

# **Inovation Strategy and External Support for Small Medium Enterprise's Survival in Covid Era**

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## **Abstract**

Researchers have emphasized that SMEs are often the enterprises most affected by economic crises. Therefore, a socioeconomic crisis related to people's health such as the COVID-19 pandemic can be expected to have dire effects on SMEs because these businesses require strong connections with people, whether they are customers or suppliers. To protect this vital sector from collapse due to the COVID-19 crisis, many governmental and nongovernmental organizations (NGOs) have provided various forms of support to SMEs. Governments have adopted several policies that will mitigate the negative effects of this crisis. SMEs have received some financial support from local and international NGOs and financial institutions during the COVID-19 crisis. Additionally, SME owners have adopted a number of practices and strategies to confront the ramifications of the crisis. Innovation is the core factor behind the survival and continuity of enterprises; it supports the company's expansion and growth and enhances the enterprise's future success.

*Keywords: Inovation, External Support, Small and Medium Enterprises, Survival.*

## **1. INTRODUCTION**

Moreover, in the face of a highly competitive economic situation, the SME sector is required to be more active and dynamic as an engine of social economic growth. However, due to its small business form, it creates vulnerability in facing market challenges due to significant problems with regard to human resources, technological capabilities, and financial access (Business, 2016; UNIDO, 2004; Vanags, Ābeltiņa, & Zvirgzdiņa, 2018). Studies have shown that SMEs are confronted with various difficulties and challenges due to the COVID-19 pandemic. The period of closure and movement prevention policies adopted by governments in many countries have greatly affected SMEs, paralyzing their operations, weakening their financial positions, and exposing them to financial risk (Omar et al., 2020; Oyewale et al., 2020). The conditions and restrictions imposed in most countries to limit the virus's spread among people, such as social distancing and quarantines, have led to distortions in the system of supply and demand for goods and slowed many countries' economies. The repercussions of the COVID-19 pandemic have been felt across all economic sectors and institutions, including small and medium enterprises (SMEs).

Nyoni (2010) postulated that SMEs are essential since they help in job creation, poverty eradication and contribute to the Gross Domestic Product (GDP) of an economy. This was affirmed by findings of Gombarume and Mavhundutse's (2014) who uncovered that the Zimbabwean economy is currently being driven by SMEs as the country's unemployment is evaluated to be more than 70 per cent. SMEs are believed to be the panacea to the difficulties upsetting the Zimbabwean economy. Existing literature certify the view that SMEs can only survive the hostile market conditions if new and innovative ideas are introduced in the sector (Banterle et al., 2010). Hence, innovation offers a competitive edge for SMEs, thereby leveraging them for local and international competitiveness. Furthermore, organizational innovativeness enhances efficiency which ultimately reduces production costs and improves competitiveness. There is no denying the fact that innovativeness offers a platform from which firms can spring to greater competitive levels which spur them for growth and survival (Banterle et al., 2014).

## **2. RESEARCH METHODOLOGY**

We explored many articles based on empirical research related to leadership style and SMEs' performance published last 20 years through various reputable journal indexing sites such as Scopus, Science Direct, Proquest, and Google Scholar. We utilized the main keywords "inovation," "SME survival," and "Inovation strategy," or a combination of them. In the first round of literature searching, we found 100 articles and categorized them based on inovation SMEs. Then we re-searched more profound literature related to small and medium enterprise by utilizing keywords referred to each leadership style in the next round. At this early step, we downloaded 90 articles assumed relevant to the focus of this study. To ensure the articles' quality, we conducted a selection process rigorously through the journal's reputation. Besides, we also preview meta-data of articles to confirm relevancy with this study. Finally, 40 selected articles classified based on leadership style that we reviewed in this study are empirical-based research.

## **3. RESULT AND DISCUSSION**

### **Innovation on SME Performance**

Innovation has become a necessity for all contemporary enterprises that want to survive in a world characterized by competition, technological change, and recurring crises. The concept of innovation refers to the use of new technology or new management practices in an organization to achieve a targeted improvement in its operations (Tornatzky et al., 1990). From a SME perspective, innovation commonly indicates new products or processes that address customer needs more competitively and profitably than existing ones (O'Regan & Ghobadian, 2006; Zahra et al., 1999). We use the term "innovative practices" in this study to refer to the effective implementation of new solutions to challenges faced by SMEs, which include effective implementation of new ideas in relation to the organization's product, services, or processes; new marketing mechanisms; or new administrative practices for work amelioration and upgraded performance (Damanpour, 1992; Johannessen et al., 2001; OECD/Eurostat, 2005).

The key driver of innovation practices in enterprises is the ambition to get reimbursement in the form of better performance. Therefore, innovation is defined as creation of some modifications in the enterprise's practices that are intended to obtain an improvement in performance (Curristine, 2006). Based on the literature, performance in this study is defined as achieving the institution's objectives related to sales, profitability, competition, market share, and any other strategic goals (Hult, 2004). Researchers also defined performance as achieving a set of desired outcomes resulting from the realization of the marketing objectives (Chittithaworn, 2011).

For Yildiz et al. (2014), performance refers to an effectiveness in carrying out the enterprise's tasks, which results in achieving its stated objectives. Achieving high performance level implicitly indicates enterprise success (Mahmudova & Kovács, 2018). Measuring the enterprise's performance helps to enhance the positive aspects of its operation and provides an opportunity to take corrective measures to address weaknesses (Mahmudova & Kovács, 2018).

