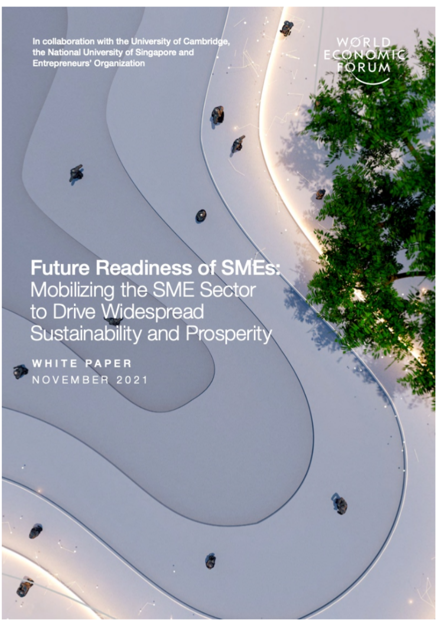

In collaboration with the University of Cambridge,
the National University of Singapore and
Entrepreneurs' Organization

WORLD
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FORUM

Future Readiness of SMEs: Mobilizing the SME Sector to Drive Widespread Sustainability and Prosperity

WHITE PAPER
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Foreword

Børge Brende, President,
World Economic Forum

The World Economic Forum has long been at the forefront of recognizing the strategic importance of sustainable value creation objectives for business, as shown through a recent partnership with more than 60 multinationals, including Bank of America, Mastercard and KPMG, in support of a new reporting framework for environmental, social and governance standards. Yet, while interest has mostly focused on how large corporations contribute to the global economy and sustainable development objectives, small and medium-sized enterprises (SMEs) are only occasionally acknowledged and often overlooked as major drivers of economic activity, as well as social and environmental progress around the world.

Building on the work initiated by the World Economic Forum's New Champions community, a group of mid-sized companies championing new business models, emerging technologies and sustainable growth strategies, this report aims to deliver a global assessment of the future readiness of SMEs and provide an understanding of the drivers of future readiness.

It is hoped this will inspire and encourage SMEs and mid-sized companies to harness their potential in becoming a major driver of sustainable and inclusive economic growth and innovation by focusing on several core dimensions of future readiness: sustainable growth, societal impact and adaptive capacity. We also hope it will bring additional insights to policy-makers in a context in which SMEs represent a key element of the post-COVID-19 recovery.

Executive summary

The COVID-19 pandemic, climate change, technological disruption, socioeconomic stratification and related social unrest as well as changing expectations about business have all proven in different ways that we are at a crossroad. The role of business in this context is now widely understood. However, most of the attention and headlines focus on initiatives from large multinationals and industry leaders, while small and medium-sized enterprises (SMEs) are only sporadically recognized and often neglected as major drivers of economic activity, as well as social and environmental progress around the world.

The focus of this report is not only on developing a deeper understanding of the sets of organizational capabilities and orientations needed for SMEs to successfully generate lasting financial growth, affect society and the environment positively, and achieve high levels of resilience and agility. It also highlights some best practices that place SMEs in a better position to be future-ready. In-depth analysis of more than 200 peer-reviewed articles and engagement of more than 300 chief executive officers and founders of SMEs provided key insights into the concept of future readiness for such organizations, as well as some of their top challenges and opportunities.

- The top challenges cited by SME executives include talent acquisition and retention (52.5%), survival and expansion (43.8%), funding and access to capital (35.7%), non-supportive policy environment (21%), the difficulty of maintaining a strong culture and clear company purpose and value (20%).
- Our global assessment showed no significant differences of future readiness of SMEs at the regional or the industry level. The key takeaway from these results is that SMEs are neither disadvantaged by their geographical location nor industry space in moving towards future readiness. What can set them apart is their ability to influence their internal processes (orientation and business model) and immediate external environment (networks) to ensure they remain future-ready.
- The changing economic landscape provides fertile ground for future-ready SMEs to transform crises and challenges into opportunities, as highlighted through the case studies presented in this report. Factors that previously disadvantaged SMEs can now lead them towards further new opportunities. However, although there is a clear need for SMEs to operate in line with sustainability goals, many are yet to include explicit strategies centred on societal impact.

This report highlights how SMEs can leverage their size, networks, people and the strengths of technology to support their goals of sustainable growth, positive societal impact and robust adaptive capacity. While it is essential for SMEs and the wider economy to increase their future readiness, we remain mindful that they can thrive only insofar as there exist the necessary supporting infrastructure and regulatory frameworks.

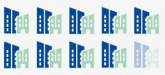
① Introduction

Businesses and society alike are facing increasingly complex and transnational challenges.

These challenges include the growing impacts of climate change, technological disruption, socioeconomic stratification and related social unrest, the ongoing COVID-19 pandemic and changing expectations about the role of business within society. As we imagine a thriving post-pandemic future, it is critical to understand how companies of all sizes can build their resilience to these shocks, seize opportunities that might arise from such shifts and enhance their ability to generate long-term, sustainable value spanning social, environmental and economic spheres.

SMEs represent around 90% of all firms globally, make up to roughly 70% of employment and, by some estimates, contribute to up to 90% of global GDP.[1] Unlike larger corporations, their size makes them nimbler in producing and integrating innovations. These businesses play significant roles not only in the global economy and labour markets but also in enabling, constraining and shaping the nature of innovation within those markets.

Opportunity
for
impact



In many countries, more than 90% of enterprises can be classified as SMEs

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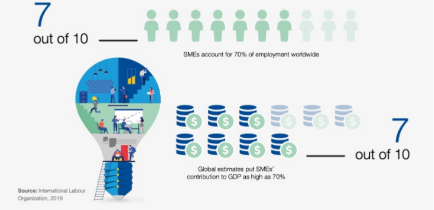
out of 10



SMEs account for 70% of employment worldwide

Global estimates put SMEs' contribution to GDP as high as 70%

Source: International Labour Organization, 2019

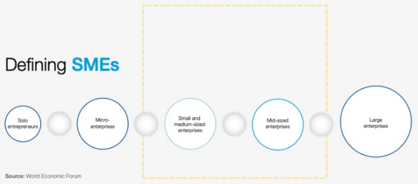
Despite their unique contributions, SMEs also face unique challenges, often closely tied to their survival, that have not been widely examined within the context of their future readiness. While SMEs can benefit from higher degrees of speed and agility, they can face constraints due to their smaller size and resource access. Given these challenges and opportunities, it is thus critical to better understand the role and positioning of SMEs in creating and maintaining momentum to achieve widespread positive social, environmental and economic change, not only today, but, most importantly, for the long-term future.

