

COVID-19 Pandemic Challenges and the Nigerian Micro, Small and Medium Scale Enterprises

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Abstract

COVID-19 pandemic posed great threat and challenges to the business world most especially the Micro, Small and Medium Enterprises (MSMEs) in Lagos State. Many of these enterprises suffered great downturn in business activities and reduction in profit volume. Many of them were forced to close down while others survived on the margin. Government and other stakeholders in the MSMEs have provided solution to their problems but most of them have not really yielded desired result. This paper examines various solutions that were proffered and considered their effectiveness in facing these challenges. Descriptive research design was adopted and primary data were collected with the aid of questionnaire. Population of study was 3,224,324 registered MSMEs in Lagos State (SMEDAN/NBS, 2013) while sample size of 400 was determined with Yamane (1967) formulae. A multistage cluster sampling techniques have been employed which is a combination of stratified, cluster and simple random sampling technique. A total of 400 copies of questionnaire were administered out of which 297 were properly filled and returned. Two hypotheses were tested at 5% confidence level using multiple regression and correlation statistical packages, to determine whether there is a significant relationship between COVID-19 pandemic survival options by MSMEs and crisis management response; between COVID-19 pandemic and MSMEs business survival. The study revealed that decline in productivity, business closure, supply-chain breakdown, reduction in profit volume, self-isolation, low customer demand; reduced opportunities to meet new clients had significant effects on performance of MSMEs. Consequently, it was recommended that MSMEs should embark on crisis management response, finance and liquidity, operation and supply chain, determine and activate the business continuity plan and monitor the implementation to enhance their survival.

Keyword: Survival strategy, COVID-19 Pandemic, MSMEs.

Introduction

The coronavirus disease 2019 Pandemic (COVID-19) is a highly transmittable and pathogenic viral infection caused by severe acute respiratory. It emerged in Wuhan, China and spread around the world to over 222 countries and caused global economic meltdown after the world great economic depression of 1930s (International Monetary Fund, 2020; World Health Organization, 2020). Globally, as at 18th December, 2020, there have been 73,275,943 confirmed case of COVID-19 with death of 1,650,348 and 1,671,539 cases were confirmed in Africa (WHO, 2020), While in Nigeria confirmed cases was 76,207 with death of 1,201 and 67,110 discharged (NCDC, 2020). It started as a health crisis but has rapidly evolved in to one of the worst economic crises in history. COVID-19 pandemic have caused global challenges, emergencies and crisis in all sectors of the economy most especially health, education, transportation, tourism, trade, investment (Abulescu, 2020) and lead to high level of unemployment which adversely hindered standard of living.

MSMEs significantly contribute to the economic growth and development of Nigeria economy in particular and global economy in general. They represent a seedbed of entrepreneurial skills and innovation, contribute to job creation, and are considered the backbone of the global economy (Alliance for financial inclusion, 2017). The World Bank has reported that formal MSMEs contribute up to 45% of total employment and up to 33% of national income (GDP) in emerging

economies. These numbers would be significantly higher if MSMEs in the informal sector were also included. In Nigeria, MSMEs are generally referred to as enterprises with less than 10 employees, with assets excluding land and building of less than N5million; small enterprises with 10 to 49 employees, assets excluding land and building of N5million and less than N50million; while medium enterprises engaged 50 to 199 employees and assets of N50million to less than N500million excluding land and building (SMEDAN/NBS, 2013).

COVID-19 Pandemic has seriously hurt MSMEs that is considered as the backbone of Nigeria economy to the extent that social distancing, transportation and border restrictions, and total lockdowns have interrupted supply chains, reduced consumer demand and cut cash flow. The outcome of all these is that businesses are unable to pay worker's salary, shop rent, utilities bills, creditors which resulted to bad effect on households and the economy (Vandenberg, 2020). COVID-19 serve as a threat to the survival of MSMEs while quarantines, shelter in place orders, social distancing, and cascading economic impacts make it difficult for many of these firms to carry out business activities. MSMEs are housed by five major sectors of the Nigeria economy Wholesale and Retail trade accounted for 42.3%, Agriculture representing 20.9%, Manufacturing 9.0%, Accommodation and Food Services 5.7%, and other services 13.1%, all together equal to about 91.0% of all MSMEs (Kale, 2019). Further, 97.1% of MSMEs in Nigeria are owned by sole proprietorship while partnership accounted for 2.2% in respect of ownership status (Kale, 2019).

