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After Clouds Sunshine: A Theoretical Framework for SMEs Survival amidst COVID-19 Pandemic

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Abstract:

Recently, entrepreneurial orientation (EO) among small and medium-sized enterprises (SMEs) has become an essential topic among business practitioners and academics. Since the current economic and social landscape changed with the emersion of the COVID-19 pandemic, traditional business practices that focus on profit in a highly competitive environment can no longer be relied on by SMEs. In today's world, profit is not the only element influencing a business's survival and success. Consequently, SMEs should implement a value-creation strategy and seek a sustainable competitive advantage. EO is currently a critical aspect in assisting businesses in achieving such a niche. Despite the relevance of EO, there have been very few studies that link EO to SME performance. According to this viewpoint, this study discovered a theoretical relationship between EO and SMEs performance through a comprehensive literature review and built a conceptual framework for empirical validation. This study also elucidates the role that innovation practices (IP) play as a mediator in this relationship, which has received little attention in previous research. Moreover, the government is the primary source of support for technology, innovativeness, and finance. Thus, the conceptual model also examines the moderation role of government support in the relationship between IP and SMEs' performance.

Keywords: Entrepreneurial orientation, innovation practices, government support, sustainable competitive advantage, SMEs' performance

1. Introduction

Small and medium-sized enterprises (SMEs) play a critical part in today's business system concerning both developed and developing economies. SMEs have been recognised as national economic engines that shape the backbone of the economy (Nakku *et al.*, 2020). Consequently, there has been growing awareness of SMEs' significant contribution to a country's economic, social, and environmental outline (Jabbour, Ndubisi & Seles, 2020). Including Malaysia, as highlighted by the prime minister of Malaysia, YAB Dato' Sri Ismail Sabri Yaakob, on the twelfth Malaysia Plan (12MP), said that:

'During the Eleventh Plan period, SMEs continued to play a key role in economic development. As of December 2020, a total of 1,151,239 entities were classified as SMEs, accounting for 97.2 percent of all registered businesses. Furthermore, SMEs contributed 38.2 percent or RM512.8 billion to Gross domestic product (GDP) in 2020, compared to 37 percent or RM435.1 billion in 2015, while their contribution to total exports was RM117.8 billion or 13.5 percent in 2020, compared to RM145 billion or 17.7 percent in 2015. Furthermore, employment in SMEs expanded from 6.5 million in 2015 to 7.2 million in 2020.'

Nevertheless, despite those achievements, according to the department of statistics Malaysia (DOSM, 2021), the GDP growth for SMEs was negative 7.3% (RM40.7 billion losses) in 2020, which attributed to the most significant drop in Malaysian SMEs' performance since the Great Depression (Ratnasingam *et al.*, 2020; Shafi *et al.*, 2020). Regrettably, the novel Coronavirus Disease (COVID-19) economic shock is unsurpassed in both its intensity and complexity (Papadopoulos *et al.*, 2020). COVID-19 occurrence has exposed SMEs to an enormous economic threat (Utit *et al.*, 2021). Anyhow, recent studies of COVID-19 effects on SMEs generally found similar conclusions that financial and operational aspects cause the majority of economic losses (Cowling *et al.*, 2020; Juergensen *et al.*, 2020; Omar *et al.*, 2020). The epidemic put SMEs in

severe economic jeopardy. Since the SMEs' financial position has been harmed due to the disruption, they have witnessed a dramatic shrink in sales volume.

Above and beyond, SMEs are more vulnerable to unfavourable globalisation than large firms. This is because they operate in a more financially constrained environment (Nicola *et al.*, 2020; Gamage *et al.*, 2020). Besides, most developing countries' SMEs are vulnerable due to a lack of market-related skills, managerial expertise, entrepreneurial spirit, and a need for rapid technological adaption as well as innovation (Yusr *et al.*, 2021; Jabbour *et al.*, 2020; Ng, Kee & Ramayah, 2019). Consequently, SMEs require strong entrepreneurship and innovative skills to survive, grow, and sustain their performance (Falahat *et al.*, 2021). Therefore, entrepreneurial SMEs need to operate in a high-growth, turbulent, no-rules environment, in which SME owner-managers are predicted to play a significant role in assuring the long-term growth of SMEs (Kee & Rahman, 2020). Thus, they must adopt the resource-based view (RBV) concept, which asserts that organisations require valuable rare inimitable organisation (VRIO) resources and capabilities for competitive advantage, which states that the firm-specific resources and capabilities must be reconfigured and reorganised for sustainable competitive advantage (Dierickx & Cool, 1989; Barney, 2001; Teece, 2016; 2018). However, most existing studies on EO, IP, and business performance concentrates on large organisations, notably in developed countries (Ng *et al.*, 2019; Ali *et al.*, 2020). Accordingly, scarcer studies are available on EO and IP in the SMEs context (Staniewski *et al.*, 2016; Budhwar *et al.*, 2018; Chakraborty *et al.*, 2019; Kee & Rahman, 2020).

