

Innovations

Every tide has its ebb: A theoretical framework for SMEs survival amidst crisis

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Abstract: *Small and medium-sized (SMEs) enterprises play a vital role in developed and developing economies. SMEs have often been acknowledged as productive and efficient job creators, large-scale seed companies, and national economic engines. However, With the current commercial and social landscape changes, SMEs can no longer solely on the traditional business practice that focuses on profit in a highly competitive marketplace. Profit is not the only factor contributing to a company's survival and success in today's world. Therefore, firms need to execute a value-creating strategy and strive to gain a sustainable competitive advantage. So, the theoretical framework for this study is built upon the Resource-Based View theory (RBV), which consists of total quality management (TQM) and SME performance. Despite TQM's importance, research linking these concepts to SMEs' performance is limited. Through extensive literature review, this study has found a theoretical link between TQM and SME performance and also developed a conceptual model for empirical validation. Nevertheless, this study also explains the role that innovation practices (IP) play as a mediator in this relationship, which most studies have neglected. In similar terms of such thinking, it is proposed that government support (GS) may also strengthen the relationship between IP and SME performance. Hence, the government is the main source of support for technology, innovation, and financial support. Thus, the conceptual model also examines the moderation role of the GS in the relationship between IP and SMEs performance.*

Keywords: *1.TotalQuality Management, 2.Innovation Practices, 3.Government Support, 4.SMEs Performance.*

1. Introduction

Despite the vital role SMEs possess in both developed and developing economies as

productive and efficient job creators, large-scale seed companies and national economic engines. However, statistics show that 70% of small and medium-sized enterprises (SMEs) fail to make it to their fifth anniversary every year in several countries around the world (Alkahtani, Nordin, & Khan, 2020). While recently, considering the prevailing outbreak of the COVID-19 epidemic, SMEs face a greater risk of collapse in business operations, given the disastrous economic and financial year in 2020. Due to the scarcity of resources, required expertise, and level of knowledge, SMEs will undoubtedly become unable to acclimate to this magnitude of the crisis. On top of that, the vulnerability of SMEs' performance in most developing countries is due to a lack of managerial expertise (Jabbour, Ndubisi, & Seles, 2020), lack of market-related skills and experience (Ng, Kee, & Ramayah, 2020), weak implementation of quality management (Hilman, Ali, & Gorondutse, 2020), limited resource availability and a need for rapid technology adaptation as well as innovation (Yusr, Mokhtar, Perumal, & Salimon, 2022). Consequently, SMEs require strong competencies in quality management and innovativeness to survive, grow, and sustain their performance.

Moreover, SMEs cannot afford to pay for high-cost support services such as human resources, training, and legal or financial advice. Also, the size of SMEs creates a competitive disadvantage compared to larger firms. Therefore, the growth of SMEs is highly reliant on government initiatives since SMEs cannot grow smoothly, overcome crises, or thrive in a competitive business world without government support initiatives (Kassab, Nordin, Amlus, & Ahmad, 2022). Furthermore, the pandemic's enormous effect on humans and the global economy demonstrates that standard procedures are insufficient. The business world still requires innovation and incentive schemes to adapt successfully and efficiently while taking into account multiple stakeholders (Yusret *et al.*, 2022). Likewise, due to the uniqueness of the current pandemic, previous studies or findings may not be sufficient to identify an adequate survival and growth strategy for SMEs. Given this uncertainty, it is vital to find a credible framework that can assist SMEs in surviving the current crisis.

In response to this disturbance in SMEs, actions to assist value creation should be implemented; otherwise, SMEs would abandon their value and potential to lead the growth of developing countries (Kassab *et al.*, 2022). Therefore, firms in developing countries must transform their typical management practices into proactive, high-value-added, and efficient approaches. This transformation must promote intangible capabilities and resources like total quality management (TQM) (Haliman *et al.*, 2020) and innovative practices (IP) (Seow, Choong & Ramayah, 2021). These resources are efficiently used to gain a competitive advantage, drastically improving performance in such a challenging environment. This is consistent with McDougall, Wagner, and MacBryde (2019), they defined a firm in terms of the resource-based view (RBV) theory as a unique cluster of productive resources that managers can employ to achieve their targeted business objectives. Also, with the RBV, organisations can use both intangible and tangible resources and skills to improve their performance and gain a competitive edge (Barney, 1991). The RBV is one of the most notable theories contributing to driving SME performance. RBV is a strategic management framework that looks at how well a small business uses the resources it has control over to achieve its goals, gain a competitive advantage, and grow in a sustainable way (Wernerfelt, 1984).