BOX 1 **Defining SMEs**

Historically, SMEs have been defined by the number of full-time employees (FTEs) and/or their revenues. According to classification by the European Union, a company is said to be a small enterprise when it employs between 10 and 49 FTEs and is a medium-sized enterprise when employing between 50 and 250 FTEs. Recently, the term "mid-sized" has been introduced to acknowledge a category of business located between SMEs and large enterprises. A mid-sized company fulfils one of two criteria: (1) it employs fewer than 4,999 FTEs; or (2) its turnover does not exceed €1.5 billion ($1.75 billion) or has a balance sheet total that does not exceed €2 billion ($2.3 billion).[2] Mid-sized companies may have more sizable resource portfolios than traditional SMEs or employ more employees, but still do not reach the scope and scale of large, often multinational, organizations in their operations.

The changing nature of businesses today has begun to blur the relationships between size, revenue and impact of some companies. While organizational size may still be a distinguishing feature, this is no longer an indicator of these organizations' opportunity for impact.

Defining SMEs



Source: World Economic Forum

Given the goals of this report in mobilizing SMEs and mid-sized companies to drive widespread and long-term sustainability and prosperity, the intention is to focus on this important segment of the economy. In a bid to best represent the reality of these businesses, we have adopted a more inclusive definition of SMEs. The companies included in this study may have either a valuation or FTE number above traditional SME thresholds, reflecting the changes brought about by increased technological innovation as well as new business models.

2 Defining and understanding the future readiness of SMEs

Defining future readiness and breaking down the concept into its different drivers and sub-drivers allows us to identify levers that will enable SMEs and mid-sized companies to improve their chances of success while generating positive impact in the future.

2.1 What is future readiness?

The ability to identify opportunities to enhance future readiness not only supports SMEs themselves, but society as a whole, be it in terms of job creation, inclusive growth or sustainable development.

Future readiness is defined here as a set of organizational capabilities and orientations that enable companies to successfully respond to shocks and seize opportunities that emerge from constant disruption.

To develop a comprehensive understanding of future readiness, we applied several different yet complementary research methodologies. We compiled peer-reviewed literature and consulted with industry and academic experts in crafting the quantitative perception survey used in this report. In addition, we conducted high-level roundtable discussions and structured qualitative interviews with SME executives to gain a deeper, more nuanced understanding of their engagement with future readiness.

We have identified the following as the three core characteristics of future-ready SMEs:

Sustainable growth: the SME will be able to generate lasting financial strength driven by innovative business models, products and/or services

Societal impact: the SME's business model will not only address both positive and negative potential externalities, but its business outcomes will also affect society positively in line with environmental, social and governance (ESG) goals

Adaptive capacity: the SME will excel in its resilience and agility, enabling it to bounce back in difficult times and seize opportunities in line with an evolving market

In light of the environment in which SMEs operate – where innovation is necessary to solve problems, consumers and governments push for sustainable agendas, and change is the only constant – companies that meet the tripartite challenge of: (1) generating sustained growth; (2) creating positive social and environmental impact; and (3) remaining resilient and agile in times of volatility are deemed to be future-ready.

BOX 2 **Measuring future readiness**

Sustainable growth was measured through: (a) companies' *financial performance* compared to their competitors over the past three years; and (b) the *level of innovation* they engage in (e.g. their ability to provide clients with unique products and/or services, develop revolutionary marketing programmes and adopt the latest technology in their industry).

Societal impact was measured by the extent to which companies pursue the *Sustainable Development Goals* (SDGs) through developing specific outcome indicators to measure their positive contributions to the SDGs, stakeholder engagement and incorporation of social and/or environmental consideration in their performance and strategy.

Adaptive capacity was measured by companies' ability to be: (a) *resilient* by bouncing back from times of adversity via available financial and non-financial resources and positive orientation; and (b) *agile* by quickly responding to changes in consumer demand, reacting to new product or service launches, and reinventing and/or re-engineering their products, services or processes to better serve the marketplace.

We ran statistical regression models and analysed clusters of organizations based on region, specialization and size. Highlights of our findings are presented in this report.

2.2 Drivers of future readiness

Analyses of more than 200 peer-reviewed articles covering the fields of sustainability, innovation, strategic management and entrepreneurship were used to develop an initial research model of SME future readiness. This was tested and refined through engagement with more than 300 SME executives across a variety of geographies, organizational sizes and sectors. The results of these consultations confirmed the main drivers in the final model of SME future readiness presented below. These include three core drivers of future readiness, along with 11 sub-drivers. These major drivers are orientation, business model flexibility and networks.

Orientation: the pervading culture or style of an organization that defines the ways in which it approaches and deals with numerous important decisions in its dealings

Business model flexibility: the ability of a business to be flexible in terms of its strategic plan on how it intends to operate to create financial and other forms of value

Networks: systems of formal and informal professional relationships whereby members mutually support efforts to increase their business activities' effectiveness

The related sub-drivers are presented below.

Ability to reconfigure

The capacity to redesign chains of resources, e.g. to speed up production to meet demands

Diversity of social relationships

Access to heterogenous networks

Access to valuable ressources

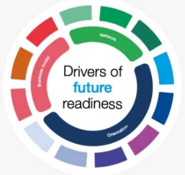
The degree to which an organization can efficiently obtain new informational, financial and regulatory support

Ability to mobilize networks

The ability of organizational members to reliably call on their professional relationships to access the necessary social, financial or physical resources, especially at short notice

Ability to redeploy resources

The ability to reuse or otherwise adapt existing financial, physical or talent resources for purposes other than the initial one intended



Autonomy

The degree of freedom given to employees by top management to make important decisions independently

Flexibility to refine strategy

The ability of a company to seek out and integrate new information into its strategic plan based on ongoing changes in external or internal circumstances

Competitive aggressiveness

The ability to challenge competitors to gain entry or improve current market position

Innovativeness

Differentiated from innovation itself (outcome), innovativeness refers to the inclination (process) of companies to engage in and support new ideas and experimentation

Proactiveness

The ability to anticipate and pursue new opportunities in the market

Risk-taking

The tendency of a company to take action despite incomplete information or predicted likelihood of failure

Source: World Economic Forum

3

Case studies

The case studies provide a diverse set of concrete examples of SMEs and mid-sized companies, all successful in their own way, that we believe fulfil one or more criteria in our assessment of future readiness.

First, they show sustainable growth not only in terms of company size and revenue, but also in their ability to pursue growth in innovative ways. Second, the organizations fulfil a societal goal. This societal mission could be explicitly written into the company's statement of purpose or could be a by-product of the company's current strategies. Third, they offered a unique value proposition and displayed innovativeness at some point during their development journey that has now made them more future-ready. They could have had a transformation strategy midway to adapt the company's business model to the external environment, or future-proofed themselves through a founding vision and orientation that embodies resilience, business sustainability and societal impact.

With representation from all six continents, our case study companies also represent diversity in size, business approach and specializations. Through the case study interviews and key learnings extracted, we hope to provide inspiration to global SMEs on how they, too, can better use their current capabilities and resources to be future-ready.

