bn injection during the global financial crisis (GFC) period.

The Marshall Plan from 1948 to 1951, formally known as the Economic Recovery Program, was an enormous program (costing US\$12bn, equivalent to US\$128bn in today's terms) to put Western Europe on a solid economic footing. The European Union (EU) measures taken to decrease the devastating effect of COVID-19 and support the economy are comparable to the Marshall Plan [5], particularly that the EU indicated that a plan implemented after the Second World War could provide a model to follow to rebuild the global economy [6].

While we witnessed a severe impact of world economies during the COVID pandemic, and through inflationary pressures resulting from stimuli packages (Blanchard and Bernanke, 2023), there was not the destruction of property and infrastructure that we normally associate with wars and natural disasters. However, due to COVID-19, the world faced a comparable scenario to the Second World War.¹ A great challenge faced in this period was how to rebuild the huge sector of small and medium-sized businesses that was torn apart from the contagion of the virus. In this sense, it is the viability of this sector that is important to rebuild, as opposed to physical infrastructure. Mobilising the large number of people seeking employment is vastly different in an economy suffering economic destruction without the physical damage.

The literature reveals how SMEs have historically been affected by various types of crises. These range from economic recessions (Pal *et al.*, 2014; Herbane, 2010), natural disasters such as the 2010 and 2011 Christchurch earthquakes in New Zealand (Battisti and Deakins, 2017) and the 2010 flood in Pakistan (Asgary *et al.*, 2012), civil unrest like the 2011 London riots (Doern, 2016) and, more recently, the COVID-19 pandemic (Sharma *et al.*, 2024).

However, COVID-19 stands apart as a “black swan” event because of its global reach, magnitude and uncertainty. Unlike localised crises such as the ones cited above, the COVID-19 crisis impacted the whole world and simultaneously destabilised the public health systems, economic activity, financial markets, social structures and global mobility on an unprecedented scale. It created a multi-dimensional shock on a level not seen in modern times, which brought significant repercussions to small and medium businesses across the globe with prolonged uncertainty and no clear recovery timeline, generating serious challenges for continuity and strategic planning.

Although the triggers and magnitude differ, these events, such as financial recessions, earthquakes, floods and riots, share common characteristics of disruption, uncertainty and resource constraints for SMEs. They offer valuable insights about how SMEs were affected and responded to past crises.

2.1 Comparative analysis from past crises on small and medium enterprises

While the COVID-19 pandemic brought unprecedented challenges to SMEs, it is not the first crisis to expose their vulnerabilities. Previous events, including economic downturns, natural disasters and civil unrest, have also demonstrated the fragility of this sector. A comparative analysis across these crises in parallel with the COVID-19 pandemic reveals common patterns in how SMEs are affected and how they respond. We therefore use earlier events as reference shock archetypes to illustrate recurring mechanisms that reappeared during the pandemic. For example, the 2010 Pakistan flood highlighted physical disruption and cash-flow breaks, the 2010–2011 Christchurch earthquakes revealed logistics constraints and insurance frictions, and the 2011 London riots featured localised destruction and demand volatility.

Across all crisis types, SMEs commonly experience interrelated challenges. First, financial distress frequently exposes the limited liquidity reserves of SMEs, making them highly susceptible to cash flow problems. For example, during economic crises, SMEs suffered declining consumer demand and restricted access to capital, resulting in cash flow contraction, lower margins and business bankruptcy (Pal *et al.*, 2014; Herbane, 2010). In natural disasters, like the Christchurch earthquakes (Battisti and Deakins, 2017) and Pakistan flood (Asgary *et al.*, 2012), due to businesses facing abrupt infrastructure impairment and disruptive repair, they experienced significant decreases in performance and the majority were operating at losses. Civil unrest, as in the London Riots (Doern, 2016), brought physical damage and widespread consumer fear, compounding financial stress through lost inventory, reduced cash flow and insurance dependence. However, COVID-19 triggered a global and multi-dimensional shock, combined with a prolonged uncertainty, regulatory lockdowns and behavioural shift in demand that severely affected SMEs, leading to weakened purchasing power, financial crisis and liquidity constraints (Sharma *et al.*, 2024).

