



ABSTRACT

Abundant studies in the context of Small and Medium Enterprises (SMEs) in Nigeria highlighted challenges hindering their optimum performance and growth compared to their counterparts in other developing countries. Challenges such as socio-political, socio-cultural, socio-economic, and technological were much mentioned in SMEs literatures. This paper is aimed at discussing socio-political factors affecting performance and survival of Nigeria SMEs. Specifically, the paper discussed the effect of Covid-19 control measures, such as total lockdown, local and international travelling bans, ban on social

EXAMINING THE EFFECT OF SOCIO-POLITICAL FACTORS ON SURVIVAL AND PERFORMANCE SMES: EVIDENCE FROM NIGERIA

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Introduction

Countries around the world depend largely on small and medium enterprises SMEs as engine of economic emancipation and growth. SMEs contribute to economic development, job creation, poverty reduction and export among others (Taiwo, Falohun, and Agwu, 2016). This substantiate the report from World Bank stating that 90% of business in the world is dominated by SMEs and such SMEs contributes to more than 50% of employment worldwide (world bank, April 2020). In Nigeria, there are about 41,543,028 business operating as micro, small and medium Enterprises (MSMEs), 73,081 SMEs constituting 96% of business, contributing 49% of Nigeria GDP in the last five years and 84% of employment (NBS,2020).

The Nigerian government has been making tremendously effort in expanding and revamping the SMEs sector through SMEDAN, the CBN and other relevant stakeholders (Amuda, 2020). For example, to caution the effect of covid-19 on the economy and SMEs in particular, the CBN has announced a stimulus package of N3.5 trillion for economic recovery (PKF, 2020). Also the CBN has approved the sum ₦50 billion (\$138.89 million) as a credit facility for households and SMEs that have been badly affected by the pandemic. Another ₦100 billion (\$277.78 million) has been earmarked for the health sector. Additionally, the sum of ₦1 trillion (\$2.78 billion) has been approved as a credit facility for the manufacturing sector. Furthermore, the interest rates on all the CBN interventions have been reduced from 9 to 5 per cent and a one-year moratorium on all the CBN interventions has been introduced (Otache, 2020).

However, in spite of the beauty of this statistic, and a glaring contribution of MSMEs to Nigerian economy, these enterprises continue to face tough economic times. Many studies on Nigeria SMEs discusses numerous challenges facing SMEs including: difficulty in accessing finance, high level of corruption, unfavorable tax policies (multiple taxation), insecurity, finding customers, infrastructure deficit (e.g. electricity, transport



gathering etc. resulted in cut in supply chain, disrupt production and create decline in sales and revenue. While rising insecurity also causes the dead of many SMEs owners and destructions of many business in several parts of the country. Payment of ransom to bandits and spending on private security by SMEs has effect on cost of doing business. The paper recommended that government and all stakeholders should ensure full implementation of all policies made to improve performance and survival of Nigerian SMEs in the face of challenges of Covid-19 control measures; robust effort should be made to ensure normalcy is return to all areas affected by insecurity so that full-scale economic activities will be restored. Nigerian SMEs should take precautionary measures in the event of outbreak of any kind of disease or insecurity in future.

Key Words: Socio- Political Factors, SMEs, Covid-19, and Insecurity.

deficiencies), insufficient cash-flows, competition with external counterparts, unskilled workforce, technology disruptions regular challenges (e.g. red tape/bureaucracy) and slow judiciary/court processes (Etuk, Etuk, and Baghebo, 2014; Igwe et al., 2018; NBS, 2020; Abbas and Sani, 2016; Tahir & Inuwa, 2019). Furthermore, measures imposed by government to curtail the spread of Covid-19 such as lockdowns, social distancing, use of sanitizers and restrictions on gatherings, the ugly surge in violence resulting from terrorism, kidnapping, banditry and insurrection in many parts of the country is crippling the performance of SMEs in terms of sales and return on investment and subsequently threatening their growth and survival.

Therefore, in view of the aforementioned challenges facing Nigerian SMEs, this paper is aimed at examining the socio-political factors affecting Nigerian SMEs. Specifically, the paper discusses the effect of Covid-19 control measures and the rising insecurity on performance and survival of Nigerian SMEs, with a view to highlight concrete solutions for improved performance and growth of this sector of our economy. Hence, these objectives are:

1. To determine the effects of Covid-19 control measures on the performance and survival of Nigerian SMEs.
2. To examine the effects of insecurity on the performance and survival of Nigeria SMEs

Literature Review

Nigerian Small and Medium Enterprises SMEs

SMEs in Africa operate in the informal and formal sectors with the majority in the informal sector (Igwe, et al., 2018). Notably, small and medium enterprises (SMEs) are the businesses meant for provision of goods and services in the aspect of manufacturing, agriculture, shoe making, computer skill, tailoring and other services sectors (Amuda, 2020). SMEs in Nigeria are defined as business entities that have less than 50 employees. Basically, these enterprises possess investment in machinery and equipment that is less or equal to six hundred thousand naira and independently owned and operated with a view to generating job opportunities and meeting sales standard (CBN, 2018). However, the bank of industry defined SMEs as an enterprise employing less than 10 people with total assets of less than five million naira and annual turnover of less than twenty million naira (NBS, 2020).

