

COVID-19 PANDEMIC CHALLENGES TO MICRO, SMALL AND MEDIUM ENTERPRISES IN NIGERIA: STRATEGIC OPTIONS FOR SURVIVAL

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ABSTRACT

COVID-19 Pandemic posed a great threat and challenges to the business world, especially the Micro, Small and Medium Enterprises (MSMEs). Many of these enterprises suffered a great downturn in business activities and reduction in profit volume. Many of them were forced to close down while others survived on the margin. The government and other stakeholders in the MSMEs have provided solutions to their problems but most of them have not really yielded the desired result. This paper investigates the challenges that MSMEs in Lagos State encountered as well as the strategic options for their survival during the Covid-19 Pandemic era. A survey research design was adopted and primary data were collected with the help of questionnaire. The population of study was 3,224,324 registered MSMEs in Lagos State, while the sample size of 400 was determined with Yamane (1967) formulae. A simple random sampling technique has been employed to administer 400 copies of questionnaire out of which 297 were properly filled and returned. The findings from the regression analysis and the descriptive statistics revealed that there is no significant effect of MSMEs Covid-19 challenges (such as: decline in productivity, business closure, supply chain breakdown, low customer demand, reduction in profit volume, self-isolation, reduced opportunities to meet new clients) on business survival. Also, it was revealed that most of the respondents adopted cutting expenses as a strategic option for the survival of their businesses. However, the study concluded that Covid-19 Pandemic is a major threat to MSMEs survival and growth. It was recommended that MSMEs should embark on cutting expenses in order to survive Covid-19 and further, they should embrace crisis management response, finance and liquidity, operation and supply chain, determine and activate the business continuity plan, monitor the implementation to enhance their survival and readjust their response approach towards environmental changes.

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1. INTRODUCTION

The Coronavirus (COVID-19) Pandemic 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 223 countries. It caused a global economic meltdown after the world great economic depression of 1930s ([International Monetary Fund, 2020](#); [World Health Organization, 2020](#)). Globally, as of 23rd February, 2021, there have been 111,419,772 confirmed cases of COVID-19 with the death of 2,470,772 and 3,837,298 cases with 101,627 death cases were confirmed in Africa ([WHO, 2021](#)). While in Nigeria there were 153,187 confirmed cases with the death of 1,874 and 129,943 discharged ([NCDC, 2021](#)).

It started as a health crisis but has rapidly evolved into one of the worst economic crises in history. COVID-19 Pandemic has caused global challenges, emergencies and crisis in all sectors of economy especially in health, education, transportation, tourism, trade, investment ([Abulescu, 2020](#)) and has led to a high level of unemployment which has adversely hindered the standard of living.

MSMEs significantly contribute to the economic growth and development of Nigeria's 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 are considered the backbone of Nigeria economy to the extent that social distancing, transportation, border restrictions, and total lockdowns have interrupted supply chains, reduced consumer demand and cut cash flow. The outcome of all this is that businesses are unable to pay worker's salaries, shop rent, utility bills, credits resulting in bad effects on households and the economy ([Vandenberg, 2020](#)). COVID-19 serves 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 account for 42.3%,

Agriculture represents 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 terms 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 a 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. The government and other stakeholders in the MSMEs have provided a solution to their problems but most of them have not really yielded the desired result. The objective of this paper is to show the effect of COVID-19 Pandemic survival options by MSMEs on crisis management response and to examine the impact of COVID-19 Pandemic on MSMEs business survival. This paper examined various strategic options for survival of Covid-19 Pandemic challenges to MSMEs in Nigeria. Based on the aforementioned, the study therefore wants to investigate the challenges that MSMEs in Lagos State have encountered as well as the strategic options for survival during the Covid-19 Pandemic era.

2. LITERATURE REVIEW

2.1. History, Health Implications and Consequences of the COVID-19 Pandemic

The COVID-19 Pandemic is an unprecedented universe health and economic crisis that has ravaged the entire world. It started as health crisis before turning into the global economic downturn that hindered trade, investment, growth and employment (ITC, 2020). There is no doubt that coronavirus pandemic is one of the deadliest infectious diseases to have taken place in human history. Presently, COVID-19 is a respiratory infection disease that can be transmitted from one person to another. In addition, the disease has ravaged people across the globe, hence WHO classified it as pandemic on March 11th, 2020. Further, the infection has gone beyond public health crisis but also had negative impact on the world economy. Hence, the consequences are business fold up, trade disruptions, reductions in manufacturing and productivity, increase in unemployment, damage of tourism and aviation industries among others (Pak, et al., 2020).