COVID-19 pandemic poses great threats and challenges to the business world most especially the Micro, Small and Medium Enterprises (MSMEs). Many enterprises suffered great downturn in business activities and profit. Many of them were forced to close down while others survived on the margin. The consequent lockdown of the economy and the new normal in business practices caught many firms in the web of distortion in financial flow and industry strategic position. Government and other stakeholders in the MSMEs have provided solution to their problems but most of them have not really yielded desired result. This paper examined various solutions that were proffered and considered their effectiveness in facing these challenges.

Objectives of the Study

- i. To find out the effect of COVID-19 pandemic survival options by MSMEs on crisis management response.
- ii. To examine the impact of COVID-19 pandemic on MSMEs business survival.

Literature Review and Conceptual Framework

COVID-19 Survival Strategies

Coronavirus pandemic seriously inflicted a lot of agony on MSMEs performance which hinder their survival. The following key strategies identified by (PWC, 2020; Keyte, 2020; Technoserve, 2020 and Vandenberg, 2020) are important for MSMEs to survive and improve their performance during and after the global COVID-19 pandemic. Crisis management and response: Business enterprises need to quickly respond to the outbreak of COVID-19 pandemic and put in place measures to manage the deadly crisis. Current business continuity plans may not be relevant in managing the fast spreading COVID19 crisis. Therefore, MSMEs owners need to develop incident management and scenario plans that are focus on the pandemic; adequate and regular communication with stakeholders like employees, customers, host community, regulatory agency; comply with government directives and limit the risk of business failure (PWC, 2020).

Workforce is the labour pool either in employment or unemployment that is those that are available for work (US Bureau of labour statistics, 2016). It is generally used to describe those working for a single company but can also apply to a geographic region such as state or country (Keyte, 2020).

Management also consider the workers welfare and how to support remote working at scale. Therefore, attend to immediate global mobility concern, such as reviewing travel rules, human resources; using remote working strategy, including asking employees to temporarily stop work or work from home; proffer solutions to challenges on current information technology and communications infrastructure to assist work from home during and after the pandemic (PWC, 2020).

Operations and supply chain

COVID-19 pandemic has seriously hindered effective supply chain distributions of products across the world due to borders closure. Hence, MSMEs need to opt for alternative local raw materials as a substitution strategy to remain in operation and make the end products conveniently available to the final consumers at avoidable price (Keyte, 2020). Finance and liquidity, financial markets are seriously hindered by COVID-19 pandemic which result to total lockdown and subsequently economic recession.

Tax, trade and regulatory

There is need for downward review of tax regime or tax holiday for MSMEs during and after the COVID-19 pandemic for them to survive the crisis. The regulatory agency and government at all levels need to consider the impact of the pandemic on business enterprises, hence consider the option of tax relief as survival strategies.

Strategy and brand

MSMEs are trying to relax the effects of the pandemic on their businesses, hence opt for the following strategies. Consider accelerating digital transformations as the shift to remote working reveals gaps in information technology infrastructure, workforce planning and digital up skilling (PWC, 2020); enhance growth and improved performance via planning, financial discipline, products rebranding, packaging and new approach to business.

New normal business strategies

New normal business strategies refer to the modern ways of doing business via technology like digital business model and e-commerce, to shift to digital commerce channel including emerging or new market and open up of many other businesses online (Keyte, 2020). Works from home, business are forced by circumstances and conditions to adopt remote work and the benefits are reduced businesses spending and expenditures on rent and improve flexibility in business operations. Local supply chains, border closure which affect international business has force many firms to opt for local supply chain of raw materials and this has create opportunities for small business recognition in their area of competency (Technoserve, 2020 and Vandenberg, 2020).

