

Diversification, Innovation, and Digitalisation: An Effective Vaccine for Survival of Pakistan's SMEs Amidst COVID'19

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Abstract

SME sector is falling prey to COVID'19 because of its vulnerable financial support systems. Almost 90% of businesses that provide a significant share in the GDP of developing countries are SMEs. This study focuses on Pakistan's SME sector that is mostly affected by extensive country lockdown and border closing. 3.3 million SME sector contributes to more than 30% annually in the GDP of Pakistan and employs up to 78% of the workforce. The majority numbers of SMEs of Pakistan are laying off employees and are facing dire situations. In this study, the researcher proposes focusing on the rearrangement of SMEs' resources for them to survive and grow. Reorganizing resources means diversification, Innovation, and Digitalisation in the typical business models and practices of SMEs. For this purpose, the researcher proposes the theory of Business Model, Technology, and Innovation, along with Modern Portfolio Theory, to be implemented in the SME sector of Pakistan to survive amidst all the economic crises. The major limitation is less published literature on the same topic for literature backup. Also, there is no data collected for this research as this is just a conceptual paper, so it is recommended for researchers to carry out a similar type of research in their countries as well.

Keywords: *Diversification, Innovation, Digitalisation, SMEs, COVID'19*

Introduction

Global SMEs Sector

Small and Medium Enterprises (SMEs) have a significant contribution in many economies, especially in developing countries (Mohd Rosli Mohamad, 2012). SMEs' predominance can be seen in businesses as SMEs amount to almost 90% of all enterprises, which plays a vital role in the economic progression and employment creation globally. In the context of emerging economies, formal SMEs adds up 40% of national income (GDP) and even higher with the inclusion of informal SMEs. Besides, advancement in SME is of high importance for the government of different economies worldwide to fascinate the increasing workforce worldwide, which will likely be 600 million by 2030 as per the prediction. While most formal jobs are created by SMEs fabricating 7 out of 10 jobs in emerging economies, financial accessibility is a significant constraint to the expansion

of SME cited as the second utmost hindrance for SMEs growth in emerging economies (The World Bank, 2019).

Pakistani SMEs Sector

The significance of the SME sector cannot be undermined in the industrial expansion of a country. In Pakistan, SMEs represent almost 90% of the existing businesses, creates employment about 80% of the non-agricultural labour force, which contributes nearly 40% in the GDP annually. Furthermore, industrial divisions, for example, agriculture, fisheries, textiles, handloom weaving, transport, leather, marble & granite, carpets, and light engineering, are the dominant sectors for SMEs operated in Pakistan (SMEDA, 2019).

The prospects of the SME sector are enormous, given the inclusion of this sector under Pakistan's supervisory framework. Thus, these entities can establish their own identity and impact the progress of the country's economy by taking advantage of financial sectors with the accessibility and obtainability of the required information (Robin Mann, 2009).

Impact of COVID'19 on SMEs

The global economic slowdown and worldwide health emergency caused by the coronavirus (COVID-19) pandemic affected trade, investment, development, employment, and attainment of the UN Sustainable Development Goals. This outbreak has caused hardship for small businesses. Also, the entities run by new-comers and woman entrepreneurs have been affected. Extreme measures, such as lockdown, have been taken to minimize the spread of coronavirus that interrupted supply chain activities and a decline in demand in many sectors (Maryam Anas Ganaie, 2020).

Partial lockdown measures in Pakistan due to the outbreak of COVID-19 harm businesses and affected the country's economy. Slow growth in services, manufacturing and agriculture sectors, the surge in unemployment, decline in government revenue, deterioration in exports, and interruption in supply chains will be perceptible as per the preliminary predictions. Almost 5.2 million enterprises will face the dreadful consequence of the lockdown initiatives taken in the country (ITC, 2020).

Problem Statement

Even though the SME in Pakistani business environment has overwhelmingly of great importance, but there is a shortage of research work carried out regarding this sector. Mostly the studies are done or focused on the survival management of larger businesses of Pakistan. The SME sector is mostly falling victim to ignorance by researchers and policymakers of the government (Maryam Anas Ganaie, 2020). All of these are plus points of COVID'19 outbreak which are mentioned by various governmental agencies and researchers

Until now, most of the researches are concerned about how bad is COVID'19 and what are the adverse effects of it on the global economy or individual economy of any country. There are few exceptions to that point of view that is there are some high impacts of COVID'19 as well along with bad ones such as, accessibility of long-distance education facilities via online medium, increase in open vacancies at online startup businesses, much more research on new ideas of sustainable improvements, less pollution in last few months due to lockdowns, decrease in roadside accidents, and because of more number of overage individuals death there is a possibility of less pressure on

average people expenses plus pensions, etc. in the future. More or less, almost all the countries are agreed on this stance (Hussain, 2020).