In light of this, it is rational to assume that prior researchers gave EO and IP in SMEs scant consideration. Still, there are a plethora of chances to expand the literature on EO, IP, and SMEs' performance. Consequently, this paper aims to provide researchers with a conceptual framework that will relate to the performance of SMEs and EO in developing nations such as Malaysia while also contributing to the body of knowledge. The second part of this paper is a literature review on EO, IP, GS, and SMEs' performance based on the study's purpose. The following part reveals the study's conceptual framework, demonstrating the relationship between EO, IP, GS, and SMEs' performance. The final section includes a conclusion and recommendations for future research.

2. Literature Review and Hypotheses Development

2.1. Entrepreneurial Orientation (EO)

In a general sense, EO refers to *'the extent to which an organisation is entrepreneurial in its plans and activities and covers organisations' processes, structures, and behaviour'* (Stam & Elfring, 2008). According to Lumpkin *et al.* (2009), EO keeps businesses aware by unveiling new technology, keeping them aware of market trends, and assisting them in analysing new prospects. SMEs must develop and implement a strategy through entrepreneurial activity (Rashid & Ratten, 2021). The EO is a well-known strategy-making concept in the entrepreneurial and strategic management literature (Miller, 1983; Covin & Wales, 2012; Ali *et al.*, 2019; Achtenhagen, 2020; Hunt, 2021). Furthermore, EO is a significant aspect influencing marketing, organisational strategy, leadership, organisational culture, and the organisation's growth and profitability (Wales, Covin & Mosen, 2020; Ali *et al.*, 2020). Similarly, the firm with a greater EO will outperform the competition (Kee & Rahman, 2020). Consequently, organisations with higher degrees of EO outperform those with low levels of orientation (Keh *et al.*, 2007).

Although it is acknowledged that EO and its aspects have been investigated to some extent in previous studies (Achtenhagen, 2020; Hunt, 2021), the literature indicates that there is still no universal consensus among academics regarding the number of dimensions or items that should be utilised to measure EO (Al-Hakimi *et al.*, 2021; Hoque, 2018). Miller (1983) has developed three distinctive EO dimensions:

- Innovativeness,
- Proactiveness, and
- Risk-taking

Covin and Slevin (1986; 1989) then converted Miller's three EO dimensions into quantitative scales. In several studies, Miller's three-dimensional model has been used (e.g., Wiklund & Shepherd, 2003; Kraus *et al.*, 2012; Filser *et al.*, 2014), while other essential dimensions of the EO construct, such as resource-leveraging, have been neglected (Hoque, 2018).

Furthermore, many researchers have exposed a potential link between EO and SMEs performance through the literature; however, there are still studies that fail to provide sufficient proof to substantiate the direct link (Rezaei & Ortt, 2018; Kee & Rahman, 2020; Pulka *et al.*, 2021). Many questions remain about how EO affects performance or through which mechanisms (Kee & Rahman, 2020). The inability of researchers to completely identify these questions has led to continued skepticism about the true significance of EO (Wales *et al.*, 2020; Ali *et al.*, 2020). What is currently lacking in theoretical and empirical treatments of EO is an examination of the intermediate steps linking EO and the performance of SMEs (Khodaei *et al.*, 2021). Furthermore, Lechner and Gudmundsson (2014) suggest that more studies should be conducted to determine which constructs could mediate the association between EO and SMEs' performance. Moreover, Wales *et al.* (2020) argue in their study of EO evaluation that future studies should examine mediation because there is a lack of comprehension of the causal pathways via which EO affects other variables. Consequently, the literature in this area has endeavoured to study the effect of mediatory or moderating variables to shed light on the association between EO and SMEs performance (Zehir *et al.*, 2015; Seow *et al.*, 2020; Anwar *et al.*, 2021).