Government support, international donors and developed countries aid will help the Nigeria MSMEs to recover and survive the crisis. For example some developed countries like USA, Germany, UK donated COVID-19 relief package in cash and kind to the Federal Government of Nigeria. Technoserve, (2020) and Vandenberg, (2020) pointed out that customer values, putting customer safety first and re-assuring Quality Process of production because product quality must not be compromised.

The production and management process must be environment and technology complaint to guarantee safety of all stakeholders during and after Pandemic lock down. Furthermore, Knowledge worker management; enterprises must be a learning organization by providing creative ambiance knowledge worker and invest more on human capacity development.

Tax Deferment:

All forms of taxes such as income tax, property tax, excise duties, shop permit and other payments by business to government are deferred to ease liquidity problem that encounter MSMEs during the COVID-19 pandemic (Vandenberg, 2020). Credit, the Federal Government of Nigeria make more credit available to MSMEs through various means such as direct lending through Central Bank of Nigeria, Bank of Industry, interest rates reduction, CBN monetary relaxation and extending grace periods on existing loans. Wage Subsidy, Government should assist the MSMEs financially in payment of employees' wages during lockdown to sustain the company. Enterprises Pivot, The federal, state and local governments in Nigeria should encourage MSMEs to adapt to current business climate and change to the new products and services.

Contributions of MSMEs to the Growth of Nigeria Economy

The world economies, particularly those of industrializing countries like Nigeria, stand on the shoulders of MSMEs businesses enterprises to grow. The reasons for this are not farfetched, are as a result of attributes MSMEs possessed such as creativity, dynamic, innovations, flexibility, efficiency, effectiveness and their portable size allows for a faster decision-making process (Afrikan Heroes, 2020). The contribution of MSMEs to the growth and development of any economy cannot be underestimated, they include: Contribution to the economy in terms of increase in quantity of goods and services; Creation of jobs opportunities globally and particularly to over 84% of Nigerian at relatively low capital cost (Afrikan Heroes, 2020), especially in the wholesale and retail sector; Avenue to reduce the gap between the rich and the poor (Fitriasari, 2020); Instrumental to economic growth and development of the country (Akingbade, 2020); Develop large number of skilled and semi-skilled employees as a basis for future industrial growth; Improve forward and backward integration strategies between economically, socially and geographically diverse sectors of the economy; Provide an opportunities for developing and adapting appropriate technological approaches; Create an enabling environment for entrepreneurial and managerial talent, among others. MSMEs are instrumental to the industrialization of the world economy and serve as back bone of socio-economic transformation of industrializing and industrialized economies (Ogundele, 2017). MSMEs enhanced technical, technological and entrepreneurial capacities among critical segments of the economy. MSMEs serve as a medium for redistribution of income, provision of job opportunities and creation of wealth among the poor in the country (Kale, 2019). MSMEs are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy like Nigeria.

Challenges of COVID-19 Pandemic to MSMEs

The world at large has been engulfed with unprecedented COVID-19 pandemic which emanated from health crisis to economic meltdown. MSMEs challenges cut across crises in health, economy and business why government at all level are trying to reduce the spread of the virus and gradually start the economy. Some of the major challenges that MSMEs encounter as identified by Vandenberg (2020) are; Lack of operational cash flow, that is most of the surveyed MSMEs in Lagos state have shortage of cash reserves of less than a month; decreased in customer demand for goods and services due to economic downturn; business closure due to government lockdown policies to prevent the spread of the virus to other parts of the country; reduced opportunities/chances to meet new customers as a result of federal government lock down order in Lagos State which affects business activities; issues that entail changing and introducing new business models and strategies and providing new products or services are seriously affected

because of work from home policies of the government and closure of business activities; declining or reduction in sales due to lockdowns, movement restriction, social distancing and closure of shops and offices; operational challenges like movement restriction affects supply of goods and social distancing guidelines make it difficult for business to operate; personal Stress, business owner or manager find it difficult to change to the current business challenges and manage their stress and that of their employees.

