

DIGITALIZATION AS A
STRATEGIC TOOL FOR
ENTREPRENEURSHIP SURVIVAL
AND CRISIS MANAGEMENT

ENTREPRENEURIAL BEHAVIOUR

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DIGITALIZATION AS A STRATEGIC
TOOL FOR ENTREPRENEURSHIP
SURVIVAL AND CRISIS
MANAGEMENT: LESSONS FROM
UKRAINIAN MSEs

BY

DARIA HOLOVKO

KPMG, Italy

and

LAMBERTO ZOLLO

University of Milan, Italy



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Malaysia – China

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INVESTOR IN PEOPLE

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ABOUT THE AUTHORS

Daria Holovko is an alumnus of the Department of Economics, Management and Quantitative Methods at the University of Milan (Italy), where she successfully completed a Master's Degree program specializing in the Management of Innovation and Entrepreneurship with a focus on Digital Innovation. During her academic path, she made notable contributions to the field by publishing various scholarly articles focused on augmenting organizational efficiency, attaining competitive advantage, and ensuring economic stability within enterprises. Additionally, Daria actively participated in collaborative group projects, assuming the role of a consultant in areas such as business strategy development, digital marketing, and sustainable entrepreneurship. Upon completing her studies, Daria embarked on a professional journey in the consulting domain, joining the KPMG company in Milan as a business analyst.

Lamberto Zollo, PhD, is Associate Professor at the Department of Economics, Management and Quantitative Methods - University of Milan (Italy), where he teaches Digital Marketing and Innovation. His main areas of research refer to SMEs' new technologies adoption and digital transformation, as well as marketing and managerial decision-making processes in startups and organizations. He has served on editorial boards and has published articles in several international peer-reviewed journals such as *Journal of Business Research*, *Journal of Business Ethics*, *Business Strategy & the Environment*, *Journal of Managerial Psychology*, *Technological Forecasting & Social Change*, *International Journal of Production Research*, *International Journal of Advertising*, and *Journal of Retailing and Consumer Services*.

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INTRODUCTION

We live in a world increasingly characterized by social, economic, and environmental crises. The latest dramatic events related to the COVID-19 pandemic and the war in the middle of Europe (the Ukraine crisis) force economists and management scholars to rethink how enterprises might survive in markets (Rialti & Zollo, 2023). Focusing on the economic and financial side, these crises have considerably impeded the functionality of nearly all business operations, product chains, national and international markets, and consumer behaviors. The repercussions are severe, including financial losses, disruptions in supply chains, customer attrition, employee layoffs, and unforeseen legal limitations. In many cases, these repercussions may even culminate in business closure.

Researchers have investigated various approaches to help enterprises overcome difficulties, especially considering small and medium enterprises (SMEs) survival during and post-crises (Simón-Moya et al., 2016). Modern technologies have been pivotal in facilitating businesses to sustain their operations, engage with their customer base, and maintain a competitive edge – for example, through social media marketing and online experience provision (Hu et al., 2023; Zollo et al., 2020). Hence, there is a need to “bridge” two main and peculiar aspects of our modern society: (1) unpredictable crisis events that are becoming a structural socioeconomic and environmental factor of our modern world; and (2) new technologies and innovations that are permeating the way we live our life now and shortly. As a result, one of the main goals of this book relates to how technology (i.e., digital innovation) can positively impact companies – specifically micro and small enterprises (MSEs) – overcoming modern crises.

Digitalization and digital transformation have emerged as critical strategies for business survival during a crisis. Digital transformation has been

recently defined as the (extended) use of new digital technology – such as advanced IT, social media, big data analytics, and smart embedded devices – to enable significant business improvements (Gong & Ribiere, 2021, p. 6). These improvements might refer to a better customer experience and, more generally, new interactive touchpoints between the company and the customer (Rialti et al., 2022a; Zollo et al., 2022); more effective streamlining operations thanks to, for example, smart supply chain or IoT (Internet of Things) implementation; or, finally, new business models and services offered in the market able to address unmet consumers' needs or provide tailored solutions to consumers' pain points (see Rialti et al., 2019). By implementing such digital techniques and tools, businesses can enhance their communication capabilities, achieve cost savings, access new markets, implement data-driven and efficient decision-making processes, and maintain contact and alignment with key stakeholders regardless of market conditions.

Notwithstanding the apparent advantages of digitalization for businesses, implementing these technologies has yet to gain broad adoption. This holds especially true for MSEs, which frequently need help in terms of the resources and expertise required to integrate digital technologies into their operations (Kirk & Zollo, 2021). According to the European Union,¹ micro-enterprises have fewer than 10 employees and an annual turnover below €2 million; MSEs have fewer than 50 (100) employees and a yearly turnover below €2 (10) million. A *cultural gap* hinders MSEs' digital transformation, mainly due to entrepreneurs lacking digital and technological soft/hard skills. As a result, many “micropreneurs” – entrepreneurs of MSEs – continue to depend on traditional approaches to conduct their activities, including paper-based systems, manual bookkeeping, and in-person communication, with technological innovations limited to rudimentary levels in their work. The lack of “Culture 4.0” by micropreneurs is a relevant problem for MSEs' survival (Rialti et al., 2022b).