In that regard, firms should be more innovative in competing effectively in an uncertain environment (Barney, 1991; Teece, 2013). Furthermore, EO is crucial for organisations to identify opportunities and consider their abilities for innovativeness, proactiveness, risk-taking, and resource leveraging to obtain a sustainable competitive edge (Falahat *et al.*,

2021; Hoque *et al.*, 2019). Actually, an entrepreneur's mission is to fundamentally change the style of a production process:

- By adopting innovative practices or leveraging an invention,
 - By establishing a new product access point or a new source of material supply, and
 - By revamping enterprises' goals (Zehir *et al.*, 2015; Anwar *et al.*, 2021)
- As a consequence, the following hypotheses are proposed:
- H1: There is a significant association between entrepreneurial orientation and SMEs' performance.
 - H2: There is a significant association between entrepreneurial orientation and innovation practices.

2.2. Innovation Practices (IP)

The current competitive environment has been described repeatedly as globalised, dynamic, uncertain, turbulent, and highly competitive (Ahmad *et al.*, 2020). Organisations competing in such an environment are compelled to innovate to improve their performance, achieve success, and gain a competitive advantage (Ng *et al.*, 2019). According to most studies, innovation is one of the essential aspects of business performance (Schumpeter, 1934; Porter, 1990; Hall, 1998; Hult *et al.*, 2004; Škerlavaj *et al.*, 2010; Sumiati, 2020; Modi & Rawani, 2021). Innovation Practices are defined as '*the firm's proclivity to pursue new business initiatives that are unique, difficult to imitate, offer a competitive advantage, and differ from traditional practices to develop new products and/or services*' (Ng *et al.*, 2019).

Moreover, SMEs are recognised as the backbone of the economy, which bring along innovation, development, and growth; hence the need to foster SMEs' innovativeness is highly needed to enhance performance and efficiency (Damanpour & Evan, 1992; Rajapathirana & Hui, 2018; Kuzma *et al.*, 2020). Nonetheless, despite support from both institutions and the government, SMEs' innovation practices are relatively low (Auer & Jarmai, 2018; Ng *et al.*, 2019). The underlying reasons could be a lack of awareness of the innovation process as a whole. In fact, smaller businesses are unable to adapt to the fast-changing business environment and unable to grasp potential business opportunities. Furthermore, the direct association between innovation practices and performance has demonstrated conflicting results and inconsistency, as some research has shown no relationship between the two factors (Lee *et al.*, 2016; Kee & Rahman, 2020; Saleem *et al.*, 2020). However, others found a significant relationship (Zhang & Chen, 2014; Auer & Jarmai, 2018; Ng *et al.*, 2019, Kee & Rahman, 2020).

Consequently, many researchers are interested in identifying the factors that trigger innovation. According to Jaaffar *et al.* (2020), Kittikunchotiwut (2020), and Savitri and Syahza (2021), the performance of SMEs could be significantly improved through innovation, overcoming resource constraints by promoting EO in the enterprises. In line with this, Kee and Rahman (2020) discovered that innovation practices are an efficient mediator between EO and SME performance in manufacturing enterprises. Furthermore, Hami, Muhamad, and Ebrahim (2015) highlighted that innovation practices were found to be a key mediator in increasing performance in Malaysian manufacturing enterprises. Therefore, considering the significance of a mediator and its impacts (which are more profound than a moderator) on the relationship between EO and SMEs' performance (Kee & Rahman, 2020), it is justifiable to define EO as an independent variable for SMEs' performance and to what extent innovation practices mediate such relationships (Seow *et al.*, 2021). Consequently, the following hypotheses are proposed:

- H3: There is a significant association between innovation practices and SMEs' performance.
- H4: Innovation practices significantly mediate the relationship between entrepreneurial orientation and SMEs' performance.

2.3. Government Support (GS)

Government support is the basis for SMEs to gain access to the resources they need to support and sustain their enterprises (Islam & Wahab, 2021). Such support reflects the government's commitment to supporting the long-term sustainability of SMEs, even though they are operating in a complex business environment (Bamgbade *et al.*, 2017; Falahat *et al.*, 2021). Furthermore, government support assists SMEs in overcoming financial and non-financial limitations that impede their business operations while also bolstering their entrepreneurial practices. Policymakers construct government support programs for SMEs to develop entrepreneurial competencies, obtain access to resources, perform effectively, and create employment and prosperity advantages (Halim *et al.*, 2021). Accordingly, SMEs' expansion depends on government policies. Without government support, neither will expand efficiently, survive crises, or sustain in the competitive globalised business environment (Hoque, 2018).