Furthermore, large corporations, particularly in developed countries, dominate the TQM philosophy. However, the threat of losing contracts from large manufacturing firms provokes SMEs to incorporate quality into their systems to improve firm competitiveness in the market. Anyhow, due to their size, manufacturing SMEs are likely to experience financial, technical, and time constraints, amplified by several obstacles such as lack of managerial expertise, poor quality management, scarce resources, as well as a lack of innovation (Sahoo, 2019; Hilman *et al.*, 2020). Therefore, SMEs need

strong competencies in quality management and innovativeness to survive, grow, and sustain competitiveness. Thus, the objectives of this study are first to provide academics with a theoretical basis for studying the relationship between TQM and the performance of SMEs in developing countries; and second, to make a significant academic contribution by conducting a comprehensive literature analysis on TQM, IP, GS, and SMEs' performances. Third, present a theoretical framework depicting links between TQM, IP, GS, and SME performance; and finally, provide a blueprint and recommendations for policymakers, SME owner-managers, and future researchers.

2. Literature Review

2.1 Total Quality Management (TQM)

TQM is defined as “a holistic approach that prioritises towering continuous improvement in all operations in the organisation to prevent defects and produce and deliver high-quality products and services to respond to the needs and demands of customers better than their competitors” (Al Ahababi, Singh, Balasubramanian, & Gaur, 2019). In other words, TQM is a management philosophy that emphasises the involvement and commitment of the employees throughout SMEs to deliver high-quality services and products as well as meet customer expectations in order to develop a cohesive SME environment while also guiding managers and practitioners in their strive to gain a competitive advantage from their enterprises' resources, market positions, and firm idiosyncrasies and superior performance for the exploitation of market opportunities as well as the neutralisation of competitive threats.

SMEs today, more than ever, cannot rely on their established business procedures in a highly competitive environment (Kassab *et al.*, 2022). So, to survive, they must embrace and execute new operational management approaches that have proven to be successful over the years (Ashok *et al.*, 2021). TQM is one of the most widely used methods of modern operations management and has received a great deal of attention from both businesses and academics over the past two decades (Quansah & Hartz, 2021). The significance of TQM comes from the fact that it stimulates innovation, motivates for improved quality, makes the organisation adaptable to change, and supports the company in growing out of a unified purpose; all these offer the organisation a unique and distinct competitive edge.

From the point of view of RBV, TQM practices are seen as a significant competitive advantage since they are distinctive, inimitable, and irreplaceable (Grant, 1991). The value of TQM practices can be observed in a variety of ways, including enhanced customer loyalty, productivity improvements, and increased employee engagement and commitment as a result of organisational culture changes (Escrig-Tena, 2004). Anyhow, TQM practices in SMEs have a brief history in the literature, and many critical issues and areas remain primarily unresolved in academic research (Hilman *et al.*, 2020; Yusret *et al.*, 2022). Furthermore, according to Sahoo and Yadava (2018), the success rate of TQM implementation in SMEs was found to be insufficient since it reached only 10%. Furthermore, when compared to large organisations, manufacturing SMEs have been hesitant to adopt TQM (Latif Samsudin, & Hussin, 2021) because they perceive the implementation of quality management systems as a daunting, complex, and continuous operational expenditure. Additionally, SME owner-managers tend to lack managerial insights and organisational competencies, leading to the misapplication of a quality management system (Mahmud, Hilmi, Mustapha, & Karim, 2019).

Briefly, limited studies have examined the impact of TQM on performance in the context of

SMEs. However, the findings have been conflicting as some found that TQM implementation could increase SMEs' performance (Ali, Hilman, & Gorondutse, 2020; Sahoo & Yadav, 2018), while others concluded that no effect was observed (Mahmud *et al.*, 2019; Kober, Subraamanniam, & Watson, 2012). These contradictory results highlight the need for more investigation into the relationships between TQM and SMEs performance to provide more theoretical insights and practical recommendations, particularly in the context of developing nations. The following hypothesis arises from this discussion:

H1: TQM has a significant effect on SMEs performance.