Health officers noted that a new strain of COVID-19 may likely emanated from bats or pangolins. In this regard, the human transmission was firstly recorded in

the city of Wuhan, China, and most of the infected people or cases had connection with the local seafood market popularly called Wet market ([Ajibo, 2020](#); [Li et al, 2020](#)). Some of the COVID-19 patients symptomatology include fever, dry cough, dyspnea, breathing difficulty, muscle aches, headache, sore throat or diarrhea, runny nose and tiredness ([CDC, 2020b](#); [Ajibo, 2020](#); [Liu, Kuo & Shih, 2020](#); [Zhu et al, 2019](#)). The roll call of the previous pandemics and the number of deaths recorded was itemized by [Johnson & Mueller, \(2002\)](#); [Kain & Fowler, \(2019\)](#); [Simonsen, et al, \(1998\)](#); [Vibound et al, \(2016\)](#) and [Liu et al, \(2020\)](#) as 1918 Spanish flu with about 50 million deaths, as 1957 Asian flu with estimated 1.5 million deaths, as 1968 Hong Kong flu with almost 1 million deaths and as 2009 pandemic flu with approximately 300,000 deaths.

However, the following preventive measures were recommended by [WHO \(2020b\)](#) & NCDC (2020) against the spread of COVID-19 Pandemic: frequent use of at least 60% alcohol based sanitizer, regular hand washing with soap and running tap water, wearing face mask, maintaining social distance of at least 2 meters, avoid touching your face and nose, coughing in to your elbow, work from home, staying at home unless it is compulsory to go out, urgently seeking medical attention or going for COVID-19 test in the designated government approved centre in case of any symptoms of coronavirus pandemic, cleaning the environment and adhering strictly to COVID-19 protocol as stated by national and international health organizations. [Boseley, Devlin & Belam \(2020\)](#) stated that patients' strong immune system is largely responsible for their recovery from the infection despite the non-availability of official approved vaccine for the pandemic by the federal government of Nigeria. The story remains the same until 18th of February, 2021 when National Agency for Food and Drug Administration and Control ([NAFDAC, 2021](#)) officially approves the use of Oxford Astrazeneca vaccine in Nigeria to cure the virus.

2.2. COVID-19 Survival Strategies

Coronavirus pandemic seriously inflicted a lot of agony on MSMEs performance which hinders their survival. The following key strategies identified ([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 respond quickly to the outbreak of the 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 COVID-19 crisis. Therefore, MSMEs owners need to develop incident management and scenario plans that are focused on

the pandemic: adequate and regular communication with stakeholders such as 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 ([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 a state or a country (Keyte, 2020). Management also considers welfare of workers and how to support remote working at scale. Therefore, attention to immediate global mobility, such as reviewing travel rules, human resources; using remote working strategy, asking employees to temporarily stop work or work from home; offer solutions to challenges on current information technology and communication 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 affordable prices (Keyte, 2020). Finance and liquidity: financial markets are seriously hindered by the COVID-19 Pandemic, which results in total lockdown and subsequently economic recession.

Tax, trade and regulatory: There is a need for a downward review of tax regime or tax exemption for MSMEs during and after the COVID-19 Pandemic 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 teleworking revealing the gaps in information technology infrastructure, workforce planning and digital upskilling (PWC, 2020); enhanced growth and improved performance via planning, financial discipline, products rebranding, packaging and new approach to business.

New normal business strategies: This is the modern way of doing business via technology, a digital business model and e-commerce, in order to shift to digital commerce channel including an emerging or a new market and start many other businesses online (Keyte, 2020). By working from home, businesses are forced by circumstances and conditions to adopt teleworking and the benefits are reduced businesses spending and expenditures on rent and improved flexibility in business operations. Local supply chains and border closure which affect inter-

national business have forced many firms to opt for local supply chain of raw materials and this has created 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 MSMEs in Nigeria to recover and survive the crisis. For example some developed countries like United States of America, Germany, and United Kingdom donated the COVID-19 relief package in cash to the Federal Government of Nigeria. Technoserve (2020) and [Vandenberg \(2020\)](#) pointed to customer values, putting customer safety first and re-assuring the quality process of production because the product quality must not be compromised.

The production and management process: There must be environment and technology guarantee for safety of all stakeholders during and after pandemic lockdown. Furthermore, knowledge worker management: enterprises must be a learning organization by providing creative environment to a knowledge worker and invest more in human capacity development.