Therefore, the present book aims to investigate the impact of digital transformation on the survival of MSEs during times of crisis, namely the recent war in Ukraine, which represents an emblematic and unique case study. Although the war – also referred to as the “Ukraine crisis” – began in 2014, we will focus on the economic effects of the recent Russian invasion of Ukraine, which started in February 2022 and is still ongoing in 2024. The choice of Ukraine as the research context is based on obtaining valuable insights by MSEs during an ongoing crisis resulting from Russia's recent military invasion and the residual effects of the COVID-19 pandemic. The authors had the opportunity to investigate Ukraine MSEs' survival in real-time, directly from the words and experience of micropreneurs. It provided a distinctive chance

to analyze the war and crisis effects during MSEs' efforts to stabilize their businesses and survive in the long run.

Reuters (2023) recently reported that Ukraine was one of the fastest-growing technology hubs in middle Europe before the Russian invasion. However, emerging Ukraine enterprises highly depended on domestic market demand. Therefore, these startups suffered an economic and financial collapse in demand after the war. According to a recent United Nations report (UNDP,² 2023), the war severely affected Ukraine's MSEs compared to their larger counterparts – such as medium-large companies or multinationals. As the European Bank for Reconstruction and Development (EBRD) empirically found, the main economic and entrepreneurial consequences Ukraine MSEs are facing refer to drops in business activity, loss of income, decrease in orders number, deterioration of payment discipline, increased staff turnover, destruction of energy infrastructures, and relocation of enterprises near the front lines (EBRD, 2023a). To survive, MSEs had to undergo a business transformation, showing entrepreneurial resilience and dynamic adaptivity to external and environmental shocks. Hence, the top needs expressed by Ukraine MSEs are:

help with business reconstruction (35 percent); obtaining a grant for a variety of business purposes (32 percent); getting advice from businesses that have faced the same problems in the same markets and successfully overcome them (25 percent); learning from the experience of international companies (22 percent); facilitating international partnerships (21 percent); grants for business study trips and participation in international exhibitions (19 percent). (EBRD, 2023b)

Our research takes a qualitative empirical approach to investigate how such MSE business transformation took place and shows that one of the most effective strategic levers to overcome the crisis is rethinking market presence and business models by exploiting new technologies and digitalizing business models' key components (channels, activities, resources, and partners). This can be done using digital innovation's broad spectrum of innovative solutions. In this way, our research gathers primary data – directly from Ukraine MSEs' entrepreneurs – to fill the gap in assessing the relationship between digitalization and crisis survival from the peculiar perspective of micro and small organizations. Specifically, the book's main objective is to investigate how the digital transformation of business can help MSEs overcome and emerge stronger from a crisis. The study offers significant insights into the potential benefits of digitalizing business models, the management capabilities of micropreneurs, and employing multistakeholder and omnichannel communication strategies, which micropreneurs can strategically utilize for sustainable competitive advantage.

This study is structured as follows. Chapter 2 presents an extensive literature review of the themes mentioned above. This review allows the identification of a research gap and a research question. Chapter 3 presents and illustrates a conceptual model – the “framework” of research – derived from these theoretical findings. Chapter 4 provides a detailed description of the research design, including the specific objectives, empirical setting, data collection procedures, and a description of the research method and protocol. Chapter 5 includes an analysis of the results obtained through qualitative research. Chapter 6 presents the theoretical and managerial implications that emerged from the study’s empirical evidence, while the research’s limitations are discussed in Chapter 7. Finally, Chapter 8 summarizes the overall results and discusses the potential future contributions of the book.

NOTES

1. <https://eur-lex.europa.eu/EN/legal-content/summary/micro-small-and-medium-sized-enterprises-definition-and-scope.html#:~:text=micro%20enterprise%3A%20fewer%20than%2010,sheet%20below%20%E2%82%AC10%20million.>
2. UNDP stands for “*United Nations Development Program*” and represents a UN agency supporting countries in achieving sustainable economic growth and human development.

2

THEORETICAL BACKGROUND

2.1. WHAT IS A CRISIS AND HOW DID CRISIS MANAGEMENT CHANGE OVER TIME?

The emerging global world is complex, nonlinear, unpredictable, and highly volatile, meaning that even seemingly insignificant phenomena and events within the system cause unintended consequences. The internal and external factors affecting the evolution of the social, economic, and environmental systems adapt differently to changing conditions and can lead to a crisis. This scenario is the opposite of a comfortable, safe, and flourishing platform allowing enterprises – especially micro and small – to develop their business model sustainably.