To alleviate this financial distress, governments provided different kinds of relief for SMEs. At the time of economic crisis, governments frequently expand public loan guarantees and direct lending to maintain credit access for small businesses (Calice, 2023). Following natural disasters, such as the Christchurch earthquakes, New Zealand's Government launched a Business Recovery Grants Programme to support operational continuity [7]. During civil unrest in the London riots, the financial response was to assist affected businesses, including the High Street Support Scheme (Doern, 2016).[8] Throughout the COVID-19 pandemic, SMEs accessed unprecedented government financial support, including wage subsidies, emergency grants, tax deferrals and loan guarantee programs (Sharma *et al.*, 2024).

In response to the COVID-19 crisis, the Australian and New Zealand Governments provided several financial support mechanisms for businesses to face the acute period and helped them to recover from the effects of the pandemic [9]. For example, JobKeeper and JobTrainer Skills Package in Australia [10], and Wage Subsidy, Resurgence Wage Subsidy and Leave Support Scheme in New Zealand [11]. As mentioned, SMEs were especially affected, and although both Australia and New Zealand Governments offered cash flow benefits to keep operating, such as tax-free cash flow boosts, small cash loans and finance guarantee schemes, for many businesses these were too late. From this perspective, SMEs are a sensitive group that requires particular assistance to plan for a long-lasting economic and financial recovery.

Another challenge faced by SMEs in times of crisis is operational disruption. During economic downturns, SMEs struggled to build networks and maintain relationships with suppliers (Pal *et al.*, 2014; Herbane, 2010), while in natural disasters, damaged infrastructure caused severe interruptions in supply chain and availability, delaying business recovery (Battisti and Deakins, 2017; Asgary *et al.*, 2012). In episodes of social unrest, SMEs were

likely to experience stock losses, limited availability of goods and difficulties with re-stocking, particularly when items were harder to replace (Doern, 2016). Uniquely, during COVID-19, global supply chain breakdowns, security measures and transportation restrictions significantly harmed business operations. Owing to the uncertain environment, SMEs were unable to properly estimate demand and supply, and rapidly adapt to shifting customer behaviour, which led to critical supply inefficiencies and logistics bottlenecks (Sharma *et al.*, 2022).

The workforce dimension is also heavily impacted during a crisis. From layoffs, employee unavailability and constrained staffing levels observed during recessions (Pal *et al.*, 2014; Herbane, 2010) and natural disasters (Battisti and Deakins, 2017; Asgary *et al.*, 2012) to reduced staff hours, employee loss and mental stress during unrest (Doern, 2016). By contrast, the pandemic generated simultaneous and prolonged workforce disruptions with mandated lockdowns, quarantines and border closures, which amplified mental stress, remote work and volatility in staffing (Sharma *et al.*, 2022).

Conversely, the speed and nature of impact across crises vary significantly. Economic downturns, such as those analysed in Sweden and the UK, unfolded gradually throughout multiple regions (Pal *et al.*, 2014; Herbane, 2010), while natural disasters and civil unrest struck suddenly in more localised areas, Christchurch (Battisti and Deakins, 2017), Pakistan (Asgary *et al.*, 2012) and London (Doern, 2016). COVID-19, however, delivered recurring waves of disruption affecting the entire globe, intensifying the challenge of timely response, strategic planning and potential recovery (Sharma *et al.*, 2022).

Recovery timelines also diverge among the crises. Geographically concentrated riots and natural disasters often allowed for community-supported rebounds within months, while economic crises required several years and remained deeply dependent on industry-specific dynamics. The recovery from the COVID-19 pandemic is still ongoing, despite the years that have passed, due to its global reach, recurring disruption and the compounded economic, social and operational challenges it imposed on SMEs.

2.2 Resilience strategies observed in small and medium enterprises from past crises

SMEs that recover most favourably at times of crises demonstrate recurring patterns of resilience as an effective strategic response. Therefore, resilience is considered a critical determinant of how successful businesses navigate adverse situations and plays a pivotal role in enabling recovery (Sneader and Singhal, 2020).

Strategies adopted by SMEs during a crisis can be grouped into four main areas. First, adaptation and agility. In the Swedish textile industry, SMEs that diversified their products and adapted their offerings were better able to weather the effects of economic downturns (Pal *et al.*, 2014). In the aftermath of the London riots, firms that prioritised community rebuilding and restored customer trust supported their recovery (Doern, 2016). Business owners could benefit from critically assessing their capacity to quickly adjust and recognise opportunities, thereby strengthening their adaptive behaviour in a crisis such as the Christchurch earthquakes (Battisti and Deakins, 2017). Similarly, during the COVID-19 pandemic, SMEs that rapidly changed to digital channels and developed alternative revenue streams were better able to maintain continuity under prolonged restrictions and demand fluctuations (Sharma *et al.*, 2024).