There is a large amount of literature supporting the significant positive relationship between innovation and SME performance (Qian & Li, 2003; Rosenbusch, 2011; Verhees & Meulenberg, 2004; Yildiz et al., 2014). The published research also indicated the positive impact of innovation capabilities on SME performance (O'Cass & Sok, 2014; Oura et al., 2016). Zulu-Chisanga et al. (2016) noted that the efforts exerted to develop different innovations are the primary reason for the improvement in SMEs' financial indicators. Previous studies also indicated the positive correlation between the innovation capabilities and SMEs' performance (O'Cass & Sok, 2014; Oura et al., 2016; Zhang et al., 2018). Freeman (2004) added that distinct SMEs' performance is an outcome of the effective implementation of innovations. However, Lin and Chen (2007) argued that the impact of managers' innovation practices on SME income outweighs that of technological innovation.

### **Innovation SME Survival**

Enterprise survival was used in the current study to indicate the amount of time the enterprise takes to carry out its activities since its inception up to closure (Bercovitz & Mitchell, 2007). There are many parties in the community who benefit from the enterprise's survival aside from its managers. They include workers, consumers, and suppliers (Bercovitz & Mitchell, 2007). Researchers confirm that enterprise survival is one feature of its performance (Danes et al., 2008; Kalleberg & Leicht, 1986). An enterprise can survive if it can adapt to the conditions and its surrounding environment. Compared to large enterprises, SMEs have shorter life, more profitable, and largely affected by external environmental factors. Some researchers consider survival to be an objective measure of enterprise success (Miner, 1997).

In times of crisis, the existences of SMEs are in danger (O'Reilly III & Tushman, 2011). Crises weaken SMEs' growth and threaten their projects because their negative impact extends to all elements of the external enterprise environment (Dhochak & Sharma, 2015). For instance, in time of crisis, SMEs have limited financing opportunities due to weak capital market performance, lack of sufficient information, and component defects throughout the economy.

The business innovations–survival relationship has been illustrated in numerous studies. Innovation is critical to the continuity of any enterprise (Ortiz-Villajos, 2014). According to Gaynor (2002), innovation is the core factor behind the survival and continuity of enterprises; it supports the company's expansion and growth and enhances the enterprise's future success. Previous studies suggested using innovations to overcome the obstacles and challenges of industrial SMEs' success and survival (Hurley & Hult, 1998).

Schumpeter (1942) declared that the enterprise's survival is strongly linked to its innovation practices. Several studies have attempted to explain this link by pointing to some concepts relevant to both innovation and enterprise survival. For instance, a competitive advantage is simultaneously a product of enterprise innovation practices and a fundamental pillar of its survival. Schumpeter (1942) argued that enterprises cannot survive and continue their activities without being innovative. However, survival also results from achieving victory in the face of crises imposed by the external environment.

### **External Support for SMEs**

External support refers to the assistance provided to the enterprise by external parties. SMEs are increasingly using external support because it provides them with the essential knowledge and

information necessary to strengthen their competitive position and increase their chances for future prosperity. Governments, advocates, and different agencies and institutions offer external support to SMEs to save their lives, boost their growth, stimulate innovation, and enhance their capabilities by increasing managerial capabilities and improving marketing skills, thereby ensuring they make a greater business contribution to the national economy. Governments, on the other side, encourage SMEs to take external support to be better able to exploit their business capacity, improve their performance, increase their competitiveness, and assist in business expansion and growth.

SMEs' external support can be either direct or indirect. Direct external support usually takes the form of financial aid that is to be used in the acquisition of assets, the purchase of technology, or the implementation of development plans with the aim of solving funding deficiency problems. It is usually provided according to specific government policies or financial intermediary conditions. Indirect external support usually takes the form of consultancies, ideas, and advice provided by experts, advisory offices, and educational institutions to help eliminate the lack of knowledge and increase the available amount of information. Despite the diversity and the importance of external support for SMEs, researchers have noticed that SMEs benefit little from this support due to the lack of information and awareness about this form of support and the enterprise management's inability to choose the appropriate type of support.

External support is important for SMEs because it provides them with the knowledge needed to develop and implement innovations. According to Based Woodman et al. (1993) innovations are usually grounded on the business informational support received from the enterprise surrounding environment. Cohen and Levinthal (1990) showed that innovations in enterprises result from combining the knowledge received from their external environment with their available internal knowledge. Damanpour (1991) confirmed a positive association between external support received by an enterprise and innovation. External support also provides an enterprise with human and financial resources that undergird innovation within the enterprise. Numerous researchers have examined the linkage between external support and enterprise performance. For instance, Kent (1994) noted that the use of external support raises the SME's financial indicators. Larsson et al. (2003) concluded that external support in the form of managerial consultancies and advice received by SMEs positively affect the business growth. Brush and Vanderwerf (1992) and Storey (2002) demonstrated that external consultants positively affected an SME's performance, expansion, and viability. Research findings noted that the use of external support contributes positively to a business's competitive advantage. Dollinger (1985) emphasized the positive results of interaction with the external environment components on the SME's performance. Many other scholars have emphasized the positive association between an enterprise's performance and its use of external support.

According to Rosenbusch et al. (2011), this moderator is expected to come from the enterprise's external environment. Studies have proven the strong and positive link between an enterprise's performance and its likelihood of its survival. For example, Wiklund and Shepherd (2011) asserted that an enterprise survival requires a minimum level performance. In addition, published literature shows that an enterprise's survival indicates its outstanding performance over a long period. Moreover, both an enterprise's performance and survival are affected by external environmental factors and crises such as the COVID-19 pandemic (Holmes et al., 2010).

#### **4. CONCLUSION**

The external support provided to SMEs during the COVID-19 pandemic, whether in the form of training, consultancy, or finance, supports the continuity and survival of these enterprises. Additionally, because the COVID-19 crisis has greatly affected SMEs' financial position, governments must encourage finance providers to adopt more flexible policies when financing SMEs, such as low-interest loans and the consideration of the enterprise's financial position for loan installments.

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