Enhancing the Performance of SMEs Post Covid-19: The Role of Strategic Leadership Capabilities

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Abstract: Small and medium enterprises had difficulty coping with the Covid-19 pandemic as very few SMEs have made it through it, particularly in Nigeria. Strategic leadership has been acknowledged as a crucial asset and one of the driving forces of success among SMEs. This study examined the impact of strategic leadership on the performance of SMEs in Lagos, Nigeria, adopting a mixed-method approach. A total of 400 complete responses from SME managers were analyzed. While simple regression was applied for the analysis of the returned copies of the questionnaire, the qualitative interview results were obtained through thematic analysis. The results indicate that innovation capabilities significantly impact organizational performance. Hence, the study recommends that focusing on innovative capability of strategic leadership such as new product development, innovation activities, marketing intelligence, value creation and new ideas with radical changes are germane for enhancing performance.

Keywords: Covid-19; Nigeria; innovative capability; leadership


Kata Kunci: Covid-19; Nigeria; kemampuan inovatif; kepemimpinan
INTRODUCTION

There is a need to understand the unique challenges of the SME sector in Nigeria and what business owners particularly in developed countries are doing to tackle these challenges of the Covid-19 pandemic. Strategic Leadership is considered a major asset of any business. This is even more vital in an unpredictable and knowledge-driven economy, where non-visible factors and services are increasingly significant. Globally, the small and medium enterprises sector is viewed as a growth machine for the creation of economic values. In addressing the nagging problem of unemployment, governments in developed countries such as Finland, England, the USA, and France advocated re-engineering the SME sector to engage young people productively. This is based on the fact that the SME sector creates values profitably and sustainably (Agi & Yellowe, 2013). However, for any forward-thinking organization, successful navigating of an ever-changing world requires insightful leadership. For SMEs, competitive growth will necessitate a strategy that is constantly transforming and the development of a strong partnership with a variety of pertinent local and global players (Alayoubi et al., 2020). Therefore, innovative SME owners must research new strategies to satisfy varied societal wants. According to Hambrick & Mason (1984), those companies are reflections of top managers’ beliefs and values, and leadership of institutions necessitates the creation of hybrid structures that support both physical and virtual spaces for holistic learning and rigorous research activities that cater to the needs of a wide range of clients. Usually, SME owners find it difficult to look beyond the present when faced with severe competition. Successful leaders, however, have a long view. The capacity for leaders to predict, prepare for, and position for the future is referred to as strategic leadership (Arshad & Arshad, 2019). It involves having the capacity to plan ahead, envision the future, inspire others, exercise flexibility, build a strategic and viable future for the business, carry out plans, and reach important decisions in a fast-paced setting (Kleijnen et al., 2009).

The COVID-19 epidemic has caused a severe setback for the entire world and has impacted several economic sectors, most notably the SME sector in Nigeria. Autocratic and transactional management leadership approaches have always fueled the issues seen in the industry. The main concern is how these issues, particularly the pandemic’s impact, will affect the performance of SMEs. A different model is thus required as a result of this. Effective strategic leadership would undoubtedly promote change, lower the high failure rate, and ultimately pave a new course for growth and development in Nigeria’s SME sector.

However, notwithstanding all the benefits linked with strategic leadership evidence suggests that the focus of empirical studies in the context of SMEs is few compared to that conducted in large firms (Walden et al., 2020; Rosli & Sidek, 2013). Hence, the major objective of the study seeks to establish an empirical relationship between achieving strategic leadership goals of SMEs and performance.

LITERATURE REVIEW

Strategic Leadership

Strategic leadership is defined as having the capacity to rationally decide on goals and take appropriate action in a situation when there is uncertainty (Pisapia, 2009). Similar to this, Jabbar and Hussein (2017) claimed that strategic leadership requires courageous decision-making that includes creating and putting into practice the organizational plan. This implies that decision-making processes transcend various agendas, agency cultures, personalities, and wants and are based on the development of advantageous practical strategies for both individuals and the company. According to Hitt et al. (2015), strategic leadership is concerned with the ability to cultivate a strong sense of expectancy for the future, to envisage, to show flexibility, and to inspire others to take action when necessary.