Second, financial and risk management. In economic downturns, resilient SMEs maintained sufficient and mobile financial reserves, enabling them to invest in growth opportunities and withstand downturns (Pal *et al.*, 2014). Consistent with Asgary *et al.* (2012), SMEs with financial capacity and risk mitigation had the ability to recover faster after the Pakistan flood disaster. Improving liquidity, providing financial assistance and

strengthening the balance sheets are three important financial aspects for SMEs to consider during a crisis (Sharma *et al.*, 2024).

Third, community and network support. In the London riots, strong ties to local communities played a pivotal role in helping small businesses retain customers and accelerate rebuilding efforts (Doern, 2016). During the Christchurch earthquakes, SMEs that integrated external resources through industry and local business networks were better positioned to sustain operations and recover (Battisti and Deakins, 2017). In the case of COVID-19, SMEs engaging in sectoral partnerships, local business associations and collaborative networks supported operational continuity and adaptation in a volatile environment (Sharma *et al.*, 2024).

Fourth, crisis planning and readiness. Asgary *et al.* (2012) conclude that firms having a business continuity plan had greater capacity to withstand the Pakistan major flood events. Sharma *et al.* (2024) also emphasises the role of financial planning and readiness as resilience strategies. In the context of a crisis, planning is considered one form of mitigation against disruptions (Herbane, 2010) and being proactively prepared for disaster situations, such as natural disasters, is key (Battisti and Deakins, 2017).

3. Recovery phases and strategic responses to crises

Building on the previous comparative analysis and resilience strategies across past crises, there are two conceptual lenses that structure our analysis. First, Sneider and Singhal (2020) propose five stages of crisis navigation: resolve, resilience, return, reimagination and reform. This provides a useful perspective to observe the trajectory of SME recovery during the COVID-19 crisis.

Under the resolve stage, it is important to address the immediate challenges that COVID-19 presented, and the resilience phase emphasises the near-term cash management challenges. For many businesses, this was centred around cash flow shortages. With non-essential businesses closed or operating with significantly reduced revenues, cash – the lifeblood of any business – was in short supply. For those firms with cash reserves, the hibernation policy worked. However, firms without sufficient cash reserves did not have the ability to pivot to adapt to the changing business environment, nor pay the accountants and other business professionals required to develop business strategies. Professional accountancy bodies such as Chartered Accountants Australia and New Zealand [12], and Certified Practising Accountant [13] highlighted that cash flow was the key aspect for businesses during that time.

This fragility resonates with earlier crises, where SMEs' financial vulnerability was repeatedly highlighted. For instance, cash flow contractions, losses and financial stress during economic downturns (Pal *et al.*, 2014; Herbane, 2010), natural disasters (Battisti and Deakins, 2017; Asgary *et al.*, 2012) and civil unrest (Doern, 2016) similarly underscored the centrality of financial resilience. A survey of 514 small business owners and leaders during the period 30 March–19 April 2020 by Reckon (2020) further illustrates this challenge, reporting that financial hardship was the most problematic challenge of resilience, listing larger debts (18%), cash flow issues (16%) and financial deficits (14%) as the three main hardships.

During the first phases, resolve and resilience, managers are required to operate on “bare bones”, and only start adding back the “fat” once the economy comes out of hibernation. However, businesses also learn how to operate on more bare bones. According to Reckon (2020), 74% of small business leaders tend to bounce back after hard times and 63% of participants point out that it does not take them long to recover from stressful events. Successful small business leaders are 20% more likely to request advice from business and financial experts to overcome difficult times. Nevertheless, 54% of small business leaders

surveyed had lost money because of poor resilience, which could cost up to \$50bn annually in missed opportunities, given the large number of small businesses in Australia. In addition, some industries have been more financially impacted than others during this pandemic period, such as tourism, transport and agriculture [14]. This adversely further affected the airline industry, as well as commercial property construction and real estate investment. These sectoral impacts reinforced that recovery trajectories were uneven and contingent on both industry exposure and adaptive capacity to the crisis.