Moreover, due to the temporary closure of large businesses and offices, most of the persons who lost their jobs are now starting their startups, thus, resulting in more vacant positions to be opened. One of the surveys on US online trading shows that there will be a significant increase in online trade by the end of this year, to be precise above current trade amount of \$2.4 trillion (Statista, 2020). Furthermore, according to predictors in 2024, the world population will go up to 8 billion, so do the number of online buyers that will be five billion-plus, exactly half of the expected population by that time (PopulationPyramid.net, 2019). If that happens, there will be no more pressure on the world economies, and every company will set an example of Amazon that gave out over 100,000 employments even in this time of crisis.

According to researchers, underdeveloped and developing countries are researching newer ways to extend the medical capacity of their respective countries to help them cope with current demand and future expected demands if something like that happens again. Thus, if any other virus surfaces in such countries in the coming times, then their sustainable discoveries can now help them. Moreover, the entire world seems to be a victim of such a monstrous virus, so there is a chance of global unity and peace. But there are even more chances of togetherness ideology to be built in the same Nations, especially Pakistan, where there are many caste systems dividing people on the name of differences (Hussain, 2020).

The primary purpose behind this research is to highlight the importance and usefulness of diversification, digitalisation, and innovative measures taken by SMEs around the world for the Pakistani SME sector to decide future direction for survival amidst this Pandemic crisis.

Research Questions

1. What are the possible ways to rearrange SMEs' resources to save them from shutting down amidst the corona crisis?
2. What is the role of innovation, digitalisation, and diversification in the rearrangement of resources for SMEs?
3. How can SMEs of Pakistan survive in the COVID'19 crisis without much investment?

Objectives

1. To examine the negative and positive influence of COVID'19 on the survival and growth of Pakistan's small and medium enterprises.
2. To determine the impact of rearrangement of resources, digitalisation, diversification, and Innovation on the survival of SMEs among the COVID'19 crisis.
3. Investigate and determine how to save the SME sector of Pakistan from breaking down due to lockdown emphasized due to COVID'19.
4. To pave the path for future researchers in the direction of exploring positivities from the current global crisis.

Literature Review

Global SMEs Sector

Small and Medium Enterprises (SMEs) holds a bit crucial part in managing the country's economy. The demands of niche markets are mostly met by these organizations individually. SMEs' role is quite considerable because of their sufficient role in production, foreign shipments, and employment opportunities. The economic development of different countries can vary from each other regarding these organizations' considerable roles. A developing country such as Pakistan owes an unusual lump of its GDP to Small and Medium Enterprises (Statista, 2020).

Three attributes that define SMEs worldwide are yearly revenues, amount of capital, and the number of employees. All three elements have different cut-off values because of differences in different economies. As compared to developing economies, the USA, Japan, Germany, Europe, and the United Kingdom are having higher capital values and yearly revenues because these are developed countries. The definitions of micro organization, small and medium enterprises, were all swayed by many economies. Some economies divided these sectors more, and some definitions differ in the traits mentioned earlier for the products and services sector (The World Bank, 2019).

Pakistani SME sector

In Pakistan, there are more or less 3.3 million SMEs. SME organizations include startups, providing services, and manufacturing units working on different levels. They give employment to 78% of workers who belong to other sectors than agriculture; over 30% of the GDP and make up about 25% of manufacturing exports in Pakistan. These organizations contribute intricately to the country's economy, but the attention given to them is minor compared to their part. If given proper care, SMEs can work wonders and grow beyond expectations. Still, institutional and government levels both required giving positive steps to SMEs to uplift their growth.

After nine years of the founding of SMEDA (SME Development Authority), the definition of SME came in Pakistan, as endorsed in the SME policy 2007. The definition of SME by SMEDA is as follows (SMEDA, 2018):

Table 1: Definition of SME in Pakistan

Paid-up Capital	Up to 25 Million PKR
Number of Employees	Up to 250 employees
Annual Sales	Up to 250 Million PKR