Therefore, governments, especially Malaysian governance, have realised the importance of supporting this SMEs sector. This is because several programmes are announced to enhance the growth of existing and new business establishments by concentrating on financial access, market growth, innovation and technology adoption, infrastructure development, and talent development. These include:

- The implementation of Masterplans such as the Tenth Malaysia Plan (10MP) (2011-2015),
- The eleventh Malaysia Plan (11MP) (2016-2020)
- The Twelve Malaysia Plan (12MP) (2021-2025), and
- The long-term vision of Dasar Keusahawanan Nasional (DKN, 2030)

These plans and programs indicate that the performance of SMEs could be drastically improved through innovation, overcoming resource constraints by promoting entrepreneurial orientation in the enterprises (Jaaffar *et al.*, 2017; Kittikunchotiwut, 2020; Savitri & Syahza, 2021). Nevertheless, many SMEs argue that bureaucratic processes and administrative restrictions imposed by institutions may impose business constraints (Kaufmann & Kraay, 2002; Hoque,

2018). Besides, the aspect of government support for the performance of SMEs is relatively overlooked in the field of social science, particularly in management studies (Hoque, 2018; Falahat *et al.*, 2021).

Therefore, government assistance programs for SMEs are required, such as financial, training, advisory and extension services, market research and marketing, and infrastructural support. These programmes will encourage individuals and organisations to be creative and inventive by inculcating innovative behaviour among them. Consequently, GS plays a vital role in strengthening the association between IP and SMEs' performance. Furthermore, as per a study by Seow *et al.* (2020), GS does have a significant moderating influence on the relationship between IP and SMEs performance. Hence, the primary goal of government policy is to improve existing institutional programs by removing impediments that SMEs experience (Seow *et al.*, 2020). On this particular ground, the following hypothesis is proposed:

- H5: Government supports significantly moderators the relationship between innovation practices and SMEs' performance.

2.4. SMEs' Performance

Performance is a topic that has sparked extensive debate among academics in management and social science. Many scholars in the field of management have investigated the question of performance, particularly from the standpoint of strategic management (Venkatraman & Ramanujam, 1986). For instance, SMEs' performance is defined as '*the ability to carry out the wishes of a firm's major shareholders*' (Smith & Reece, 1999). Similarly, according to Garengo (2005), SMEs' performance is defined as '*the outcomes of a firm's activities or investments over a specific time produced through a complex series of actions that integrate skills and knowledge*.' Furthermore, Irjayanti and Azis (2012) stated that the performance of SMEs aids in the removal of barriers and the creation of greater chances for SMEs to grow and sustain themselves in the global market.

In addition, several indicators can be utilised to assess SMEs' performance (Rezaei & Ortt, 2018; Ng & Kee, 2018). The majority of the research used sales, profitability, market size, and non-financial measures to operationalise the concept of performance of the firm. Although the terminology used varies, they all allude to the same concept. For example, Lin and Lin (2016) describe SMEs' Performance as achieving sales growth, market share, and profitability targets. In contrast, Lisboa, Skarmetas, and Saridakis (2016) define performance as new product differentiation, sales, and speed to market. Similarly, Emőke-Szidónia (2015) conducted a study on EO and SMEs performance, measuring performance by sales and profitability. In any case, the term '*performance*' is most often employed as a more specific evaluation to analyse the firm's financial capability (Lappalainen & Niskanen, 2012; Rezaei & Ortt, 2018; Malagueño *et al.*, 2018). Nevertheless, non-financial performance measurement is critical since it enables the firm to assess and secure long-term goals such as future revenue and competitive advantage (Low & Siesfeld, 1998; Matsoso & Benedict, 2014; Centobelli *et al.*, 2019; Jamai *et al.*, 2021). Furthermore, non-financial performance measurement can boost customer loyalty, growth, and an organisation's favourable long-term reputation (Ittner & Larcker, 2003; Yuliansyah & Razimi, 2015; Jamai *et al.*, 2021; Anwar & Li, 2021). Therefore, hence the majority of SMEs in Malaysia registered significant losses in their financial performance due to the presence of the pandemic COVID-19; thus, this study subjectively shed light on the non-financial performance as process quality, product quality, customer satisfaction, reputation (Yuliansyah & Razimi, 2015; Zhu *et al.*, 2019; Anwar & Li, 2021; Jamai *et al.*, 2021; Falahat *et al.*, 2021).