The return stage required the creation of detailed plans to restore businesses to scale as the COVID-19 situation evolved. However, the ability to create such plans demanded reimagining of what the next normal would look like. Structural changes in work practices, most notably the adoption of remote work and digital platforms, such as Skype and Zoom, were accelerated during the pandemic. Even prior to the outbreak of COVID-19, the future of work was being reconsidered along many of these lines, with the practice likely to evolve at a much more rapid rate (Ayoko and Ashkanasy, 2020; Rico *et al.*, 2020; Wiggins *et al.*, 2020; Collins *et al.*, 2020). In this sense, the crisis acted as a catalyst, propelling their adoption at unprecedented speed.

Above all else, however, value creation is the key in any economic recovery, both at a microeconomic firm level and at the macroeconomic level. In addition, government should be clear about any reform or regulatory modifications, but it also requires firms to understand changes in competitive environments if industries shift. Accordingly, this five-stage framework proposed by Sneader and Singhal (2020) underscores the dual challenge for SMEs, surviving immediate shocks while simultaneously re-envisioning their role in a transformed business environment.

Second, while the five-stage recovery model provides a temporal lens (Sneader and Singhal, 2020), Wenzel *et al.* (2020) offer a strategic lens focusing on four responses to crisis: retrenchment, persevering, innovating and exit that reflect how firms allocate resources and adapt under pressure. During COVID-19, public health restrictions, prolonged uncertainty and asymmetric sectoral shutdowns shaped which strategic responses were feasible for SMEs, influencing whether firms retrenched, persevered, innovated or exited.

Retrenchment, referring to a reduction in costs, assets, products, product lines and overheads, potentially narrows the scope of a firm's business activities and makes mixed contributions to business turnaround. Some consider retrenchment to be an important part of long-term recovery, as it stabilises performance (Pearce and Robbins, 1994), yet others argue it might contribute to continual underperformance (Barker and Duhaime, 1997). While retrenchment may be an unavoidable response to crisis in the short-run, the long-term viability may lead to an erosion of a firm's valuable resources.

Across past crises, SMEs commonly adopted retrenchment. For example, Swedish textile SMEs cut back costs through employee lay-offs and internal restructuring to reduce overhead and fixed costs (Pal *et al.*, 2014), measures that highlight acute cash-flow shortage under crisis pressure and support a retrenchment stance (Herbane, 2010). In natural disasters, Christchurch-area firms experienced reduced customer numbers, tighter supply availability and staff adjustments, consistent with retrenchment (Battisti and Deakins, 2017), while after the 2010 Pakistan floods, firms borrowed, sold assets and cut expenditures to stay afloat (Asgary *et al.*, 2012). Retrenchment was also observed during civil unrest, as London SMEs had restricted operations, curtailed expansion and cut labour costs (Doern, 2016). During COVID-19, retrenchment was often the immediate and unavoidable response as government-mandated lockdowns abruptly eliminated revenue streams, forcing SMEs to reduce labour costs, suspend operations and cut discretionary expenditure.

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Persevering relates to measures aimed at sustaining the status quo of a firm's business activities in response to a crisis. Under COVID-19, persevering often meant maintaining core business activities at reduced scale while relying on cash reserves, banking relationships and government wage subsidies to withstand prolonged uncertainty. In unsettled situations in which firms are confronted with changing circumstances on a daily basis, persevering firms may outperform competitors that conduct strategic renewal. [Chakrabarti \(2015\)](#) shows that firms engaging in asset reconfigurations are more likely to suffer from performance disruptions and face a higher risk of failure. While persevering may be an effective strategic response to a crisis, managers may be well-advised not to engage in strategic renewal too early, because this response is essentially bound by the availability of sufficient cash reserves.

The importance of the availability of sufficient cash reserves was seen during economic downturns, where Swedish textile SMEs that stayed buoyant were those with strong solvency, cash reserves, bank relationships and liquidity ([Pal et al., 2014](#)). Firms short of cash struggled to sustain operations, directly limiting their status-quo persevering stance ([Pal et al., 2014](#); [Herbane, 2010](#)). In sudden shocks, such as the London 2011 riots, SMEs often persevered by reopening quickly but at reduced capacity ([Doern, 2016](#)). Following the 2010 Pakistan floods, access to financial resources was the top factor associated with faster recovery, showing that perseverance depends on readily deployable funds ([Asgary et al., 2012](#)). To persevere under adverse conditions, a business needs resources and without sufficient resources, they are likely to run out of what is needed for recovery ([Battisti and Deakins, 2017](#)).