Name	Size	Region	Specialization	Future readiness
Alltournative	Medium	Latin America	Travel and tourism	How business model and networks can drive societal impact
DBL	Mid-sized	South Asia	Garment manufacturing	How networks can drive societal impact
Kuza	Small	Sub-Saharan Africa	Digital learning and community platform	How orientation and networks can drive societal impact
Levven	Medium	North America	Electronics and construction	How orientation can drive sustainable growth
PALO IT	Mid-sized	Europe and Asia Pacific	Digital services	How orientation and business model can drive sustainable growth and adaptive capacity
Pop Mart	Mid-sized	China	Toys	How business model can drive sustainable growth
Pulsifi	Small	Asia Pacific	AI consulting in HR	How orientation can drive societal impact
Sharesource	Medium	Australia	Human resources	How orientation can drive adaptive capacity
VdA Legal Partners	Mid-sized	Europe	Legal services	How orientation can drive sustainable growth and adaptive capacity

3.1 Alltournative

Founded: 1999
No. of employees: 266
Co-Founder and Chief Executive Officer: Carlos Marin
Specialization: Travel and tourism
Revenue: $5 million–$49 million

Alltournative is an ecotourism company based in Mexico. Focused on promoting the conservation of natural areas and Indigenous culture within the Yucatán Peninsula, Alltournative provides tourists with unique experiences and nature-based adventures. Committed to being the "gold standard" of tourism in the Americas, Alltournative attributes its success to its ability to combine its business with creating a positive ecological and social impact.

Sustainable business model
Sustainability forms the core of Alltournative's business model. Dedicated to helping Indigenous Mayan communities responsibly steward their land and culture, Alltournative enables these groups to educate tourists while providing stable economic opportunities. In addition, it encourages and supports the youth of these communities to study, with some later becoming archaeological guides for the tour company. By giving back to society and regularly measuring its level of impact, Alltournative has been a leading ecotourism company for more than 20 years, and continues to be so.

Local networks for global impact
Alltournative is a prime example of how an SME can use networks within its local community to achieve impact globally. Not only does the company work closely with Mayan communities to achieve its sustainability objectives, it also collaborates with local government and runs educational programmes with its managers to continue executing its high-impact business strategies. While positive effects on local communities are apparent in Alltournative's business operations, international tourists are also being educated about Mayan culture, the native parks and the importance of preserving them.

3.2 DBL Group

Founded: 1991
No. of employees: 40,000
Managing Director: Mohammed Jabbar
Specialization: Conglomerate focused on garment manufacturing
Revenue: $500 million–$999 million

DBL Group is a Bangladesh-based family-owned conglomerate founded in 1991 that supplies quality apparel to international retailers. Seeking to maintain its competitive edge during the late 2000s, it began proactively engaging with international partners to use external resources and capabilities in support of diverse local social and environmental sustainability initiatives. DBL's ongoing sustainability journey has since earned it international recognition by, among others, the UN Global Compact and the Business Call to Action (BCtA) of the UN Development programme.

Taking care of community
Mohammed Jabbar recounts how DBL grew from its humble beginnings as a venture by four brothers to a company employing nearly 40,000 people. When considering their strategic direction in 2008, they reflected on how to sustain what was good for the company: "There are a lot of challenges in [dealing with] political unrest and social unrest in a lot of things … How can we minimize it and make it good for the team members?" By focusing on developing skills growth opportunities (e.g. the Women in Factories Initiative, Mothers@Work) alongside family support (e.g. providing childhood education resources), DBL has improved employee welfare, resulting in greater productivity and reduced absenteeism.

Engaging with international partnerships to create local value
In seeking future opportunities for sustained growth, DBL monitors international best practices. It maintains strong international networks with development groups (e.g. CARE, International Finance Corporation, UNICEF) and multinational corporations (e.g. H&M, Puma, Walmart) alike, and uses a three-step governance practice focused on learning, integrating and scaling to absorb and adapt best practices to fit DBL's strategic needs.

3.3 Kuza

Founded: 2012
No. of employees: 50
Founder and Chief Mentor: Sriram Bharatam
Specialization: Digital learning and community platform
Revenue: Less than $5 million

Kuza is a women-run B Corp-certified social enterprise from Kenya. Focusing on the "bottom billion", Kuza offers a mobile-first micro-learning platform that provides youth, women and micro-entrepreneurs from informal communities with the opportunity to learn, connect and grow. By ideating and executing structured learning programmes, Kuza's educational tools for members of the agricultural and rural communities aim to help them transform their businesses.

People and trust at the core of purpose
People and trust within the networks form the foundation of success for Kuza. Citing "the people's mindset" as Kuza's main differentiating factor, founder Sriram Bharatam explains: "We are a strong believer in the fact that one plus one is 11. When you bring tools to partners together with a common, shared vision and values, you can create magic."

Kuza takes advantage of the network effect by first running programmes that incubate young entrepreneurs, who then each engage approximately 200 households in rural communities, giving them the knowledge and tools needed to transform the ways in which they do business, especially in agriculture.

Technology facilitates purpose
On the role of technology, Kuza believes that people and partners drive the purpose of the organization, while technology plays a facilitative role in that purpose. "People, process and technology are the three cornerstones on which you can actually build future readiness [of a company]. People and the way they come together in the process is where we can make a collective difference. Technology is [just] a means to an end," says Bharatam.

By creating an ecosystem comprising mentors who provide emotional, functional and technical support to micro-entrepreneurs, Kuza hopes to drive a global movement, providing a collective voice to millions of previously excluded individuals.

3.4 Levven

Founded: 2011
No. of employees: 50
Chief Executive Officer: James Keirstead
Specialization: Electronics and construction
Revenue: $5 million–$49 million

Levven started as a contract manufacturer in the electronic space serving local companies by making electronic circuit boards. After being acquired in 2011, the parent company saw an opportunity for the intellectual property that it had already developed in the internet of things (IoT) to be used in the home automation space. From then on, Levven started working towards developing home automation products, specifically those that significantly reduced waste.

Clarity of vision
Clarity of vision has been key in leading Levven towards sustainable growth. Through a deep understanding of the construction process and the products it offers, the team at Levven stays ahead of competitors through its clear value proposition of using technology to create a new market segment.

Focusing on specific pain points – particularly in cases where government regulations could slow down the company's growth – has enabled Levven to expand and continue in its quest to provide affordable homes for everyone.

Opportunities in sustainable growth
Although the idea of "wireless" technology itself is not novel, Levven shows the potential of applying innovation from one industry to another to achieve sustainable growth, e.g. bringing wireless automation to the construction industry. Even though this approach, says James Keirstead, "has its own share of problems [and] is technically really complicated", Levven shows that it is indeed possible to build a business model that is both profitable and sustainable.

3.5 PALO IT

Founded: 2009
No. of employees: 520
Founder and Chief Executive Officer: Stanislas Bocquet
Specialization: Digital services
Revenue: $50 million–$99 million

PALO IT is a global innovation consultancy and Agile software development company that works with clients to develop products and services, create new business models, and prepare leadership and culture for the future. It is a B Corp-certified company in Singapore and Hong Kong, currently working towards certification in other locations. Led by the vision "tech for good", PALO IT is committed to using technology to build sustainable and regenerative products and services.