COVID'19 Infected SMEs of Pakistan

Due to the listed lockdown because of Covid-19, SMEs have been severely affected, as shown by complaints (Nation.com, 2020). The current financial situation of the country was observing slow progress in manufacturing, services providers, and farming fields, which is the reason behind, decrease in government income, an increase in unemployment, delays in supply chains, and decline of exports (Khan, 2020). So an online survey was launched by SMEDA to assess the present situation of "Impacts of Covid-19" on April 3, 2020, until April 14, 2020. From all across Pakistan, nine

hundred and twenty (920) organizations take part in the survey. An almost forecasted amount to be recovered will be expected as 29 billion Pakistani Rupee from these 920 businesses, and they employ approximately 19,641 employees. In addition to this, these businesses also give employment to almost 8,950 workers who earn by daily contractual work. The enterprises are mostly small, and their employees' size mainly consists of 1 to 5, out of which almost 33% of the companies survive with sales up to 1M PKR. The issues which are quite challenging for SMEs of Pakistan are said to be extended lockdowns, and their influence on the company's progress was highlighted in the survey report. The subsequent lockdown due to Covid-19 has caused a reduction in 95% business operations.

Similarly, 92% of respondents have reported disruptions in the supply chain were by 92% of businesses, and up to 100% loss in their export orders were reported by 23%. Unemployment increment is the major setback during the lockdown, and 46% of businesses, according to the survey, have shortened their employees at work. But, 26% of enterprises report positively that after crises pass, they are going to re-hire or re-employ their workers real soon, when the crises end. However, 89% of small enterprises are fighting problems regarding financial issues, whereas 60% of SMEs are facing challenges in selling their products/services and safeguarding their business and reducing the impact of Covid-19; they identified areas for public sector support. The areas which were identified by SME-specific support measures including financial packages, tax relief, relaxation in payments of utility bills, guarantees and grants, easing conditions for loan repayments and support in paying salaries (Maryam Anas Ganaie, 2020)

Rearrangements of Resources: Diversification, Digitalisation and Innovation for the Survival Of SMEs

From the last few years, a massive change of trend from traditional to digital business processes has been very evident to say that the world is moving towards the digital era. The direction of digitalisation has been followed by Business to Business companies as well as Business to Consumer dealing companies to stay in this race of survival of the ones who are more updated with new technologies. As far as the predictions go, many researchers predicted that almost 60% of total world businesses would switch to digital practices by the end of 2020. Moreover, they also emphasized that most SMEs are facing significant financial hurdles in adopting these technologies.

The financial constraints make it hard for them to survive in such big competition of survival of the fittest amidst so much national as well as international brands. Apart from all that, there is no stopping of an emerging trend of technological advancement through the adoption of digital platforms by companies and also there focus on R&D of new digital aspects. Thus, even if small and medium enterprises are facing low budgets for digital advancements, they should adopt the modified affordable version of it to stay on the latest trend for survival. The digital aspect of technological progress is not that out of means for SMEs, so, they should try to explore it for staying in business (Jhaveri, 2020).

According to researchers and practitioners, going digital by SMEs is to redesign the existing business models and functionality of daily tasks according to digital prospects. They are going digital means that companies need to start their functions on digital platforms by initializing digital presence in the form of websites for selling and advertising its products & services. Thus, by doing digital transformation, companies will enjoy increasing their daily efficiency and reach customers(International Trade Center, 2020). All kinds of automated and technological advanced tools fall under categories of digital transformation, for instance, virtual reality, internet apps,

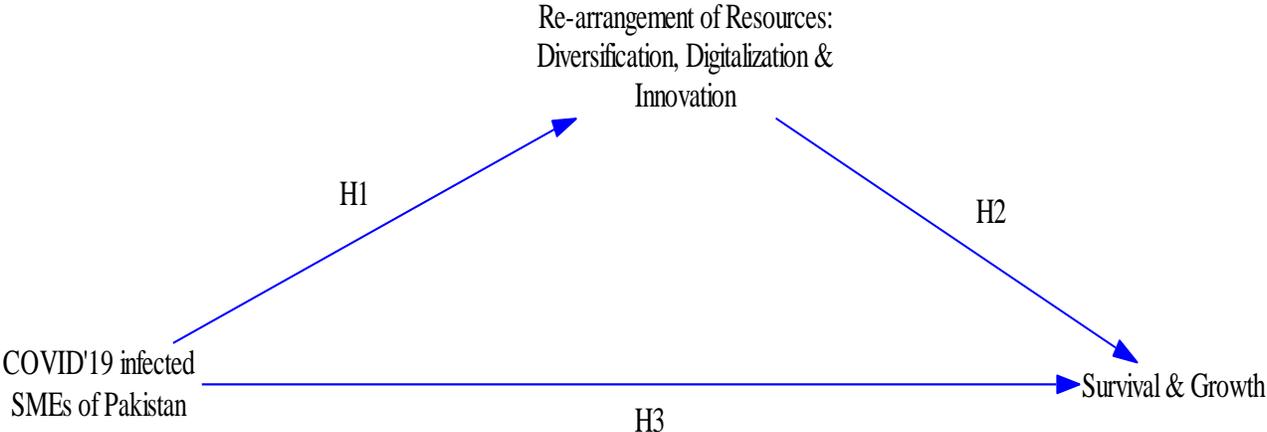
security apps, artificial intelligence, data tools, and 3D animations, etc. mostly, all of the discussed technologies are being used by most of the sectors or industries nowadays. According to a survey by ULAS, around 99.83% out of all organizations working belongs to the category of SMEs and not only that they also employ up to 50% of the workforce and contribute about 55.1% of total exports of the country, which is a considerable contribution in the economy by them. If they shift from traditional to digital practices completely, they might be able to challenge big organizations through digital technology-oriented business models and daily methods. Even if SMEs only focus little on digital transformation by showing that they have sound knowledge and realization of today's need, it will get marvellous results (ULAS, 2019).