The persevering strategy is difficult, if not impossible, to sustain a business if a crisis lasts for a longer period of time, and the business environment post-crisis is expected to be sufficiently changed. Innovating, therefore, can be seen as an effective strategic response to crisis to ensure firm survival in the long run. During COVID-19, innovating involved rapid business model adaptation, accelerated digitalisation and the reconfiguration of existing resources to meet altered customer needs and operating constraints. However, unless managers are able to create something from nothing through bricolage ([Baker and Nelson, 2005](#)) or understand and exploit the fungibility of their resources ([Danneels, 2011](#)), they will most likely need excess cash to realise strategic renewal. According to the last Business Operations Survey in 2023 from Stats NZ, 58% of New Zealand businesses conducted innovation activities during the latest financial year, where the main reason to innovate was to improve productivity, increase revenue, augment responsiveness to customers or reduce costs. It was also reported that cost and lack of management resources are the top barriers to businesses innovation.

During economic downturns, Swedish textile SMEs pursued strategic renewal by redefining business models and by launching innovative products and sales channels to reach new markets ([Pal et al., 2014](#)). In natural disasters, Christchurch SMEs that adopted a proactive posture and integrated resources were better at recognising new opportunities, consistent with adaptation and innovation ([Battisti and Deakins, 2017](#)). In civil unrest, London SMEs improvised, used media, re-engaged customers, extended networks and mobilised resources, such adaptive behaviours aligned with innovation, facilitating quicker recovery ([Doern, 2016](#)). On some SMEs, the prolonged and recurring nature of COVID-19 rendered retrenchment, perseverance, or innovation insufficient, making exit a strategic response rather than an indication of failure.

The final strategic response is exit – the discontinuation of a firm's business activities. An exit may be unavoidable when the other responses fail. As opposed to being seen as a failure, this response may be a valuable strategic decision from the outset. Exits can be an important foundation for strategic renewal ([Ren et al., 2019](#)) as they free up committed resources and,

hence, enable the formation of new ventures (Carnahan, 2017). Therefore, although exits are not costless and potentially leave a stigma of unsuccessful business, such responses may not necessarily be the end of the road and contribute to increased macroeconomic utility.

During the economic crisis, nearly 12% of the Swedish textile SMEs went bankrupt in 1994–1995 and bankruptcies doubled in 2007–2009 compared with 2000–2010 (Pal *et al.*, 2014). Exit is a recurring outcome for small firms after major shocks (Herbane, 2010). In natural disasters, net business migration remained negative, meaning that businesses were still leaving the Christchurch quake-affected region (Battisti and Deakins, 2017), while after the Pakistan floods about one in ten small businesses shut down or never reopened (Asgary *et al.*, 2012). In London civil unrest, business owners reported the prospect of closing and cases where firms never recovered and thus exited (Doern, 2016).

Read together, the temporal lens (resolve, resilience, return, reimagination and reform) sequences when SMEs face distinct choices, while the strategic lens (retrenchment, persevering, innovating and exit) clarifies what choice tends to dominate under constraints. The intersection explains variation in outcomes; for example, SMEs entering COVID-19 with greater cash reserves and decision speed could possibly have innovated earlier during return/reimagination stages, whereas firms with thin buffers may have been more likely to retrench during resolve/resilience stages and delay recovery.

4. Small and medium enterprises strategy for COVID-19 recovery

One of the key factors in dealing with crises is resilience (Sneader and Singhal, 2020) and that characteristic considerably contributes to business recovery. In terms of strategies for SMEs to recover from the effects of COVID-19 some attempts were done; for example, Deloitte (2020) developed the *Small Business Roadmap for Recovery & Beyond: Workbook*, aiming to provide practical information to small firms to manage the continuity of their businesses, while the Australian government also created a recovery plan template to help small and medium businesses to manage better the crisis and plan the next steps [15]. However, SMEs continue suffering more than large firms, having a weaker resilience mainly because of their financial constraints and fewer resources (Amin *et al.*, 2023). Despite the disadvantages, some SMEs have been able to withstand and recover from adverse shocks. For example, Smallbone *et al.* (2012) note that although many small firms were vulnerable to an economic environment outside of their control during the 2008–2009 financial crisis, they display resilience and substantial adaptability and flexibility.