Execution is key
In a fast-paced world, PALO IT recognizes that speed is essential. From the ideation stage to a scalable product, the teams have to execute their goals quickly. According to Stanislas Bocquet: "From the ideation phase to a scalable product that we can launch massively [to] the market, there is between two and four months maximum, so we accelerate tremendously the go-to-market time frame for our clients. We continuously test, learn, adapt fast to succeed fast." Additionally, PALO IT upgrades its delivery model to integrate impact at every step of a digital project.

Transformation story
However, digital innovation and sustainability were not always at the forefront of PALO IT's organizational mission. In a bid to increase the speed of expansion, five years ago, top management invited 200 employees from across the globe to share their personal dreams and "crazy ideas" to build a transformation path for the company. Based on some of these ideas, PALO IT pivoted its business model to what it does today.

PALO IT continues this spirit of transformation through tackling goals of becoming a net-zero company, attaining over 50% of revenue from projects with a positive impact and reaching a 90% rate of happy employees.

3.6 Pop Mart

Founded: 2010
No. of employees: 3,120
Co-Founder: Liu Ran
Specialization: Toys
Revenue: $250 million–$499 million

Originating in an idea from a college community interest club, Pop Mart has transformed significantly from its humble beginnings. Pop Mart specializes in designer or art toys – a trend that has taken China by storm. Owning the intellectual property rights of designer dolls, such as Molly and Dimoo, Pop Mart commands a following of millions among young customers aged 18 to 35. The company's 50% revenue growth in 2020, despite the pandemic, shows the potential of an SME with the right approach to pursuing growth.

Organic growth
Founded by a small group of friends from college, the team at Pop Mart initially performed all of the company's roles. Co-founder Liu Ran says: "When we started our business, there wasn't much division of labour. There was so much work, we did it all together. From picking up, labelling, then to incoming goods, to the station counter – we did it ourselves." Pop Mart is committed to growing its business organically. Despite its huge success in recent years, the founders remain cautious of expansion strategies: "Sometimes we will be more aggressive, and sometimes we will withdraw … [the business] is going to grow healthily within our control."

IP management as transformational strategy
Pop Mart's transformational story began when it decided to change its business model from reselling acquired toys in stores in Beijing to managing intellectual property (IP) in collaboration with dozens of artists. Understanding the benefits of first mover advantage, Pop Mart began investing in lesser-known artists and acquired as much IP as possible. Analysing data such as revenue and customer habits, Pop Mart uses customer feedback to determine the next generation of trendy toys.

Pop Mart is also determined to focus on quality and does not franchise, thereby preserving the value of its IP. To date, Pop Mart boasts a market share of 8.5% of the toy market in China, while gaining traction in other parts of Asia, the US and Europe.

3.7 Pulsifi

Founded: 2017
No. of employees: 40
Founders: Jay Huang (Chief Executive Officer) and Pete Yoong
Specialization: Artificial intelligence (AI) consulting in HR
Revenue: Less than $5 million

Founded in 2017, Pulsifi enables companies to make better HR decisions through their cloud-based AI and predictive analytics-enabled talent platform. Inspired to change the "gut feeling" biases encountered in job candidate and employee evaluations, co-founders Jay Huang and Pete Yoong sought to create a human bias-free data-driven product to aid companies in hiring, training and engaging with employees. Pulsifi product offerings have a predictive accuracy of over 90% for candidate and employee job performance, potential and cultural fit, while saving HR teams up to 70% in working hours.

Dual value objectives
Pulsifi has sought to use technological innovation to minimize hiring biases while also speeding up HR decision processes, resulting in better, faster decisions for both employees and companies. "By going to the core understanding of people for what they are, you achieve many other benefits along the way: for example, achieving diversity, reducing bias in gender, educational, social and economic background," says Jay Huang.

Relationship networks
With Pulsifi's business tripling each year over the past several years, clients now include leading international companies such as Nestlé, Heineken, Reckitt and KPMG. "When we build a really strong relationship with these companies, they're happy to refer us to other countries within the same company since they're multinationals," says Huang. "We realized that that's the most powerful network effect because the success story builds on itself." Pulsifi also maintains good relationships with the network of organizations surrounding the accelerator programmes that they have participated in, such as EY Foundry and SAP.iO Foundres, finding them a rich source of opportunities for feedback, sales and market awareness.

3.8 Sharesource

Founded: 2013
No. of employees: 180
Founder and Chief Executive Officer: Brendon Boyce
Specialization: Human resources
Revenue: $5 million–$49 million

Sharesource is a global recruitment firm specializing in the STEM (science, technology, engineering and maths) field. Sharesource connects remote tech workers in developing countries to global companies by setting up offices in countries such as the Philippines and Viet Nam to build smart remote teams. Sharesource is at the cusp of expansion, boasting 70% growth over the past two years.

Technology as the basis for change
At Sharesource, technology is used to drive societal impact and to level the playing field. Recognizing that "talent can come from anywhere", Brendon Boyce, founder of Sharesource, adapted the idea of offshore call centres to the company's business model to give opportunities to smart people across the globe. Taking advantage of technology transfer through technological developments such as Skype, Slack, Google and Zoom, Sharesource tackles SDG 10 by reducing inequality within and among countries.

Small size as competitive advantage
Scalability afforded by technology has allowed Sharesource to remain competitive despite its small size. In fact, Sharesource attributes part of its success to its ability to remain nimble and overcome challenges quickly. With a combination of smart, resourceful people and a small size that allows solutions to be executed fast, Sharesource embodies its vision of being proactive and creating value, all while making a meaningful societal impact.

3.9 VdA Legal Partners

Founded: 1976
No. of employees: 460
Managing Partner: João Vieira de Almeida
Industry: Legal services
Revenue: $50 million–$99 million

Vieira de Almeida (VdA) is a full-service firm comprising more than 300 lawyers based in Portugal that currently covers 12 jurisdictions across Europe and Africa. The firm underwent a profound transformation during Portugal's economic crisis in 2008–2013. At this time, VdA saw the crisis as an opportunity. In an all-hands-on-deck operation, management and employees alike engaged in a "top-to-bottom" strategic overhaul of the firm to transform it from a typical mid-sized Portuguese family business into a full partnership that pairs innovation with good citizenship at its core.

Supporting an innovative culture
Transforming VdA into a "lighthouse" of innovation required not only drawing on the existing culture of the firm, but also codifying it into the firm's organizational structure. Following the 2008 economic crisis, VdA launched an innovation programme involving the whole company, defining processes, allocating responsibilities and elevating innovation to the core of the firm's values.

In 2017, it also created a small "new business" department where employees could develop new ideas, initiatives and opportunities. This led to the creation of its aerospace division, where it works on projects for the European Space Agency, draft space policies for African countries and assists the Portuguese government on national space law and its space agency.