Diversification is not all about expanding business or moulding it into another form but to give lost confidence back to the owner that he or she can survive if some changes are being implemented. That survey was taken when Alberta was facing similar economic crises like Pakistan, so, it will be beneficial in analyzing that diversification might be best in such a time of distress for sustainability. Also, that survey sheds light on the fact that diversification is helpful for the growth and survival of SME regardless of age. Instead, it is very much related to the approach and belief of the owner of SME. Thus, this is a very similar scenario with the COVID'19 situation faced by SMEs of Pakistan (BDC, 2015).

Innovation means that company needs to introduce new innovative technology either for redefining the business model of theirs or for making new innovative products or services for the customers even though the latest technological advancement might be unique for the customers or world. They should be creative and innovative; afterwards, they can educate their customers about their convenience or benefit. Innovation can be a new concept or idea being implemented or introduced by entrepreneur running his business.

According to a survey report of OCED in 1991, technological innovation and innovation are related concepts that are both focusing on introducing something new for the betterment of services or products of companies. Thus, Innovation is also quite vital for the survival and growth of SMEs, no matter the conditions applied (Nurulhasanah Abdul Rahman, 2015).

Figure 1: Research Framework

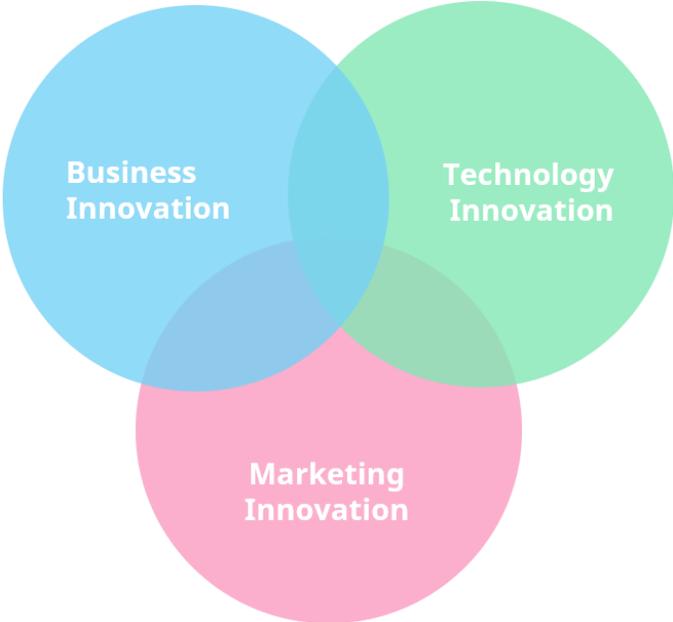


Underpinning Theories

Business, Technology and Marketing Innovations

According to researchers for diversifying businesses, it is best to adopt the theory of business, technology, and marketing innovation. In such a method, it is recommended to start with the Innovation of business models, technology, and marketing styles of the company for survival and growth perspective (Hans-Jorg Bullinger, 2016). According to this theory, innovation can be of the following type:

Figure 2: Business, Technology and Marketing Innovations



Business Model Innovation

In business model innovation researcher suggested going for the transformation of the old business model into a new and updated version to cater to the modern world needs of customers. All companies need to do is to find new techniques or daily practices to add additional value to their companies' offerings. For the sake of implementing such useful practices, a company can take assistance from following steps introduced by the researcher:

1. First, determine what kind of business model you have and what possible improvements are needed in your present model of business .i.e. analyze your weaknesses and work on them.