H2: TQM has a significant effect on innovation practices.

2.2 Innovation Practices (IP)

Innovation can have a substantial impact on an organisation's performance by allowing for a better market position, providing unique products and services, creating more value for organisations, and specifying entry barriers for new competitors, which all enhance competitive advantage and superior performance (Pertuz & Pérez, 2021). Therefore, innovation is currently considered a sine qua non-condition for firm survival in the intensive competitive environment. Above and beyond, SMEs are the backbone of most economies worldwide; as such, encouraging their innovativeness is crucial for improving performance and efficiency (Kassab *et al.*, 2022). Consequently, researchers are eager to find out what factors encourage innovation among SMEs. Several researchers contend that TQM greatly enhances individuals' capabilities to innovate new or improve existing products or services (Shafiq Lasrado, & Hafeez, 2017). It is also highlighted that TQM creates an environment and a culture of innovation, as well as an appropriate resource to foster innovation (Zhu, Zou, & Zhang, 2019). Also, several studies have empirically demonstrated that quality management practices are positively related to innovation (Khalfallah, Salem, Zorgati, & Lakhal, 2021).

Moreover, studies have linked innovation as a mediator between TQM and performance. For instance, Dedy *et al.* (2016) prove the mediating role of process innovation in establishing a link between TQM and firm performance. Likewise, Pinho (2008) used innovation as a mediator between TQM and SME performance and found out that innovation had a positive and direct impact on performance, which can be explained by the fact that TQM processes, by continuous improvement, can be viewed as a valuable resource that helps businesses expand incremental innovations. Given the importance of a mediator and its effects (which are more profound compared to a moderator) on the link between TQM and SME performance, it is appropriate to set TQM as an independent variable toward SME performance and to what extent IP mediates such relationships. Consequently, the following hypotheses are proposed:

H3: Innovation practices have a significant influence on SMEs performance.

H4: Innovation practices significantly mediate the relationship between TQM and SMEs performance.

2.4 Government Support (GS)

Government support (GS) refers to financial and non-financial assistance programmes by the government intended to foster the continued growth of SMEs to address particular market failures or equity shortages (Government support for business, 2015). According to Cancino Bonilla, and Vergara (2015), government support programs comprise financial, training, and marketing assistance. Therefore, government support is essential to achieving positive performance (Nget *et al.*, 2020). Likewise, Nakku Agbola, Miles and Mahmood (2020) pointed out that government incentives are crucial for SMEs' long-term survival and growth, and they offer external resources such as financial incentives, in which SMEs are often financially constrained. As a consequence, government incentives and support programs have a substantial impact on competitive advantage and opportunity recognition, as well as

performance outcomes.

On the other side, developing countries, including Malaysia, are highly institutionalised countries in which government intervention is one of the crucial factors contributing to SMEs' performance. On that account, Malaysian governments have prioritised SME development on the economic policy agenda, launching entrepreneurial development initiatives and grants to hasten their development into a more vibrant, innovative, and technologically strong SME sector (Kassab *et al.*, 2022). However, the literature reveals that few studies link government support to SME performance. Among the few studies, limited studies agreed that government support could play a dynamic role in improving SME performance (Alkahtani *et al.*, 2020). Besides, little research has been conducted on the moderating role of government support in strengthening the performance of SMEs. A study conducted by Seow *et al.* (2021) confirmed that the government does have a significant moderating influence on strengthening the relationship between IPs and the performance of SMEs in the tourism industry specifically. Seow *et al.* (2021) further highlighted that those prominent findings could only be applied and generalisable to the specific scope (the tourism sector of SMEs) instead of SMEs as a whole. On this particular ground, it is hypothesised that:

H5: Government support significantly moderates the relationship between innovation practices and SMEs' performance.

2.5 SMEsPerformance

Schendel and Hofer (1979) argue that measuring performance is critical because it allows for an analysis of how well an organisation's strategies are being implemented. However, the term "performance" has a wide variety of definitions in the academic literature. Each definition places focus on a unique set of assumptions, methods, and features. For this reason, it is difficult to identify a specific, generally agreed-upon definition of performance. Besides, the measurement of firm performance is another challenge due to its complexity. Empirical studies show that academics utilise a wide variety of indicators to measure a company's performance. Financial and non-financial measurements of performance have been adapted or adopted by academics, respectively, depending on the goals of their research. Therefore, due to its complexity, the concept of firm performance and its measurement provides a challenge to academics (Santos & Brito, 2012).