Also, Carter and Greer (2013) put forward that strategic leadership is concerned with the ability to develop a vision and mission by the top management team, thinking and acting strategically to achieve organizational competitive advantage. Strategic leadership encapsulates the capacity to relate organizational vision and influence employees toward strategic goals implementation. A significant and dominant element in an organizational context that has empowered firms to successfully transform...
themselves compared to those that labour abundantly yet produce very little outcome lies in the engagement of a long-term strategic intent that resonates with the actions and mindset of everyone employees towards a challenging goal.

**Strategic Leadership Practices**

The following six practices for effective strategic leadership are advanced by Hitt et al. (2011).

**Strategic Direction**

This involves creating a long-term strategic vision based on strategic intent that in turn projects and align with the personal views of the leader. It implies that if the strategic leader can present his personal view with utmost clarity and carry his subordinates along, he enjoys their support for his strategic vision.

**Investing in Strategic Capabilities and Talents**

This is concerned with the core ability of the organization to configure its resources, which represents a major source of its competitive advantage compared to its competitors.

**Human Capital Development**

Human capital is all about a group of individuals who have acquired valuable skills and competencies that increase the creation of economic value by business organizations and are in line with the stated long-term goal of the organization. All the employees in a modern organization represent a capital resource that needs investment.

**Promoting Organizational Culture**

Organizational culture refers to everything related to the aspect of lifestyle being practiced in the organization and focuses on its essential and behavioural dimensions blended together to accelerate the attainment of a state of harmony between thought and action based on what is referred to as the cultural fabric, which in turn is one of the dimensions of management ethics.

**Emphasis on Ethical Practices**

Ethics is concerned with the basic principles that regulate the manner in which individuals working within an environment interact with one another on the one hand and the organization on the other hand, as well as the rules that control how the corporation interacts with pertinent external stakeholders.

**Performing Organizational Oversight**

This is the process of implementing balanced organizational supervision, the standards on which managers rely to continue organizational operations or alter their recurring patterns. Consequently, regulatory scrutiny makes it easier to respond to environmental changes. Financial control and strategic control are the two sorts of regulatory control. In pursuing the strategic objective of the business, a successful strategic leader must strike a balance between these two types of oversight.

Based on the foregoing, this study advanced the idea that SME operators’ performance is largely dependent on the efficient involvement of a qualified staff that can set up resources to deal with a tumultuous business environment and tough competition at every level. To succeed in management reforms, management must first possess the necessary capabilities, and abilities, and make the necessary plan before moving on with its implementation. The foundation of “strategic leadership,” which establishes vision and direction for the SME’s expansion and success, consists of these two components.

**Strategic Capability**

Organizations must continuously improve the knowledge and abilities of their employees as well as provide them with the necessary attitude to successfully navigate the effects of technological, economic, political, and social changes. Töre and Ilek (2021) argued that strategic leadership involves relevant expertise or skills necessary to execute a particular job or series of jobs. Strategic capability also creates a platform for people to embrace change and develop new attitudes to cope with new challenges. The importance of developing strategic capability cannot be overemphasized since having
the right mindset and perspective enable a business to successfully compete in today’s demanding, dynamic, complicated, global, and segmented marketplaces. Therefore, organizations or businesses need to be adaptable enough to change along with their knowledge and skills to meet changing demands. A key component of the efficient growth of businesses is strategic leadership. Nowadays, rather than focusing on how to create short-term improvements, discussions in business are more about how to achieve long-term organizational success (Davies & Davies, 2006).

A very important capability that is required in any organization is to advance to a new level of competence through self-development. Additionally, Teece et al. (1997) advocated that firms can configure their resources and capabilities, which in turn leads to increased dynamic capabilities, particularly in a dynamic market.

**Strategic Capability and Business Performance**

SMEs are confronted with many challenges. Hence, requires adequate skills to upgrade to develop the required inner strength to deal with rapid changes in technology and the increasing sophistication in consumer taste. Also, it involves market assessment, pricing and costing, financing, and cash flow. Other notable aspects include health and safety, intellectual property rights, employing workers, etc. Becoming aware of these challenges can be improved by being forward-looking and developing the required management skills, product quality, and delivery capacity that guarantee to reap the benefits of globalization (Ali & Anwar, 2021). Therefore, adequate engagement in skills development of all categories of workers, including managers, is key to firm performance in modern economies. Talented human resources are a requirement for SMEs to adapt quickly to a dynamic business environment. Even though many studies suggest that there is a positive correlation between the degree of management capability and bottom-line performance, the limited resources they possess put a limit on them being actively involved in training. Also, many authors have stressed that formal management training provided to develop capability can reduce the failure rates of small firms, which are more prone to failure than larger firms, particularly in the early years of operation (Mui et al., 2018). According to Anwar & Balcioglu (2016) organizations that embrace strategic leadership had more favorable performance trends in areas such as revenues, profitability, employee relations, quality and productivity, and their business viability and outlook.