A reputation for leaning into change
To Vieira de Almeida, maintaining the future readiness of the firm requires it to adapt, anticipate and promote change. "One of the things that I think differentiates us is the fact that this is an extremely restless organization," he says. "We're always looking for new ideas, new projects, always getting people involved doing this and that. And that makes us very attractive to young people." This combination of restlessness, openness to novelty and entrepreneurial staff, combined with a focused and more formal decision-making process involving the board to ensure alignment with the longer strategic plan of the firm, makes VdA stand out as a prime example of a future-ready SME.

4

Key highlights and discussion

How do SMEs across the globe fare in terms of future readiness? What are the different levers SMEs can use to drive sustainable growth, societal impact and adaptive capacity?

4.1 Equal opportunity for future readiness globally

Our global assessment, analysing data of the perception survey from more than 300 SME and mid-sized company founders and chief executive officers across nine regions and 22 industries, showed no significant differences in terms of future readiness of SMEs at the regional or industry level. Compared to their competitors, participants in the study enjoy similar levels of sustainable growth, societal impact and adaptive capacity. The main takeaway from these results is that SMEs are neither disadvantaged by their geographical location nor industry space in moving towards future readiness. What can set them apart is their ability to influence their internal processes (orientation and business model) and immediate external environment (networks) to ensure they remain future-ready.

As expected, differences existed in the flexibility of business models across industries in our study. Companies in education, media and telecommunications perceived themselves to be more flexible in altering their business model and operations, whereas companies in basic metal production, forestry, mechanical and electrical engineering, and textile industries were less able to be flexible with redeploying and reconfiguring their chains of resources.[3]

We observe that SMEs and mid-sized companies across regions and industries have a similar potential for societal impact. While we acknowledge that the *type* of impact can differ across regions and industries (e.g. societal impact for the agricultural industry might be different from that for the telecommunications industry), the *amount* of societal impact remains stable across regions and industries. That is to say, industries can use the unique characteristics of their business orientation to produce similar levels of positive societal and environmental impact to their respective stakeholders.

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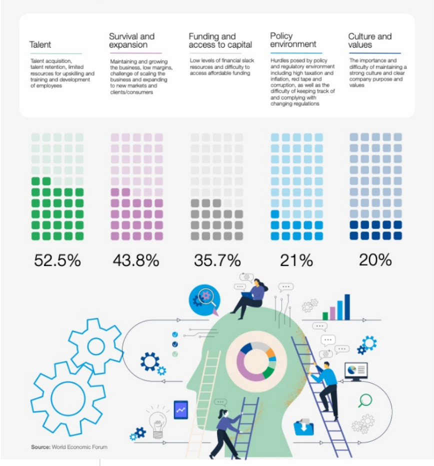
4.2 Top challenges for SMEs



Talent	Survival and expansion	Funding and access to capital	Policy environment	Culture and values
Talent acquisition, talent retention, limited resources for upskilling and training and development of employees	Maintaining and growing the business, low margins, challenge of scaling the business and expanding to new markets and clients/consumers	Low levels of financial slack resources and difficulty to access affordable funding	Hurdles posed by policy and regulatory environment including high taxation and inflation, red tape and corruption, as well as the difficulty of keeping track of and complying with changing regulations	The importance and difficulty of maintaining a strong culture and clear company purpose and values
52.5%	43.8%	35.7%	21%	20%

Source: World Economic Forum

The next section discusses the top challenges and opportunities cited by SME executives in the context of the model of future readiness described in Section 2. Building on the results of our quantitative and qualitative research, we identify ways in which SMEs and mid-sized companies can deal with these challenges and opportunities. In particular, we identify how they can use particular drivers to strengthen their pillars of future readiness.

4.3 Pillars of future readiness

4.3.1. Sustainable growth: financial growth and innovation

While the need to increase margins, profits and revenue for organizational survival during the COVID-19 pandemic was a common discussion topic during the executive roundtable sessions, equally great emphasis was placed on how SMEs could *thrive* in such circumstances and in the future. In this context, organizational thriving refers to the SME leadership's desire to expand into new markets, open new channels and connect with new clients and, overall, maintain sustainable financial growth through innovation.

Financial growth

Challenges for growth and expansion

Pressures tied to successfully surviving the macroenvironmental disruptions brought about by the pandemic amplified existing challenges for many of the SMEs. Chief among these included concerns about: (1) talent acquisition and retention; (2) developing reliable processes for growth and maintenance, including access to capital; and (3) successfully navigating the existing policy and regulatory environment. SME executives also identified challenges regarding barriers to entry, high operational costs, and competition with larger corporations, informal economies and black markets as curtailing their ability to grow and expand.

BOX 3

Challenges in accessing funding and capital

SMEs face significant challenges in accessing funding and capital for a wide range of reasons:

- Banks hesitate to approve loans to entities with lack of collateral
- SMEs seeking capital to fund innovative ideas might face additional obstacles as those are perceived to be riskier by banks
- Founders and chief executive officers spend significant time and effort convincing external parties and investors to offer financial support, taking their attention and other resources away from investing in developing the product or service and building their initial customer base
- SMEs that do receive bank approvals are often categorized as "high-risk" and are therefore hit with high interest rates for repayment – an additional hurdle if they are already starting out with very few resources
- Depending on whether SMEs are located in environments with governments supportive of small companies and innovation, there might also be limited access to government grants to aid SMEs financially
- When SMEs turn to international loans, international lenders face currency risk, whereby they are left with losses if the local currency depreciates. This translates into risks often being pushed to the borrowers, leading to founders finding themselves in a resource loss spiral

Aligning with broader social and economic development goals set by investors and the government can unlock new opportunities offered by start-up accelerators, incubators and venture capitalists. Government grants are also increasingly available for companies that help the nation or region move closer to established broader sustainability goals. Additionally, the case study section of this report shows examples of how existing resource-strapped SMEs have found ways to be resilient and grow through their people, networks and technology.

Driving future growth

Results from the perception survey show that orientation of SMEs and mid-sized companies consistently drive sustainable growth across regions and sizes. According to our findings, the internal processes of a company play a more important role than external factors as a company grows. This will be described in more detail in later sections on Orientation (4.4.1) and Networks (4.4.3).

Innovation

The existing literature shows that SMEs tend to fall behind larger corporations when it comes to driving innovation in research and development activities. However, these traditional sources of competitive advantage are on the decline, driven by the advent of disruptive digital technologies. Barriers to entry have lowered, and the ability to scale has become increasingly easy and inexpensive.

Innovation as a given for SME survival

According to the perception survey, "innovation" was cited on fewer occasions as a challenge for SMEs than the *ability* to innovate in their given environment. Where small entrepreneurs struggle to fund their innovative business models and to find talent to execute their vision, recognizing the importance of innovation itself was not a problem. Indeed, innovation is so integral to SMEs' perceptions of how to survive that innovativeness is no longer a differentiating factor – execution is.

Although resource constraints may limit SMEs in leading the way on research and development, they can be quicker to execute customer-led innovations, as the uptake of customer feedback in the niche segments of the market that SMEs tend to occupy is at a faster rate. With the advent of data analytics and AI, they can also analyse relevant data on customer behaviour to guide their product offerings.