Theoretical Framework

Entrepreneurship Theory

Entrepreneur is the main source of economic growth and instrumental to change within any economy (Audretsch, 2015; Dorin & Alexandru, 2014; Schumpeter, 2012). Meanwhile, Schumpeter noted that economic growth and development are attained through innovations which result to increase in productivity (Konstantakis, Michaelides, & Papageorgiou, 2014). Further, he stated five types of behaviour that entrepreneurial exhibited as; development of a new product, modern method of production, creation of a new market, setting up of a new organization within an industry, or backward integration strategy that is self-development of source of raw material (Dorin & Alexandru, 2014; Konstantakis et al., 2014).

Moreover, the development of new and varieties of products, services, and processes challenged the old way or status quo of the existing marketplace and gave entrepreneurs a competitive advantage (Autio, Kenney, Mustar, Siegel, & Wright, 2014). While the three main motivators for MSMEs entrepreneurs are intention for power and independence, the believed to excel, and the happiness of creating (Dorin & Alexandru, 2014). These identified attributes in MSMEs owners motivate them to create better business enterprises. These attributes in the owner of small business encouraged them to look for opportunities that took them off the normal business development path (Autio et al., 2014). Consequently, entrepreneurship theory developed by Schumpeter pivots around innovation and against the traditional approach, and by new way of doing things. MSMEs business owners attain economic growth than his competitors (Baumol, 2015; Dorin & Alexandru, 2014; Bogliacino & Pianta, 2013; Schumpeter, 2012).

Methodology

This study employed descriptive survey research design to extract information from the owner of 3,224,324 registered MSMEs in Lagos State (SMEDAN/NBS Survey, 2013). The sample size of 400 was determined with Yamane (1967) formulae from the study population. A total of 400 copies of questionnaire were administered out of which 297 representing 74.3% were properly filled, returned and considered usable for the analysis. This figure was equally distributed among the five administrative divisions of Lagos State such as Ikeja, Badagry, Ikorodu, Lagos Island and Epe. The researcher engaged purposive and simple random sampling techniques to get representative of the population or sample size. In order to provide correct information the participants are owners or managers of MSMEs.

Respondents were requested to indicate the effect of COVID-19 pandemic and MSMEs survival strategy using a 1 to 5 point likert scale ratings from Strongly Disagree = 1 to Strongly Agree = 5.

The Cronbach reliability coefficient test result of the instrument was of 0.85 above the benchmark of 0.70 showing high level of reliability. On the validity of the instrument, congruent and logical validity were adopted. While the former was carried out through variable measures from extant literature, the later was designed through the administration of a set of questionnaire draft to few selected experts in entrepreneurship studies who validated the draft instrument and necessary corrections were made before the administration.

Data Analysis and Interpretation

Test of the Hypotheses:

H₀₁: There is no significant relationship between COVID-19 pandemic survival options by MSMEs and crisis management response

Table 1: Results of the Hypothesis One

	Pearson Correlation	P-Value	N
Covid 19 survival options	0.227	.002	297

Dependent Variable: Crisis Management Response

Source: Researchers' Computation, 2020

Table 1 showed the correlation results for hypothesis one. It was indicated that there is positive relationship between Covid-19 survival options and crisis management response. Also, the findings showed that a significant relationship existed between Covid-19 survival options and crisis management response (P-Value 0.002 < 0.05% significant level). Thus, the null hypothesis is rejected

H₀₂: Covid-19 Pandemic does not have significant effect on MSMEs business survival.

Table 2: Results of the Hypothesis Two

	β	StdError	t-statistic	P-value
Decline in Productivity	-.168	.095	-1.042	.029
Business Closure	-.070	.151	-1.370	.017
Supply Chain Breakdown	-.232	.089	-1.946	.002
Reduction in Profit Volume	-1.795	.194	-4.478	.000
Self-Isolation	.197	.047	2.691	.001
Low Customer Demand	-.406	.119	-5.821	.000
Reduced Opportunity to New Customers/Clients	-.309	.136	-3.788	.001