The ability to generate sufficient capital significantly influences the resilience of SMEs (Gunasekaran *et al.*, 2011). Nevertheless, finding and maintaining funding for their operations is an area that has traditionally been an issue for SMEs (Flores, 2021). According to research from Scottish Pacific (ScotPac) [16], the top three frustrations for SMEs in 2021 were loan conditions (84%), having to provide proper security (80%) and a lack of flexibility in their loan agreements (74%), all of which were greater than when SMEs were previously polled prior to COVID-19. More specific questions surrounding the pandemic effects highlighted that around two-thirds of SMEs were worried about the lack of a clear recovery path, half with an inability to access government-guaranteed loans during the worst of the COVID-19 period, and a quarter reported frustrations around online lenders charging higher interest rates.

The 2020 ScotPac survey also found that most small businesses' top priority for the coming year was repaying their existing debts. It has been the case, however, that many of the national stimulus measures used to boost the economy actually required many SMEs to take on more debt. The impact appears greatest for smaller SMEs (revenues between \$1m

and \$5m), with 40.6% of these firms reporting that they have no idea how they will be funding their businesses in the six months from March 2021.

With the worst of the expected economic shocks because of the pandemic seemingly in the past, now is the time for many SMEs to find alternate sources of capital to ease cash flow issues that can be crippling even in good times, let alone in a recession. Based on the latest ScotPac survey in 2024, 90% of SMEs have stated they would consider using a non-bank lender given the access to a greater variety of lending products fitting business owners' needs. In addition, cash flow management remains a crucial factor for SMEs, with 69% of respondent indicated it as a key obstacle to growth. The 2024 ScotPac survey points out that "SMEs have navigated some of the most turbulent economic waters in history", emphasising the ability to adapt and innovate as two main aspects for SMEs to succeed in the next 10 years [17].

In relation to the need for SMEs to find alternate sources of capital, the role of financial advisors is seen as vital, where local accountants would have better knowledge of regional specifics and the business's ability to keep trading (Fry, 2020). SMEs appeared to recognise the importance of these advisors, on average approaching them over three times more during the pandemic period (13.3 times per quarter) compared to before COVID-19 struck (4.4 times each quarter), according to the 2020 ScotPac survey. This is of heightened concern in a post-COVID environment, with around a third of SMEs indicating that without a significant improvement in trading conditions, they may be forced to sell or close their businesses (ScotPac, 2020). More recently, the 2024 RFI Global Research commissioned by Prospa states that 16% of SMEs seek professional advice regarding business finances [18].

Consequently, to navigate and overcome uncertain economic environments, accountants could expand their service beyond compliance and offer the role of business advisors to SMEs. Having an advisory service, accounting professionals can provide strategies promoting financial agility, such as cash flow management, working capital optimisation and financial scenario analysis and planning. By guiding SMEs in their long-term strategic plans, risk management and business continuity framework, accountants have an important role in helping them to recover.

Another factor to overcome adverse periods is innovation which is key for crisis management, such as during the COVID pandemic (Sharma, 2022). Some studies show how innovation has had a positive impact on SMEs post-COVID period, such as big data-driven innovation in supply chain operation (Chatterjee *et al.*, 2022), business models and digital transformation (Jabeen *et al.*, 2023) and technological innovation in sustaining competitiveness (Restrepo-Morales *et al.*, 2024).

From a regulatory perspective, there has been considerable discussion around reporting requirements for SMEs, but a relatively small amount of evidence-based research available (Singleton-Green, 2016). The EU has lightened the reporting requirements for SMEs, however, these changes have not been based on a thorough examination of the costs and benefits, but rather have been justified at a political level as reducing the burdens on SMEs. In light of an environment where access to funding is uncertain, users would appear to favour SME reporting according to a comprehensive set of accounting standards with enhanced financial information, particularly in the event of financial distress (Handley *et al.*, 2018). In this setting, the benefits of potentially greater access to funding may exceed the costs of more stringent reporting requirements.

5. Practical accounting strategies for resilience and future crisis preparedness

Business resilience can be considered an accounting-enabled capability, that is, made possible by accounting systems because a firm's ability to sense shocks early, seize options

and pivot quickly depends on information, funding and control systems that accounting uniquely provides. Accordingly, the aim would be not only to use the traditional role of accounting records but also to adopt accounting readiness focused on how firms decide which actions to take, when to take them and who is accountable, not just what they report.