2. Be more unbiased while judging your present business model to be more authentic in your analysis. Think about possible solutions to your old fashioned practices improvement.
3. While making a new model of business, don't forget to stay put on your company vision.
4. After you create a new business model, don't implement it before pilot testing of the concept and practices.

Technology Innovation

To identify new innovative technologies to be included in business practices, the company should look into all possible options. There is no need to go with the most expensive one but with the one that is more suitable for the business model and vision. There is an entirely wrong myth that only big companies can afford technological Innovation, but SMEs can also go for innovative measures based on their efforts. It is given that technological transformation will increase the outcome, SMEs need to be serious about it. It can be defined as:

"Generating new ideas based on technology, capability, or knowledge to produce a new solution to a real or perceived need and develop this solution into a viable entity."

SMEs can modify existing technology according to their specific needs. There is no need to invest a hectic amount on the entire new technology, so they can earn more by spending less (BDC, 2015).

Marketing Innovation

In the modern world, if a company needs to approach its customers, they need an effective marketing plan. Marketing plans are mostly modified according to specific business needs and customer categories. To be in new marketing trends, SMEs need to start with the innovation of their marketing plans. According to researchers, if a company cannot reach its customers properly, there is no point in having a good business model or whatsoever. Marketing is all about inventing new trendy strategies and plans to reach customers. Marketing also includes identifying prospective challenges and target markets for businesses. Marketers should avoid bandwagon rule if they want to stand out from the rest of the competitors. For the innovation of marketing plans, there is a need for extensive market research and revisions of marketing strategies regularly. Companies can discover new ways of marketing old products or relate them to something else to make buyers interested in it (Kylliäinen, 2018).

The Modern Portfolio Theory (MPT)

According to Modern Portfolio Theory, businesses should start with a diversified set of portfolios instead of just one or two items. In that way, there will be a vital chance of having more interested investors and the probability of loss will also be low. Even if one product doesn't do well, others will compensate for it. During the time of economic crises such as now, it is best to diversify SMEs into more product lines. By doing that, entrepreneurs will get a better shot at surviving through this crisis; for instance, many designers start designing protection suits with a modern touch for the customers (Koumou, 2020).

Implications and Accomplishments

This study will be a new direction for the researchers to explore diversification not only from the perspective of SMEs' survival but also as a way of surviving through the current crises of a global pandemic. The theoretical framework built in this study will help future researchers get some useful insights into the subject area. Furthermore, researchers and governmental policymakers can gain new insight into ways to sustain and save Small and Medium Enterprises (SMEs) as they contribute a whole lot of portion in the GDP of the country.

Moreover, the realization of technological assistance for the SME sector will also get into the sight of governmental agencies and SME owners to better plan the attainability of technical tools. Finding that SMEs' survival depends on implementing diversification will encourage many firms to hang on a little longer until they develop a diversification strategy for their businesses. In theoretical means, the researcher found out that diversification, innovation, and digitalisation is positively related to the survival and growth of the SME sector. Still, we need data to support our argument. Because this paper is a conceptual one so, the researcher does not collect data to help the discussion or to relate it with other countries' situations.

Moreover, the researcher has self-developed all the framework with the help of previously published material, but because COVID'19 just happened a couple of months back, so there is less published literature. Therefore, there are many more options to explore in this study, and researchers are advised to conduct such type of research in their respective countries as well to get a clearer picture of the situation we are in. Therefore, by improving the use of resources or rearranging them, SME survival can be expanded to grow and flourish.

Conclusion

This study is a conceptual paper focusing on the challenges the SME sector in Pakistan faces during this time of global pandemic and proposes a solution to get through this difficult time. SME sector contributes to most of the countries' economies more than the big companies and mostly in developing ones. Because of the self-imposed lockdowns for the prevention of the COVID'19 outbreak, most lands, including Pakistan, are facing burnt of crises in the SME sector. Moreover, due to the loss of huge profits, SMEs are barely surviving, with most of them going bankrupt. Most of the SMEs are laying off employees resulting in unemployment and poor economic conditions in the country.

In this study, the researcher aims to determine the effect of COVID'19 on the survival of SME and determine the impact of diversification, innovation, and digitalisation on the survival and growth of the SME sector of Pakistan. The researcher suggested two theories to implement to get through these crises: method of business model, technology and marketing innovation, and Modern Portfolio theory. The researcher is of the view that rearrangement of company resources and by adding in the portfolio of products and services SMEs can get out of this mess alive. Furthermore, this research is just a conceptual paper, so there are many limitations and future prospects of this study.

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