R = .233

R-Square = .049

Adjusted R-Square = .021

Dependent Variable: MSMEs Business Survival

Source: Researchers' Computation, 2020

Table 2 indicated the result of hypothesis two- Covid-19 Pandemic does not have significant effect on MSMEs business survival. The coefficient of determination (R^2) showed that 4.9% of the changes in the business survival of MSMEs are caused by Covid-19 pandemic. The findings showed that decline in productivity has a negative but significant effect on MSMEs business survival ($\beta = -.168$; t-statistic = -1.042 P-value = .029); business closure has a negative but significant effect on MSMEs business survival ($\beta = -.070$; t-statistic = -1.370 P-value = .017);

supply chain breakdown has a negative but significant effect on MSMEs business survival ($\beta = -.232$; $t\text{-statistic} = -1.946$ $P\text{-value} = .002$); reduction in profit volume has a negative but significant effect on MSMEs business survival ($\beta = -1.795$; $t\text{-statistic} = -4.478$ $P\text{-value} = .000$). The findings further revealed that self-isolation has a positive and significant effect on the survival of MSMEs ($\beta = .197$; $t\text{-statistic} = 2.691$ $P\text{-value} = .001$). It was shown that low customer demand and reduced opportunity to new customers or clients have negative effect but significant effect on the business survival of MSMEs ($\beta = -.406$; $t\text{-statistic} = -5.821$ $P\text{-value} = .000$) and ($\beta = -.309$; $t\text{-statistic} = -3.788$ $P\text{-value} = .001$) respectively. It is evidenced that all the variables employed are significant; therefore, the null hypothesis is rejected.

Discussion of Findings

Hypothesis 1: There is no significant relationship between COVID-19 pandemic survival options by MSMEs and crisis management response.

Business enterprises need to quickly respond to the outbreak of COVID-19 pandemic and put in place measures to manage the deadly crisis. Existing business continuity plans may not be capable of handling the fast-moving and unknown variables of an outbreak like COVID-19. Therefore, MSMEs owners develop incident management and scenario plans that are focus on the crisis (Digital business model and e-commerce, Works from home, Local supply chains, Customer values, Government support, finance and liquidity, operation and supply chain, determine and activate the business continuity plan and monitor the implementation to enhance their survival); adequate and regular communication with stakeholders (employees, customers, host community, regulatory agency); comply with government directives (social distancing, wearing of face mask), and limit the risk of business disruptions.

Hypothesis 2: There is no significant relationship between COVID-19 pandemic and MSMEs business survival.

Findings reveals that COVID-19 pandemic seriously threaten MSMEs business survival in Lagos State which result to decline in productivity hence, survival options are tax deferment, government support, credit, wage subsidy, local supply chains, customer values, works from home, digital business model and e-commerce, etc. It showed that decline in productivity, business closure, supply-chain breakdown, reduction in profit volume, self-isolation, low customer demand; reduced opportunities to meet new clients had significant effects on performance of MSMEs. Consequently, it was recommended that MSMEs should embark on crisis management response, finance and liquidity, operation and supply chain, determine and activate the business continuity plan and monitor the implementation to enhance their survival. It further shows that COVID-19 pandemic seriously threaten MSMEs business survival in Lagos State which result to decline in productivity, business closure, lack of operational cash flow, supply-chain breakdown, reduction in profit volume, self-isolation, low customer demand; reduced opportunities to meet new clients, personal stress, movement restriction, difficulties in introduction of new product had significant effects on MSMEs survival. Some of the survival options are tax deferment, government support, credit, wage subsidy, local supply chains, customer values, works from home, digital business model and e-commerce.

Conclusion and Recommendations

The present MSMEs operational techniques may not be able to handle coronavirus pandemic effectively due to its wide spread across countries of the world. Consequently, business enterprises need to embark on the following recommended survival strategic options to remain competitive. New normal business strategies proposed for adoption are digital business model and e-

commerce, work from home, local supply chains, customer value that is customer first, credit, knowledge worker management and government support. There is also the need for tax relief or holiday, wage subsidy, enterprises pivot, concentrate on retaining existing customers, introduce effective online service delivery, service differentiation strategy, reduction in product lines to manageable sizes and need for product promotion through social media. Finally, creativity and innovative strategies are required, along with the need for organisations to belong to relevant business groups, engage with employees through videoconferencing, frequent review of business strategies, focus on effective virtual communication with stakeholders thereby minimising attendant risks to business disruptions in an era of outbreaks of pandemics.

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