Tax deferral: All forms of taxes such as income tax, property tax, excise duties, shop permits and other payments by businesses to government are deferred to ease liquidity problems that are encountered by MSMEs during the COVID-19 Pandemic ([Vandenberg, 2020](#)). Credit: the Federal Government of Nigeria makes more credit available to MSMEs through various means such as direct lending through the Central Bank of Nigeria (CBN), 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 paying wages to employees 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 new products and services.

2.3. MSMEs Contributions to the Growth of Economy in Nigeria

MSMEs can be defined based on the number of employees such as 1–9, 10–49 and 50–249 as micro, small and medium enterprises respectively ([World Bank, 2014](#)). Meanwhile, MSMEs definition differs from country to country. Besides the number of employees, other variables such as assets, turnaround, and capital among others are also considered in its definition. The world economies, particularly those of industrialized countries like Nigeria, stand on the shoulders of MSMEs business enterprises to grow. The reasons for this are not farfetched, they are the result of attributes MSMEs possess such as creativity, dynamics, innovation, flexibility, efficiency, effectiveness and their portable size which enables a faster decision-making process ([Afrikan Heroes, 2020](#)).

The contributions of MSMEs to the growth and development of any economy cannot be underestimated, and they include: contribution to the economy in terms of increase in the quantity of goods and services; creation of job opportunities globally and particularly to over 84% of Nigerian at relatively low capital cost ([Afrikan Heroes, 2020](#)), especially in the wholesale and retail sector; reduction of the gap between the rich and the poor ([Fitriasari, 2020](#)); the key to the economic growth and development of the country ([Akingbade, 2020](#)); development of a large number of skilled and semi-skilled employees as a basis for future industrial growth; improvement of forward and backward integration strategies between economically, socially and geographically diverse sectors of the economy; provision of opportunities for developing and adapting to appropriate technological approaches; creation of an environment for entrepreneurial and managerial talent, among others. MSMEs are essential for the industrialization of the world economy and serve as the backbone of the socio-economic transformation of industrializing and industrialized economies (Ogundele, 2017). MSMEs enhance technical, technological and entrepreneurial capacities among critical segments of the economy. MSMEs serve as a medium for the 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.

2.4. Challenges of COVID-19 Pandemic to MSMEs

The world at large has been engulfed with an unprecedented COVID-19 Pandemic which emanated from a health crisis to an economic meltdown. Scholars reaffirm the fact that MSMEs all over the world are the most significant victims of the prolonged COVID-19 Pandemic and economic crisis ([Fitriasari, 2020](#); [Bourletidis & Triantafyllopoulos, 2014](#)). Hence, MSMEs challenges are cutting through crises in health, economy and business, as the governments at all levels are trying to reduce the spread of the virus and gradually start the economy. Consequently, 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 for less than a month; decrease 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 lockdown order in Lagos State which affects business activities; issues that entail changing and introducing new business models and strategies, providing new products or

services which is seriously affected because of work from home policies of the government and closure of business activities; decline or reduction in sales due to lockdowns, movement restriction, social distancing and closure of shops and offices; operational challenges like movement restriction affecting the supply of goods and social distancing guidelines making it difficult for business to operate; personal stress, a business owner or manager finding it difficult to adapt to the current business challenges and managing their and their employees stress.

2.5. Entrepreneurship Theory

Entrepreneurship is the main source of economic growth and instrument for a change within any economy ([Audretsch, 2015](#); [Dorin & Alexandru, 2014](#); [Schumpeter, 2012](#)). Meanwhile, Schumpeter noted that economic growth and development are attained through innovations, which results in increase in productivity ([Konstantakis, Michaelides, & Papageorgiou, 2014](#)).

Further, he stated five types of behaviour that entrepreneurship exhibited: development of a new product, modern method of production, creation of a new market, setting up a new organization within an industry, or backward integration strategy, and self-development of source of raw material ([Dorin & Alexandru, 2014](#); [Konstantakis et al., 2014](#)).

Further, 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](#)). Three main motivators for MSMEs entrepreneurship are the intention for power and independence, the belief 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 a small business encouraged them to look for opportunities that took them off the normal business development path ([Autio et al., 2014](#)).

Consequently, entrepreneurship theory pivots around innovation, against the traditional approach and support new ways of doing things. MSMEs business owners attain economic growth from their competitors ([Baumol, 2015](#); [Dorin & Alexandru, 2014](#); [Bogliacino & Pianta, 2013](#); [Schumpeter, 2012](#)).