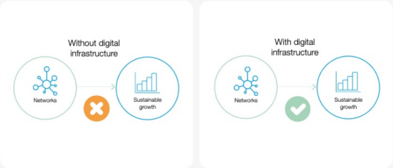
Digital infrastructure for innovation

The research conducted for this report highlights that SMEs can become key players in the future economy if they increase their capacity for digital innovation, e.g. by developing their digital infrastructure. Our findings show that a company's digital infrastructure is a significant driver of sustainable growth, societal impact and adaptive capacity. Digital infrastructure also appears to connect with other drivers of future readiness in interesting ways.

For example, while the presence of networks by themselves is not enough to drive long-term financial growth, the combination of both networks and digital infrastructure drives growth positively. Our research shows how SMEs can align their business strategies and operations to the goals and objectives of the networks with which they are affiliated (e.g. the UN, NGOs, B Corps) to unlock their ability to pursue niche growth opportunities. Digital infrastructure for innovation also amplifies the effect that business models have on societal impact. SMEs that take advantage of digital innovations to keep their business models flexible can provide higher value creation in line with ESG goals.

SMEs can harness the potential of relatively inexpensive digital innovations to gain positive results. When SMEs equip themselves with the necessary tools and network resources to execute their innovative vision, they stand to compete with larger corporations.

The combination of both **networks**
and **digital infrastructure** drives growth positively

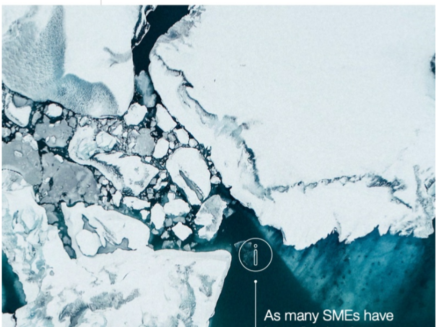


Source: World Economic Forum

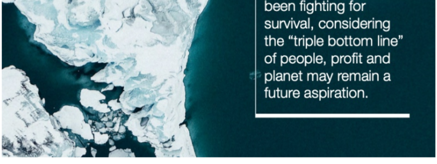
> When SMEs equip themselves with the necessary tools and network resources to execute their innovative vision, they stand to compete with larger corporations.

4.3.2. Societal impact

SMEs have been under intense pressure to survive the COVID-19 crisis, which understandably remains the highest-level priority for many at the time of writing. In these circumstances, considering the "triple bottom line" of people, profit and planet may remain a future aspiration. Unless the organizational mission and core values are already oriented towards societal impact goals, these may seem "nice to have" rather than a core element of the organization's objectives. Indeed, sustainability and societal impact were generally not identified as top future readiness challenges that SME and mid-sized company chief executives faced.



> As many SMEs have



been fighting for survival, considering the "triple bottom line" of people, profit and planet may remain a future aspiration.

Apart from factors related to survival, another possible reason why societal impact is not identified as a top challenge is that many SMEs may believe themselves to be underprepared to engage in sustainable practices or believe themselves to be too small compared to larger organizations to have much impact. Many SMEs may also simply not consider including sustainability goals explicitly in their vision because they are already embedded within, or are organic by-products of, the organization's orientation and business model. For example, for several of the case study companies interviewed for this report, providing meaningful employment for potentially disadvantaged members of society is part of their business model to the extent that the challenges perceived by founders are related to expansion or the business model itself, as opposed to consciously pursuing sustainability goals.

Societal impact as a differentiating factor
Proactively addressing sustainability pressures through innovative products or services can serve as a way to both tap into new markets and minimize the increasing regulatory risks associated with not doing so. Younger talent has also shown a growing preference for engaging with mission-led companies that centre around positive societal impact. Embracing the potential strategic advantages of engaging with societal impact in this way not only offers multiple value-creating routes, it also offers SMEs an opportunity to gain reputational benefits as champions of the implementation of sustainability strategies.

Engaging with sustainability and societal impact not only offers multiple value-creating routes for addressing SMEs' highest-ranked challenges, it also offers them an opportunity to gain reputational benefits as champions of the implementation of sustainability strategies.

SMEs interviewed for this report that explicitly prioritized societal impact objectives in their company mission described this sustainability lens as important for their company's competitive advantage. In these cases, sustainability concerns were relocated from a corporate social responsibility-style role to a central strategic consideration by upper management. Such actions were interpreted as proactive relative to climate change-related legislation (in the case of reducing carbon emissions), offering opportunities for reputational enhancement, including through green certification (such as signing the UN Global Compact or becoming a B Corp-certified corporation) or offering access to a growing international network of organizations similarly aligned towards creating positive societal impact through their company's orientation and business model.

4.3.3. Adaptive capacity: resilience and agility

SMEs need to operate with the understanding that there are and will be constant disruptions to their business. In this light, SMEs need to be not only resilient enough to absorb external shocks, but also agile enough to respond quickly to new opportunities. While smaller companies tend to be more agile and flexible, companies with higher revenues are more resilient and are better able to bounce back in the face of adversity. How can SMEs increase their adaptive capacity if they are high in one dimension but low in the other?

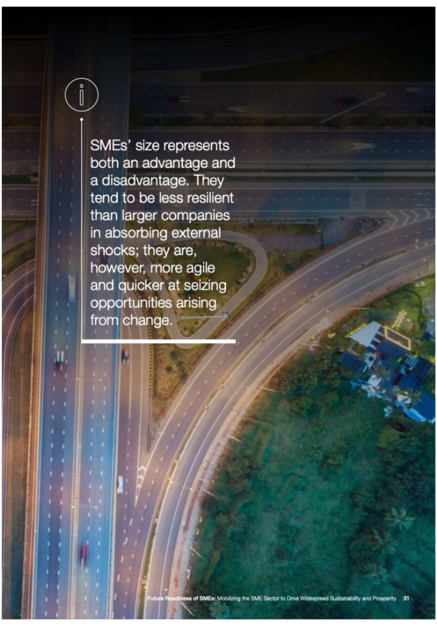
Our research found that SMEs can increase their adaptive capacity with flexible business models, a proactive orientation and well-nurtured networks. This section discusses how small companies use their size as a competitive advantage, and how they can circumvent their tangible limitations to be more resilient.

Resilience
Lack of resources as a liability
In times of crises, organizations require an excess of financial and social resources – also termed as slack resources – to tide them over in adverse times.[4] Compared to larger companies, SMEs tend to have limited access to finances, skilled labour and infrastructure to help them stay afloat during crises. From a resource perspective, keeping their business operations lean is one way for SMEs to better survive those shocks.

Agility
Small size as a competitive advantage
Keeping lean helps SMEs survive and thrive in a time when the only constant is change. Having fewer, and more direct, communication channels between departments and leaders in SMEs allows them to react more effectively and quickly to emergencies. When leaders are closer to the ground where problems arise, there is greater collaborative effort and alignment when team members "go back to the drawing board" and proactively solve them.