Accounting readiness can be defined as a forward-looking accounting capability that converts accounting data into pre-agreed decision rules executable at speed during acute disruption. Unlike traditional external financial accounting reports with retrospective records, readiness is prospective and executable. Using these views complementing each other, firms are better prepared for future black swan events, such as COVID-19.

In this context, accounting readiness can comprise several actions. First, develop an integrated framework built around decision-ready metrics, an auditable set of forward-looking measures mapped directly to crisis decisions. Examples include days cash on hand or cash runway to indicate available liquidity to fund operations, the degree of operating leverage to gauge profit sensitivity to revenue changes and an operating reserve to size the cash required for a plausible downside period. Each metric has clear specifications, including definition, formula, thresholds, update frequency, safeguards and an authorised owner. In this way, the framework keeps signals interpretable and decision-useful at speed, linking information to action with an auditable trail by integrating metrics, triggers, options and governance into a single implementable rule per decision.

Second, create domain-specific preparedness programmes across core areas to withstand adverse conditions. For liquidity and funding, build an operating reserve, secure committed credit facilities and diversify cash inflows. For revenue and commercial, broaden revenue streams, develop digital sales channels and adopt a contingency pricing policy. For digitalisation of finance, migrate to cloud accounting, use e-invoicing and ensure secure remote access and data back-ups. For supply chain and inventory, diversify suppliers, set a safety-stock reserve and use inventory systems. Each programme would require a plan, implementation and periodic revisions for best practices.

Third, formalise an accountant-led advisory mandate for preparedness. Rather than using accountants only for compliance, SMEs could establish an ongoing advisory partnership that guides them before and during shocks. This makes the accountant a strategic first-responder with standing and practical systems and turns accounting readiness into a sustained capability, not a one-off crisis project. Some benefits of an accountant-led advisory could be faster decisions, better cash protection, quicker access to funding, lower losses in a downturn, controlled supply risk, clear accountability, reduced forecasting error and continuous learning.

This aligns with the contemporary role of accountants as business advisors rather than just bookkeepers. Accordingly, accounting moves beyond retrospective reporting to anticipatory decision-ready systems that contribute to business readiness. At a systemic level, accounting should be recognised as resilience infrastructure, a forward-looking capability, supported by standards and assurance, that helps SMEs sustain operations during shocks. The profession, therefore, has an active leadership responsibility to support SMEs' survival and competitiveness in a world of recurring disruptions.

6. Opportunities for future research

The current environment provides ample opportunities to extend our understanding of accounting practice in the aftermath of the COVID-19 pandemic. The issues, however, are broader than narrow attempts to include a dummy variable for the time period without consideration of the underlying fundamental economic processes. For example, it is foreseeable that studies will rapidly emerge claiming the COVID-19 causes firms to manage

earnings through the use of discretionary accruals. The underlying economic story, however, is unlikely to be present. [McNichols and Stubben \(2018\)](#) highlight the importance of the underlying economics in providing an economics story. The increased uncertainty in the realisation of future cash flows in the fundamental accounting will probably result in increased accruals in general, and larger standard errors in the beta estimates, resulting in larger residuals ([Jackson, 2018](#)). A naïve interpretation will be to assign this to managerial malfeasance rather than the underlying economics. Likewise, studies on the impact of COVID-19 on particular accounting treatments may be limited. While the pandemic may provide opportunities to understand whether poor economic conditions and expectations will lead to managers to take big baths to recognise bad news earlier, this is of limited contribution to the literature.

The advantage of COVID-19 is that this event is as close to an exogenous event that will probably be observed. The downside, however, is that applying difference-in-difference designs will be difficult as the parallel trend assumption may not be valid, and identification of a control sample will be all but impossible. In addition, because every agent participating in the market is affected by this crisis, an omitted variable bias can arise and thus results obtained may be unreliable. In the context of SMEs for instance, there could be research examining cash flow shortages during the pandemic period considering variables such as supply chain issues, labour shortfall, profit changes and financial risk. Such models could exclude consumer effects, as they can be related to profits change; however, consumer effects can be linked with supply chain issues and financial risk. Then, it is unlikely to determine the real effect of variables on cash flow shortages, as the variables are correlated among them and the results are biased.