Based on the review of the past studies, this study hypothesized that there is no significant effect of MSMEs Covid-19 challenges on business survival and also the study intended to offer solution to the strategic options that are most employed by MSMEs for survival.

3. MATERIALS AND METHODS

The study employed survey research design. The population of the study is the total number of registered 3,224,324 MSMEs in Lagos State ([SMEDAN/NBS Survey, 2013](#)). The study employed Taro Yamane formula from 1967 to determine the 400 sample size of the study. The study adopted questionnaire as the research instrument and it was administered to 400 MSMEs owners in Lagos State using a simple random sampling technique. However, 297 copies of questionnaire were retrieved from the respondents, which represents 74.3% of the sample size. The questionnaire was self-developed and the items in the questionnaire were ranked on 1 to 5 Likert scale from strongly disagree to strongly agree.

Questions were asked on the challenges MSMEs have encountered during Covid-19 era and include decline in productivity, business closure, supply chain breakdown, low customer demand and self-isolation. Also, the questionnaire covered the strategic options for survival which are management response, and cutting of expenses. The Cronbach reliability coefficient test result of the instrument was of 0.95 for challenges of MSMEs in Covid-19 and strategic options for survival has reliability value of 0.85 and they are all above the benchmark of 0.70 showing a high level of reliability. The study adopted descriptive statistics and regression analysis. The descriptive statistics was used to describe the demographic details of the respondents as well as the strategic options for survival using the bar chart while simple regression was used to ascertain the challenges of MSMEs in Covid-19 era.

4. DATA ANALYSIS AND INTERPRETATION

Hypothesis: There is no significant effect of MSMEs Covid-19 challenges (decline in productivity, business closure, supply chain breakdown, low customer demand and self-isolation) on business survival.

Table 1. Regression results between MSMEs Covid-19 challenges and business survival

Independent Variable	Coefficient	Std. Error	T-statistic	Probability
C	-6.871	1.279	-5.770	0.103
MSMEs Covid-19 Challenges	-2.927	2.380	-1.186	0.222
R-Square	0.023		F-Statistic	1.407
Adjusted R-Squared	0.008		Prob(F-Statistic)	0.222

Dependent Variable: Business Survival

Source: Author’s computation, 2020

The above indicates the regression analysis between MSMEs Covid-19 challenges (decline in productivity, business closure, supply chain breakdown, low customer demand and self-isolation) and business survival. It was indicated that the coefficient of multiple determination (R^2) is 0.023 which means that 2.3% of the changes in business survival are explained by MSMEs Covid-19 challenges (decline in productivity, business closure, supply chain breakdown, low customer demand and self-isolation). The results showed that there is a negative and insignificant effect of ($\beta = -2.927$; t -statistic = -1.183 ; P -value = 0.222). The results also confirmed that MSMEs Covid-19 challenges such as decline in productivity, business closure, supply chain breakdown, low customer demand and self-isolation do not have a significant impact on business survival (F -Statistic = 1.407 ; Prob (F -Statistic) = 0.222). Therefore, the hypothesis that there is no significant effect of MSMEs Covid-19 challenges on business survival is accepted.

To determine the strategic options for survival that are employed by the owners of MSMEs, the responses of the respondents are demonstrated as thus:

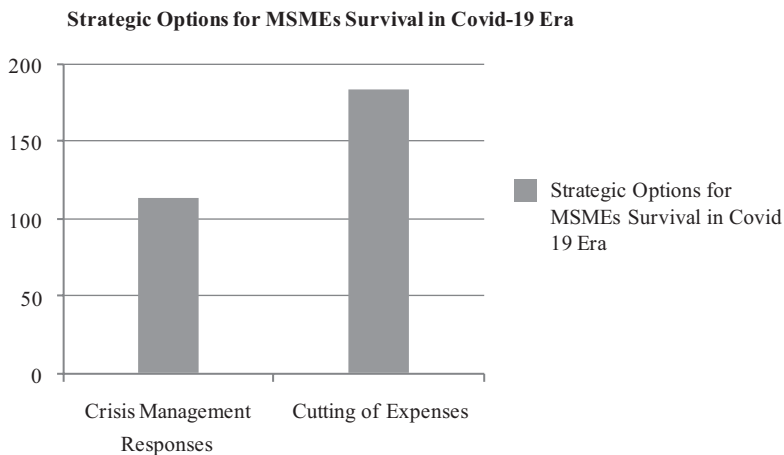


Figure 1. Survival Options for MSMEs in Covid-19 Era.