Furthermore, performance measures of SMEs might be based on either objective or subjective indicators (Kee & Rahman, 2020). Academics are more likely to rely on subjective performance measurements than objective measurements for evaluating a firm's performance since the objective measures are not typically accessible by private enterprises. Nevertheless, subjective measures of firm performance have been shown to correlate highly with objective performance data (Kellermanns & Eddleston, 2006). In essence, the reviewed literature has revealed a theoretical gap, as indicated by the conceptual framework, which has to be addressed. To begin with, TQM does have an impact on the performance of SMEs. However, there were mixed results about the correlation between the two variables. Consequently, this article was prompted by the inconsistent findings in the literature to further understand the relationships between TQM and SMEs' performance, with the IP proposed as a mediating variable. as well as GS proposed as a mediator to strengthen those relationships.

3. ConceptualModel

In light of the reviewed literature and the proposed hypothesis, a conceptual framework was developed to describe the link between the variables of the study. The RBV theory is utilised as the

underpinning theory. Total quality management (TQM) serves as an individual variable (predictor) of SME performance, and innovation practices (IP) serve as a mediator variable in the relationship between TQM and SME performance. Also, government support (GS) serves as a moderator variable in the relationship between IP and SMEs performance. Fig. 1 below illustrates the framework of the research.

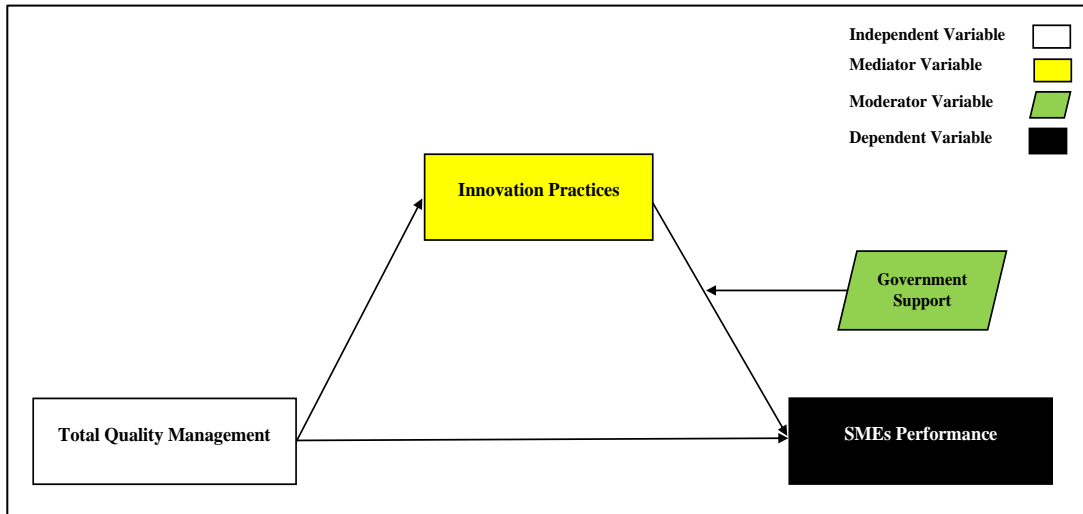


Fig. 1. Conceptual framework

The framework, as shown in Fig. 1, lines up with the recommendations of prior researchers (e.g., Kassab *et al.*, 2022; Seowet *al.*, 2021; Jabbouret *al.*, 2020; Hilmanet *al.*, 2020; Baron & Kenney, 1986). Therefore, this paper is unique since it offers a framework that will assist SMEs in improving their performance in light of the prior research and theories.

4. Conclusion

The relationship between TQM, IP, GS, and SME performance has been conceptualised in this research. The framework provided by this study explains the TQM's impact on SMEs' performance, which is an essential addition to the body of knowledge. In addition, this research is unique because it elucidates the role of GS as a moderator in the relationship between IP and SMEs' performance and the role of IP as a mediator in the relationship between TQM and SMEs' performance. The study highlights the importance of TQM, IP, and GS in adjusting SMEs' performance, which may inspire academics, policymakers, as well as managers and owners to prioritise these factors.

5. References

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