**Innovation Capabilities**

Innovation capability involves the ability to create new designs, new products, new services, new ideas, or new approaches, which did not exist before, and have brought about value (Parthasarathy et al., 2011). Organizations can engage and implement innovation capability to stay competitive in the market by capturing a sizeable portion of the market through the offering of innovative goods or services (Asmawi et al., 2013). For firms to achieve breaking into new frontiers, the innovation capability “gene” of strategic leadership is required to permeate the internal environment (Ellinger & Ellinger, 2021), or else complacency will stifle innovation. The study of Samad (2013) revealed a positive influence of innovation on organizational performance. Strategic leadership is germane to the creation of economic values to attract the attention of consumers by focusing on product innovation (Walden et al., 2020).

**Innovation Capability and Performance Dimensions**

Previous studies have shown a positive relationship between innovation capability and firm performance in the context of small businesses (Zhang & Hartley, 2018; Santos et al., 2020). According to existing research, innovation capability significantly enhances new product development, brand performance, and overall firm performance (Zhang & Hartley, 2018; Odoom & Mensah, 2018). According to Dadfar et al. (2013), this relationship requires a strong organizational structure, learning processes, and connections to consumers, suppliers, and other important networks. Furthermore, the findings of Ribau et al. (2017) showed that innovation capacity, which is made up of a variety of interrelated capabilities, has an effect on export performance, which is made up of financial, strategic, and satisfaction-related aspects. According to Saunila’s (2017) research, three dimensions of innovation
capability—participatory leadership culture, knowledge development, and ideation and organizing structures—are connected to corporate performance.

**Resource-Based Theory**

Resource Based-View (RBV) postulated by Penrose (1959) emphasizes that a firm’s resources are the foundation for competitive advantage and superior performance) attempted to group resources into physical assets and intellectual assets. Physical assets represent buildings and equipment, which are tangible (Hafeez et al., 2007). While intellectual assets involve intangible aspects of human resources such as employee skill, knowledge, and individual competencies (Hafeez et al., 2007). A key argument advanced by RBV addresses two crucial points (Gottschalk & Solli-Saether, 2005). First, the RBV shows that in order to have a competitive advantage, a resource must have economic value and be currently scarce, difficult to duplicate, non-substitutable, and not easily available in factor markets (McIvor, 2009). The second factor is resources (Gottschalk & Solli-Sther, 2005; McIvor, 2009).

Furthermore, scholars in the RBV tradition have proposed that when firms have resources that are valuable, rare, inimitable, and non-substitutable, or what are known as “VRIN attributes,” they can exercise sustainable competitive advantage by implementing novel value-creating strategies that are difficult for rival firms to imitate. It is also important to notice that these resources and the activity systems that are tied to them complement one another, which makes it harder for others to copy what they do and increases their ability to maintain a competitive advantage over others (Collis & Montgomery, 1995). The resource-based approach to strategic management places special emphasis on the relationship between a firm’s internal features and performance (Barney, 1991; Grant, 1991).

In this study, the Resource-Based View is thought to be more suited because it provides a framework. Moreover, it ensures the enterprise’s ability to generate innovations and respond to changes in the external environment, both of which improve the success of the business. This study’s framework specifically postulates that if a corporation uses a special pocket of resources or capabilities in an intelligent way, it might result in a competitive advantage (Barney, 1991).

**RESEARCH METHODOLOGY**

Semi-structured interviews and a survey were used in a mixed-methods approach. A total of 400 copies of the questionnaire were given to SME operators, but only 360 of them were returned and deemed useful for the analysis. Meanwhile, 20 semi-structured interviews with SME managers were also conducted. To make the estimate procedure easier, descriptive statistics and Simple Regression analysis were employed. The qualitative interviews were also subjected to thematic analysis. Data for the study were gathered using a structured questionnaire and semi-structured interview questions. The study’s participants are managers from SMEs in Lagos State, Nigeria, who were chosen by stratified random sampling. The qualitative interviews were also subjected to thematic analysis. Krejcie and Morgan’s (1970) study was used as the basis for the sample size estimation, and Ebijuwa’s (2015) research was used to corroborate the estimate and obtain representative responses.