Source: Author's computation, 2020

Figure 1 shows the graphical representation of the MSMEs owners' responses to the strategic options survival in Covid-19 era. It was indicated that 113 (38.1%) of the respondents employed crisis management response as strategic options for survival in Covid-19 era. While 184 (61.9%) of the respondents adopted the strategic options for cutting expenses in Covid-19 era. This showed that most of the owners of MSMEs are cutting down expenses incurred in Covid-19 period.

5. DISCUSSION OF FINDINGS

It is evidenced that the challenges Covid-19 brought to Nigerian business environment is making it very hard and difficult for MSMEs to survive. When a business struggles to survive, such business cannot grow. Therefore, Covid-19 is an occurrence that is crippling business activities in Lagos State, Nigeria, because it has brought challenges of decline in productivity, business closure, supply chain breakdown, low customer demand and self-isolation. A rise in the number of Covid-19 cases could force the government to review its policy and directive on the movement of the people which would affect the production activities, resulting in business closure, breakdown in supply chain and low customer demand. It is further indicated that MSMEs owners believe that the best approach they can employ to mitigate Covid-19 challenges is through cutting expenses. Consequently, MSMEs owners attempt to reduce the cost of doing their business or the cost of business operations and that is the reason why the level of unemployment in both formal and informal sector in Nigeria is high.

6. CONCLUSIONS AND RECOMMENDATIONS

The present MSMEs operational techniques may not be able to handle coronavirus pandemic effectively due to its spreading across countries of the world. Hence, business enterprises need to embark on the following recommended survival strategic options to remain competitive: new normal business strategies, digital business model and e-commerce, work from home, local supply chains, customer value that customer is first, credit, knowledge worker management, government support, tax relief or holiday, wage subsidy, enterprises pivot, focus on retaining existing customers, introduction of effective online service delivery, provision of service differentiation strategy, reduction in product lines to manageable sizes, advertising on social media, creativity, belonging to a relevant business group, engagement of employees using videoconferencing, frequent review of business strategies, focus on factual and effective communication with stakeholders, and minimising the risk of business disruptions.

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ПАНДЕМИЈСКИ ИЗАЗОВИ КОВИДА 19 ЗА НИГЕРИЈСКА МИКРО, МАЛА И СРЕДЊА ПРЕДУЗЕЋА: СТРАТЕШКЕ ОПЦИЈЕ ЗА ОПСТАНАК

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САЖЕТАК

Пандемија изазвана вирусом корона представља велику пријетњу и изазове за пословни свијет, посебно микро, мала и средња предузећа (МСП). Многа од ових предузећа претрпјела су велики пад пословних активности и смањење добити. Многа предузећа су била присиљена да обиставе пословање, док су друга преживљавала на маргини. Влада и друге заинтересоване стране за МСП су обезбиједиле рјешења за ове проблеме, али већина њих заправо није дала жељене резултате. Овај рад истражује изазове са којима су се МСП у држави Лагос сусретала, као и стратешке опције за њихов опстанак током ове пандемије. Усвојен је модел анкетног истраживања и примарни подаци су прикупљени уз помоћ упитника. Популација студије је 3.224.324 регистрованих МСП у држави Лагос, док је величина узорка од 400 утврђена помоћу Јаманове (1967) формуле. Примењена је једноставна техника случајног узорковања за 400 примјерака упитника, од којих је 297 правилно попуњено и враћено. Налази из регресионе анализе и дескриптивне статистике открили су да не постоји значајан ефекат изазова ковида 19 на опстанак пословања за МСП (као што су: пад продуктивности, затварање предузећа, распад ланца снабдијевања, ниска потражња купаца, смањење добити, самоизолација, смањене могућности за привлачење нових клијената). Такође, откривено је да је већина испитаника усвојила смањење трошкова као стратешку опцију за опстанак пословања. Студија

закључује да је пандемија изазвана вирусом корона тренутно ипак главна пријетња за опстанак и раст МСП. Препорука је да МСП смањују трошкове како би преживјели период пандемије, а надаље, треба да почну да управљају кризом, финансијама и ликвидношћу, радом и ланцима снабдијевања, да утврде и активирају план континуитета пословања и надгледају његово спровођење како би побољшали шансе за опстанак и прилагодили се захтјевима за очување животне средине.

Кључне ријечи: *пандемија изазвана вирусом корона, одговор кризног управљања, економски пад, МСП, стратегија преживљавања.*