Overall, the assessment of the literature has shown a theoretical gap that has to be filled, as demonstrated by the conceptual framework. In particular, it has been demonstrated in the literature that many studies have proven to link EO with SMEs' performance. Anyhow, EO has an effect on SMEs' performance. However, some studies found a positive relationship between these two variables; others found a negative relationship. As a consequence of these inconsistent findings, the literature further forms the very reason for this research to examine the association between EO and SMEs' performance. Also, innovation practices were proposed as a mediator variable in this research. Likewise, government support was proposed as a moderator to strengthen the relationships mentioned earlier.

3. Conceptual Framework

Based on the reviewed literature and the hypothesis that was proposed. A conceptual framework was developed to explain the association between the variables in the research. RBV theory is utilised as the underpinning theory, based on the framework consisting of entrepreneurial orientation (EO), which is utilised as the determinant of SMEs' performance. At the same time, innovation practices (IP) are defined as the mediator between the variables mentioned above and SMEs' performance. In addition, government support (GS) is suggested as a moderator in the relationship between IP and SMEs' performance. Figure 1 illustrates the conceptual framework of the research.

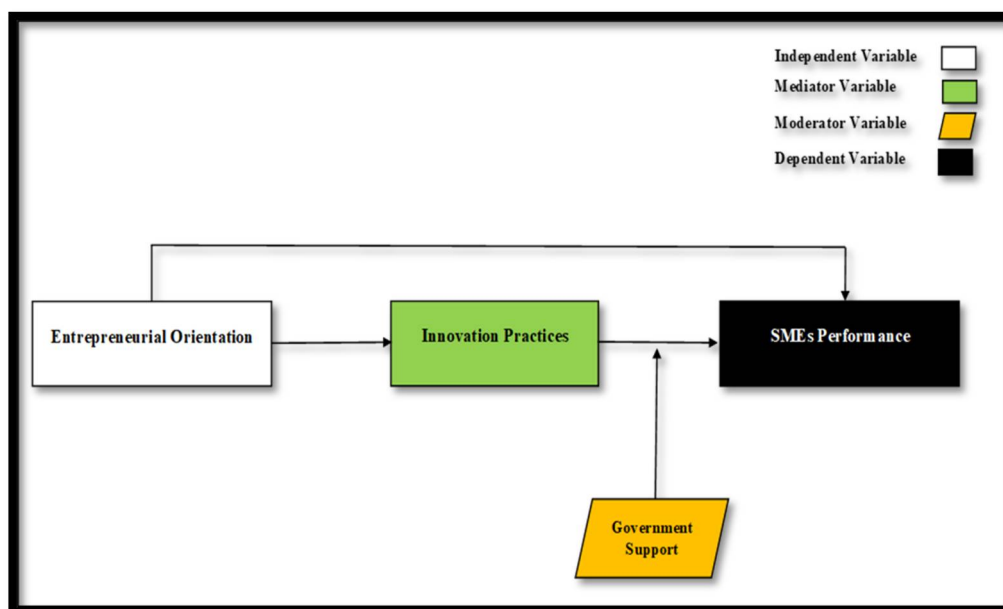


Figure 1: Conceptual Framework.

The conceptual framework corresponds with previous scholars' recommendations (e.g., Baron & Kenney, 1986; Hoque, 2018; Kee & Rahman, 2020; Jabbour, Ndubisi & Seles, 2020; Ali *et al.*, 2020; Seow *et al.*, 2020). Consequently, this study is unique because it has logically provided a framework within the context of literature that will assist SMEs in attaining improved performance, as led by previous research and theories.

4. Conclusion

This research has established a conceptual framework that connects EO, IP, GS, and SMEs' performance. Significantly, this research contributes to the body of knowledge by offering a conceptual framework for explaining the EO's impact on the performance of SMEs. Furthermore, this research is unique because it investigates the possibilities of utilising IP as a mediator in the association between EO and SMEs performance, as well as the role of GS as a moderator in the association between IP and SMEs performance. One of the research's main goals is to increase awareness among SMEs' managers about the significance of EO, IP, and GS to survive, thrive, and sustain SMEs' performance. Nonetheless, this study, like many other studies, has limitations. First, because this is a conceptual paper, additional research should be conducted to validate the research claim empirically. Second, the conceptual framework concentrates on SMEs; future studies should investigate its applicability in larger organisations and diverse industries.

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