According to the Cambridge Dictionary (2022), the essence of the concept of crisis (from the Greek *krisis* – the exit, the end, the court, and the severest just punishment) is interpreted as a very dangerous or difficult situation, an extreme aggravation of contradictions in the socioeconomic system, threatening its viability in the environment. A crisis manifests differently depending on the situation, the underlying reasons, and the specific context. Its basis could be economic, as is the case of the Great Depression in the USA (1929–1939); political, as currently the case with the war in Ukraine (2014 to present); or related to healthcare, as the COVID-19 pandemic (2020–2022). On one hand, crises cause the destabilization of enterprises' functioning but, on other hand, might be interpreted as a turning point, a pivotal lever for the renewal of the economic system – a sort of forced “rebirth” of markets and their social actors.

For a more detailed understanding of the essence of the crisis concept and the possible causes of its occurrence, we consider it appropriate to analyze the pertinent scientific views on this phenomenon from the perspective of both international and Ukrainian academics. One of the first systematic studies of

the definition of crisis can be found in the works of Karl Marx (1887), where several explanations reveal different aspects of this multifaceted concept in economics. As a result, a crisis might be defined as follows:

- The moment of “interruption” of the reproduction process defines the constant disequilibrium of business cycle dynamics.
- The starting point for significant new capital investments, which to a greater or lesser extent, creates a unique material base for the next economic cycle (i.e., recovery following depressions).
- A moment of the temporary violent destruction of existing contradictions in a market economy, which for some time restores the balance previously “disturbed” in the economy.
- Overall, a form of equalization can move forward from uneconomic situations.

The Ukrainian scientist Mykhailo Tugan-Baranovsky (1954) – the first economist from Eastern Europe whose scientific theories are recognized by foreign scientists of various schools and fields – stressed that the crisis occurred primarily because the distribution of production was disproportionate. Holders of noncash assets cannot withdraw capital from their enterprises, and the bulk of these assets in the form of buildings or machines requires continued goods production. As a result, overproduction leads to an inevitable socioeconomic “crash.” Continuing the historical comparison between international and Ukrainian scientists’ views on the crisis definition (Bourletidis & Triantafyllopoulos, 2014; Garškaitė-Milvydienė, 2014), it is important to note that since the 20th century, their positions have been different. International cultures continue to define a crisis as an “obvious” and “inevitable” manifestation of the market economy, a necessary condition to mitigate this negative impact. In contrast, the Soviet perspective – originally from the USSR (Union of Soviet Socialist Republics) scientific community – believed that a crisis is typical in capitalist systems. In contrast, under socialism, they do not use the *crisis* notion but “difficult development.” For the Soviet regime, understanding the crisis was more ideological than a real factor in economic policy development.

Modern definitions of Ukrainian scientists regarding the crisis phenomenon align with international views (Kuchinka, 2015; Petruk, 2016). In connection with this, many crisis reports have been developed with various views and interpretations today. In Table 1, we synthesize some definitions of the crisis concept.

Table 1. The Role and Significance of Crises in Modern Economic Systems.

Economic System Typology	Countries	Distinctive Features	The Role and Definition of the Crisis
Market economy	The USA, Canada, Japan, highly developed EU member states	<ul style="list-style-type: none"> - A variety of forms of ownership, among which private property in all its forms occupies a prominent place - Free access to the market and free exit from it - Free competition of a large number of manufacturers - Complete freedom in the movement of material, financial, and human resources - Limiting the role of the state in regulating the market 	A crisis is part of the linear life-cycle process of enterprises leading to optimization of the economic system, during which outdated equipment, technologies, and the organization of production and labor are eliminated, and space is opened for growth and 'disruptive' innovations
Command economy	The former USSR and several countries in Eastern Europe and Asia (China, North Korea)	<ul style="list-style-type: none"> - Public (i.e., State's) ownership of all economic resources, strong monopolization, and bureaucratization of the economy - Planning of centralized supervision of production and resource allocation - Nonrecognition of real commodity-monetary relations, competition, and free pricing - Equal distribution of production results, and lack of material incentives to improve work efficiency 	There are no "crises," but only "developmental difficulties" that are resolved exclusively by the highest state party bodies

(Continued)

Table 1. (Continued)

Economic System Typology	Countries	Distinctive Features	The Role and Definition of the Crisis
Transition (mixed) economy	Countries – former members of the USSR (Ukraine, Russia, Belarus, Georgia, Kazakhstan, etc.)	<ul style="list-style-type: none"> – The spread of processes reflecting the emergence of completely new economic connections – The presence of such connections and elements of the national economic structure, which embody the past, outdated functioning of social production – Very high sensitivity of social production to changes in the global market situation and the impossibility to influence it in real terms – An insufficient level of solving social problems, which creates quite high social tensions 	The crisis is a recognized phenomenon but, in fact, there is still no exact vision of how to counter it, or such a plan is at the stage of its formation and testing, opening the way to a market economy
Developing economy	Least developed countries: of the so-called “third world”: some countries of Africa and Latin America	<ul style="list-style-type: none"> – Complexity, i.e., the existence of different forms of management, based on different forms of ownership – Production, distribution, and exchange are based on customs, traditions, and religious rituals – Lack of division of social labor – A natural product is a form of wealth 	There are practically no vision or established approaches to crises management and survival

Source: Authors' own elaboration based on Petruk (2016).