Such direct and open communication also leads to greater trust. Indeed, research has consistently shown that trust and collective orientations allow teams to solve complex problems more effectively.[5] Similarly, when business models need to pivot, be it to keep up with volatile conditions or to take advantage of opportunities present in the market, SMEs tend to be better positioned to execute a revised or new business model. An organizational culture that embodies trust motivates employees to get on board with the management with proposed changes as they believe that the leaders care for them and the goals of the company as they work towards a greater vision as a unit. In other words, the more open communication, greater proximity of leadership to operations and higher levels of trust present in smaller companies all tend to allow them to support an increased ability to identify areas for change, make sense of the situation and more flexibly implement necessary measures and improvements.

Resilience as a mindset
The resource constraints of SMEs push the most future-ready of them to focus heavily on their staff. In-depth interviews with founders and chief executive officers of SMEs revealed that the resilient mindset of the company's talent represents an important competitive advantage. In a later section, we highlight the importance for SMEs to attract and retain the right people with the right mindset. We also learn that SMEs where leaders communicate their vision and rally employees to face difficult challenges as a collective tend to be more successful in difficult times.



SMEs' size represents both an advantage and a disadvantage. They tend to be less resilient than larger companies in absorbing external shocks; they are, however, more agile and quicker at seizing opportunities arising from change.

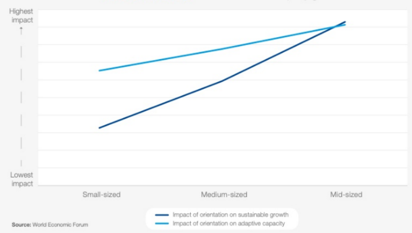
4.4 Exploring key drivers of future readiness

4.4.1. Orientation

A company's orientation refers to how it approaches carrying out its mission and core functions; our research shows that this was an important driver of all characteristics of future readiness of SMEs. A company's orientation can be broken down into five separate dimensions that, together, describe the overall approach of the company to carrying out its mission and core functions. These five dimensions reflect the company's approaches to autonomy, innovativeness, proactiveness, risk-taking and competitive aggressiveness.[6] This orientation subsequently influences how management approaches translating the company's vision into both day-to-day and longer-term strategic decisions within the organization.

Regardless of company size, our study showed that orientation significantly drives SMEs' future readiness, in particular sustainable growth and adaptive capacity. Indeed, compared to external factors such as networks, the internal processes of a company in the form of orientation are more pivotal in driving future readiness as companies grow.

The **impact** of orientation on growth and **adaptive capacity** increases as the company grows



Source: World Economic Forum

It is important to note that the different dimensions of orientation tend to interact and reinforce one another. For example, when leaders grant members of the organization more autonomy in making decisions that affect the company, this enables them to engage in innovative processes and be more proactive. The psychological safety provided by management allows employees to be more creative, experimental and risk-taking – creating a conducive environment for more innovations to follow.

Orientations that encourage innovativeness and proactiveness also encourage companies to take more risks and compete more aggressively. When team members actively seek new ideas and new projects, SMEs and mid-sized companies can be among the first to launch their offerings in the marketplace, while being confident of the unique value propositions of their innovations.

With the right combination of internal factors such as proactiveness, autonomy and competitive aggressiveness, SMEs can achieve sustainable growth, societal impact and adaptive capacity.

Translating orientation
Management has a central role in translating the orientation of a company into its core mission and motivating values and, by extension, in shaping the underlying culture of the company. Translating the overarching vision of the company for each of these core dimensions will form the underlying orientation of the company and affect all decisions, ranging from the organization's operating and business models to its day-to-day performance targets and staffing assignments.

In future-ready SMEs, management achieves this by implementing formal and informal strategies to support their members to make independent decisions, and by having appraisal systems that are aligned to the organizational vision – for instance, by rewarding positive attitudes related to innovativeness and proactiveness. When leaders emulate and communicate their vision clearly to their employees, SMEs can ensure that the company's orientation is "lived and breathed" in the daily operations of the business.

4.4.2. Business models

Through our case study interviews, we found that future-ready SMEs and mid-sized companies could arrive at their current business model in two main ways. First, they could have had a transformational strategy, as in the case of Pop Mart, PALO IT and VdA. Second, their business model could have incorporated sustainability from the beginning, as in the cases of Pulsifi, Sharesource and Levven, as examples.

Our research also found that companies that are better able to reconfigure their supply chains, redeploy or reallocate resources, and refine their strategy according to ongoing changes can positively influence sustainable growth, societal impact and adaptive capacity for SMEs. For mid-sized companies, business model flexibility was important in driving adaptive capacity, but not sustainable growth or societal impact. As mentioned earlier in this report, orientation drives sustainable growth across all sizes. It is possible that, in mid-sized (i.e. larger) companies, *how* a vision is executed (orientation) becomes more important in determining growth, compared to the ability to refine the business strategy, given that the business model enabling the company to succeed is already well-established.

Management has a central role in translating the orientation of a company into its core mission and motivating values and, by extension, in shaping the underlying culture of the company.

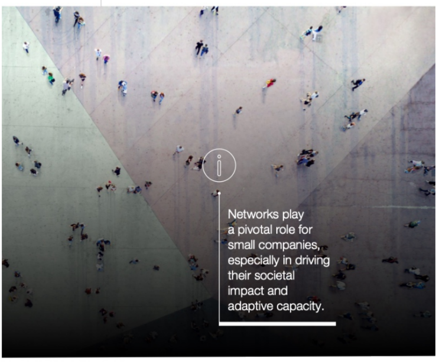
4.4.3. Networks

Networks provide opportunities in the form of access to financial, social and informational resources. The sharing of knowledge and expertise with partners, as well as wider supply networks, can encourage processes of innovation and continuous improvement.

Based on practical insights collected from various SME executives, networks can come in the form of: (1) peers who exchange information with each other; (2) relationships with parties that can provide access to financial resources and human capital such as partnerships with innovation hubs, universities, investors and other sponsors; (3) ties with the government and policy-makers, whose decisions at the local and national level directly shape the environment SMEs are in; and (4) affiliation with foundations, civil society and international organizations such as the United Nations.

It is important to note here that merely connecting to networks or affiliating with influential bodies does not necessarily lend SMEs a competitive advantage. These networks need to be relevant, diverse, complementary and activated to further the organization's goals.

Small companies benefit greatly from networks
Our research found that networks play a pivotal role for small companies. Among the 146 companies identified as being small in the study, networks are important in driving their future readiness and, in particular, their ability to deliver societal impact and increase their adaptive capacity. However, they did not significantly drive their financial growth. Small companies also reported having benefited more from the professional and personal relationships of their executives compared to medium-sized enterprises and mid-sized companies.



Networks play a pivotal role for small companies, especially in driving their societal impact and adaptive capacity.

Networks appear to motivate small companies to carry out business operations that are in line with ESG goals. This is significant as many small companies cited funding as a key challenge and are primarily focused on survival. Achieving societal impact or adopting sustainable business strategies tend to be outside of small companies' immediate goals unless explicitly incorporated into the organization's orientation and business model.