**Threat to Validity**

The participants had plenty of time to ask questions, and the authors made sure they were well-informed on the study’s goals, risks, advantages, and alternatives. Each respondent also had the choice to remain anonymous, and their remarks were handled with the utmost secrecy. The inquiries were made in an unambiguous manner.

**RESULTS AND DISCUSSION**

**Hypothesis Testing**

Innovation Capabilities have no impact on the innovative performance of SMEs in Nigeria. The model summary in Table 1 demonstrates the extent to which the model accounts for the variation of the dependent variable (innovation performance). If represented as a percentage, the $R^2$ in this instance
is 0.334, or 33.4%. This suggests that 33.4% of the variance in the levels of inventive performance can be explained by our model.

### Table 1. Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.578</td>
<td>0.334</td>
<td>0.328</td>
<td>0.46508</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Innovation Capability

The F-value is the Mean Square Regression (12.851) divided by the Mean Square Residual (0.216), yielding $F = 59.410$. From the results, the model in Table 2 is statistically significant ($Sig = 0.000$) and hence the null hypothesis should be rejected. Therefore, Innovation capability impacted the innovative performance of SMEs at $F_{(3,359)} = 59.410$. Hence, the alternative hypothesis is accepted.

### Table 2. ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>3</td>
<td>12.851</td>
<td>59.410</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>77.004</td>
<td>356</td>
<td>0.216</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>115.556</td>
<td>359</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors: (Constant), participants are supported in diagnosing their own training needs, Dependent Variable: innovation performance

### Decision
Considering the aforementioned finding, it is therefore appropriate to reject the null hypothesis while accepting the alternate one. Therefore, it can be said that strategic capability investment has an impact on how well SMEs innovate.

### Thematic Findings: Strategic Leadership Capabilities and Innovative Performance
Most of the SME owners/managers believed that innovation capabilities in terms of thinking ahead of competitors can improve their businesses (Participant 1). I always listen to the news to know if there are government policies that could affect my business (Participant 4). I like doing things that other businesses are not doing (Participant 2). The responses implied that strategic leadership is relevant to areas such as knowledge about new product development, innovative sales, and updated information on technological advancement for SMEs, an international expansion that enables SME operators to identify or explore business opportunities in a manner that is scalable and sustainable.

### Discussion
The discussion derived from the results above indicated that when small businesses make better offerings, pay attention to their business environment, and do things differently can make businesses perform better. Findings based on the test of hypothesis showed that innovation capability impacts the innovative performance of SMEs. Hence, the result suggests that the impact of Covid-19 pandemic on SMEs will have been minimized if managers were keenly observant of the happenings and taking proactive actions to adapt to changing environment. It is important to state that leveraging technology enhances the quick adaptive capabilities of SME managers to prepare for making a forecast and build a strong formidable force to achieve long-term competitive advantages, the result suggests that innovation capabilities in new products, marketing intelligence, learning, processes, and robust relationships with the customers, suppliers, and other relevant networks leads to favorable outcomes for SMEs.
CONCLUSION

The results of this study have provided empirical evidence that innovation capabilities in new product development, marketing intelligence, learning, processes, and robust relationships with customers, suppliers, and other relevant networks lead to favorable outcomes for SMEs. Among these favorable outcomes, one of the most important ones is an improvement in business performance. The results of this study are in line with those of Arshad and Arshad (2019), Cenamor et al. (2019), and Saunila (2020). These researchers have shown a strong and positive correlation between strategic competencies and corporate performance, which is consistent with the findings of this study. Since there is opposing research that opposes this conclusion, such as that by Capon et al. (1990), Chandler and Hanks (1994), and Subramanian and Nilakanta (1996), this study has further validated the findings of this research. As a result, if managers and/or owners of SMEs want to significantly raise their level of business performance, they will need to synchronize their organizational innovation culture with their general business strategies in order to make the changes or improvements to their products or services that are required by their clients and end users. This will lead to better company performance as well as greater levels of growth and development for SMEs. By providing a more in-depth explanation and confirmation of the connection between innovation skills and business performance in the setting of SMEs, this research adds to the body of knowledge in the business and management sciences. The report can also inspire researchers to continue investigating these links, which will improve their comprehension of the dynamics of the corporate world.

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