Rather, the research implications for COVID-19 will be more pertinent in understanding the role that accounting plays in the broader business environment, especially taking the experience from a large “black swan” global event to learn how smaller economy, industry or firm-specific threats may impact SMEs. For example, the role that accounting plays in reflecting business strategy is likely a more fruitful avenue. Accounting information is used by a number of different users, both internal and external. The challenges that COVID-19 presents to businesses, as discussed earlier, are largely in terms of the strategic responses that need to be taken. Managerial accounting information used internally is important to determine the optimal response. Understanding how managerial accounting is used in a rapidly changing and uncertain business environment is a relevant endeavour.

Similarly, from an external user’s context, a financial statement analysis perspective of understanding how business strategy and the business environment are reflected in the business activities and accounting strategy which flows through to the financial statements is relevant. Observed changes in financial statements will be a function of changes in the business environment and business strategy, which flows through to the business activities, with accounting strategies interacting with the accounting system ([Palepu et al., 2015](#)). These underlying factors are vital to disentangle and thus understand the impact of COVID-19. For instance, changes in the choices and discretion allowable in accounting standards are likely to be a factor of shifts in business strategy; however, the business environment will impact certain estimations, such as fair values, which may be suppressed by poor macroeconomic conditions.

Most research conducted, particularly in a financial accounting setting, is focused on relatively large publicly listed firms. Yet much of the economic hardship and difficulties faced as a result of staged lockdowns greatly impacted SMEs, including partnerships and sole traders. These businesses often do not have the financial expertise or the ability to transition their businesses, and in many instances do not qualify for governmental assistance.

For example, the JobKeeper program in Australia to help employees maintain wages during periods of economic hibernation was not available to some individuals who, instead of drawing wages, took drawings or dividends as owners. In a similar way, SMEs struggled in the UK as the government financial support was not thought to be sufficient [19]. As the challenges SMEs faced significantly affected their economic and financial recovery, further understanding of the impacts of COVID and other economic shocks within the SME environment is needed to better appreciate any policy impacts. This line of research does pose a double-edged sword, however. While data availability for private SMEs is difficult to obtain relative to the databases covering publicly listed companies, the benefits from unique hand-collected data provides a competitive advantage for researchers prepared to invest the time and resources. One such research question that hand-collected data may be able to answer is a scientific methodology to identify at-risk SMEs and to estimate appropriate amounts of cash reserves to weather economic hibernations, considering idiosyncrasies such as different return margins, capital intensities, operational issues and diversification.

7. Conclusion

The economic implications of COVID-19 were severe, and while large publicly listed companies could often absorb shocks with deeper capital and organisational slack, SMEs bore a disproportionate share of disruption through abrupt revenue loss, operational constraints and prolonged uncertainty. This commentary draws on two lenses to explain SME recovery: the temporal sequence of crisis navigation (Sneader and Singhal, 2020) and the strategic choices firms make under constraint (Wenzel *et al.*, 2020). Read together, these lenses clarify why SME outcomes diverged during COVID-19, most notably because liquidity buffers, industry exposure and decision speed shaped which strategies were feasible and when strategic renewal could occur.

A central implication from our commentary is that accounting's contribution during a crisis is not confined to retrospective reporting. Rather, accounting functions as resilience infrastructure that enables rapid, disciplined decision-making. We argue that accounting readiness supports SMEs in protecting liquidity during hibernation, evaluating possible strategic responses and executing timely pivots as conditions evolve. For practitioners, this reinforces the accountant's role as an ongoing advisor and strategic first-responder, facilitating scenario planning, working capital optimisation, funding access and business continuity design. For policymakers, it underscores the importance of timely, clearly communicated and targeted SME programmes that sustain viability while preserving the capacity to adapt.

COVID-19 also opens focused opportunities for future accounting research that prioritise underlying economic mechanisms over purely period-based tests. Promising directions include developing methods to identify at-risk SMEs and estimate appropriate cash reserves for plausible adverse periods, examining how managerial accounting and advisory relationships influence strategic choice and analysing how crisis-driven shifts in business strategy flow through to accounting systems and financial statement outcomes. Research that is grounded in SME realities and decision contexts can improve both theory and practice, helping build more resilient firms and more effective crisis responses in a world of recurring disruptions.

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