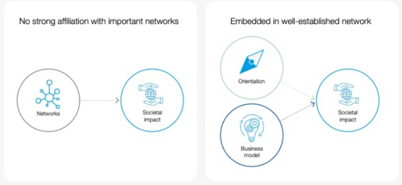
These activities might sometimes be tied to available funding opportunities in small companies' networks. For instance, under the European Green Deal, the EU has various funding programmes, including Horizon Europe, LIFE and the Innovation Fund, for companies pursuing eco-innovation and the EU Ecolabel. Start-up accelerators, incubators and venture capitalists are also increasingly investing in companies that specifically tackle social and environmental challenges.

The role of networks lessens with size
Although networks play an important role for small companies, our cluster analysis of medium and mid-sized companies found that networks do not directly drive their future readiness, while internal characteristics such as orientation and business model flexibility do. While societal impact tends to increase as a company gets bigger, the analysis of 101 medium-sized enterprises and 85 mid-sized companies shows that it does not seem to be driven by networks.

There are several plausible reasons for these findings. First, companies that have been able to take advantage of the learning opportunities present in their networks to initially drive societal impact may have by now integrated these learnings into their current business model. As companies grow, they become less dependent on their networks for new information and start to exercise more autonomy to determine their sustainable business goals.

Second, organizational resources could be reallocated once companies pass an initial threshold whereby networks are actively needed to help the company be more future-ready. At this juncture, acquiring new points of contact tends to become a less proactive endeavour. Further analysis shows that SMEs embedded in well-established networks are inclined to shift their focus away from using external factors (e.g. networks) to using internal processes (orientation and business model) to achieve societal impact, compared to those who did not identify themselves as affiliated with important networks. These companies might have already secured access to sufficient information resources for their purpose, and subsequently increase their efforts in developing their internal capacities to influence outcomes in their environment.

Drivers of **societal impact** depending on affiliation


No strong affiliation with important networks
Networks
Societal impact
Embedded in well-established network
Orientation
Business model
Societal impact

Source: World Economic Forum

4.4.4. People

Unifying these drivers is the theme of "people". Acquiring and retaining the right talent are top priorities for SME executives. For many organizations, the COVID-19 crisis has also confirmed the importance of people. As many operated with little to no buffer pre-COVID, a severe loss of income due to the pandemic has led these companies to rely strongly on the resourcefulness of their staff.

Talent acquisition
In SMEs, acquiring adequate talent was a central concern. Chief executive officers repeatedly described how having the right fit of employees helped to strengthen trust within their organizations, especially during times of high stress and crisis. The smaller number of FTEs within an SME means that companies need to maintain a strong team that proactively seeks opportunities for improving internal processes as well as identifying new innovations and/or improvements. The "right talent" does not only mean people with the appropriate skill set, but also people who believe in the core mission of the organization and who will uphold its values to enable the organization to operate successfully.

Talent retention
Talent retention was another top concern for SMEs. A few elements were highlighted as primary drivers of retention, including culture, mission and common purpose. However, they also include financial means to reward employees, which poses a challenge when competing against larger organizations. Additionally, SMEs struggle to create appropriate development opportunities and career paths for their employees.

To counter a potential brain drain, some SMEs look within their company and offer opportunities beyond tangible rewards. For example, several executives from our case study companies describe how they improve learning opportunities for their employees by connecting them to external networks and partners, as well as granting them considerable autonomy, which significantly reduces turnover.

Future-ready SMEs tend to overcome their talent acquisition and retention challenges by appealing to a higher vision comprising culture, core values and a sense of purpose. As new generations of talent seek purposeful work aligned with their values, SMEs can use their unique vision, culture and tailored self-development opportunities as selling points to attract and retain them.

Future-ready SMEs tend to overcome the challenges they face in hiring and retaining talent by appealing to a higher vision comprising culture, core values and a sense of purpose.

5

The way forward

This report provides key insights into the concept of future readiness of SMEs, as well as some of their top challenges and opportunities.

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The changing economic landscape provides fertile ground for future-ready SMEs to transform crises and challenges into opportunities, as was highlighted through the case studies presented in this report. Factors that previously led to competitive disadvantages can now lead the organizational journey towards further development opportunities. Staying strategically small, investing in and trusting a core group of people, and keeping the organization agile can enable SMEs to identify and quickly act on opportunities in a saturated market.

Yet, while the need for SMEs to operate in line with sustainability goals to become more future-ready is clear, many of them are yet to include explicit strategies centred on societal impact. This may be because they have still to attain enough slack resources to pursue societal impact objectives or because a societal mission is already an integrated part, or a by-product of, its core objectives. It is hoped that SMEs will take a more conscious and strategic look at achieving positive societal impact as a viable business option and as one way to survive and thrive in an increasingly complex and demanding business environment.

This report uncovers how SMEs can use their size, networks, people and the strengths of technology to support their goals of sustainable growth, positive societal impact and robust adaptive capacity. We have identified five key learnings from our research that can serve as guiding principles for SMEs looking to increase their future readiness.

Vision execution
A clear and powerful vision as well as its broad communication is instrumental for it to be "lived and breathed" throughout the organization. More important is the capacity for this vision to be translated into action through tangible business activities, including a way to measure its progress and outcomes – for instance, through concrete financial and sustainability metrics.

People as an asset
Talent is to be understood as one of the most strategic assets of SMEs. The ability to overcome acquisition and retention challenges through an attractive and innovative vision, organizational mission and purpose, autonomy, empowerment and development opportunities represents a clear competitive advantage and drives all dimensions of future readiness.

Technology as an accelerator
Technology is so ubiquitous that few firms can operate without it. Digital readiness and the presence of good digital infrastructure may help SMEs survive in a fast-paced environment, but a key learning from this report is that technology is best used as a means to an end. When SMEs have a good and clear vision, and the right people to support it, embracing technology can help them reach that vision more effectively.

Importance of ecosystems
Diverse, complementary and active local and global networks support an SME's resilience, as they ensure that valuable resources can be more easily drawn upon in times of need and growth. Collaborating closely with local governments can help SMEs communicate to regulatory bodies the kind of support they need in terms of infrastructure and policies to innovate and create value for the local economy. In contrast to larger corporations that can lobby for policy changes, SMEs need to rely on close collaboration and networks to thrive in their ecosystem.

Strategic growth
Future-ready SMEs approach growth in several ways, depending on which is most strategic to them. Those that choose to grow organically may prefer to remain small and nimble to better respond to, and take advantage of, changes in the external environment, while exercising greater control over their current resources. Others may pivot their business models and transform internal processes and business strategies to be more future-ready. Whatever the growth strategy, SMEs use their size, people and shared vision to remain competitive.

While it is essential for SMEs and the wider economy to increase their future readiness, we remain mindful that they can thrive only as long as the necessary supporting infrastructure and regulatory frameworks exist.

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