Concept of Covid-19

Corona virus disease 2019 commonly known as Covid-19 is refers to an infectious disease caused by severe acute respiratory syndrome corona virus 2; otherwise known as SARA-coV-2 (Moore, 2020; Ohia



et al., 2020). Its symptoms include fever, cough, shortness of breath, sore throat, runny nose, sneezing, among others. It is a highly communicable disease (Adnan et al., 2020) and its mode of transmission is from person-to-person (Unhale et al., 2020). Transmission occurs among close contacts mostly through respiratory droplets released when the infected person sneezes or coughs (Harapan, Itoh, Yufika, Winardi, Keam, Te, et al., 2020).

Ohia et al., (2020), observed that while measures such as lockdown, social distancing, self-isolation or self-quarantine and observation of simple hygiene such as regular washing of hands, wearing of facemasks and covering the mouth with handkerchief when coughing or sneezing have been recommended to contain the spread of the disease among people, it has negative impact on performance and survival of SMEs. In fact, despite the breakthrough in the vaccine and subsequent administering of the vaccine in Nigeria, leading to relaxation of some of the stringent measures such as lockdown, Nigerian SMEs are still fighting the effects of the control measures imposed by the federal and state governments.

Effects of Covid-19 Control Measures on Performance of Nigeria SMEs.

The outbreak of Covid-19 was unprecedented and the world was badly hit by the disease. The pandemic spares no country in the world as such different measures were enforced by affected countries to curtail its spread and consequence on health and economy (Obiezu, 2020). Sadly, the traditional business models in Nigeria have been distorted as a result of the aftermath of Covid-19 control measures imposed by the federal government of Nigeria with the recommendations of the constituted presidential task force on Covid-19. The control measures include partial and total lockdown, travel ban (local and international), restriction of movement and activities in key parts of the country. SME in Nigeria suffers a huge blow in terms of performance and to the worst extent some of the business has to close down due to bankruptcy resulting from long time of closure (Obiakor, 2020).

Additionally, the lockdown measure imposed has affected the purchasing rate of consumers; the percentage change fell from 59.2% to 41.1% from January 2020 to June 2020 which affects the productivity of the manufacturing sector of SMEs (CBN, 2020). Statistics also indicate an upward trend in unemployment in Nigeria from 23.1% to 33.5% in 2019 and 2020 respectively due to Covid-19 which put the population of unemployment around 39.5 million people (NBS, 2020). Also, the poverty rate has increased during the lockdown period by 8.7% i.e., from 43.5% to 52.2% which indicates 17 million more people falling below the poverty line (Adam, Edeh, Oboh, Pauw, & Thurlow, 2020).

Furthermore, Nigerian SMEs became more vulnerable to Covid-19 control measures due to their limited resources compared to larger enterprises. Otache, (2020) noted that control measures such as social distancing, quarantine or self-isolation, ban on social gatherings and closure of markets have exposed SMEs to lower revenue from dwindling sales and demand, while total closure of business or limited time of operation resulted to inability of business to settle their debt and eventually became bankrupt and die. Similarly, SMEs who are fortunate to be in low-risk zones were hit by cut in the supply chain as a result of border closure and travel restriction (Ohia, Bakarey, & Ahmad, 2020).

Ozili (2020) opined that Nigeria SMEs relied heavily on China for supply of inputs to facilitate their operations and the ban on foreign travels during Covid-19 pandemic, especially to China affects the supply chain and the continuity of such SMEs was jeopardized. According to the national president, Association of Small Business Owners of Nigeria (ASBON), coronavirus has created negative impact on the overall operations of SMEs in the country. Many SMEs experienced a cut down in production becoming vulnerable in their transactions and subsequently close down (Amuda, 2020).



Effects of Covid-19 Control Measures on Supply Chain of Nigerian SMEs

An effective supply chain system is always necessary to ensure higher efficiency rates, quality control, better customer relationship and service, faster production cycle, reduced production costs and an overall improvement in the financial performance of a company. Travel restrictions and lockdown measures across countries have impacted supply-chains in Nigeria. This has led to shortages in materials that serve as input for further production and so disrupt operations and outputs in SMEs. For example, business of sachet water at a time was halt due to cut in supply of polythene bags and other raw materials coming from China (Amuda, 2020).

Effect of Covid-19 Control Measures on Workforce

The global pandemic has exposed the world's labor markets to vulnerabilities as enterprises halt operations, reduce work hours and reduce staff strength. International Labor Organization (ILO) predicts unemployment to reach over 25 million with loss from workers' income to reach an estimated USD 3.4 trillion globally. SMEs in Nigeria provided jobs for over 70% of working population (ILO, 2027). Hence, the disruption to the supply of labor, especially daily wage-workers as lockdown persist, inability to pay remunerations and other contractual obligations could lead to loss of skilled workforce and also emotional and physiological strain due to uncertainties could impede innovation and efficiency of employees. In view of that, it has been interestingly asserted by the Director-General of ILO that: "workers and business are facing catastrophe, in both developed and developing economies. We have to move fast, decisively, and together. The right, urgent measures could make the difference between survival and collapse" (Ryder, 2020).

Effect of Covid-19 Control Measures on Finance and Liquidity of Nigerian SMEs

Cash inflow constrains affects SMEs ability to meet due obligations leading to risks of credit default and bankruptcy. Revenue shortfall due to declined demand is a constraint to operations and execution of short to medium-term strategies. Although stimulus packages has been given to revitalizing SMEs affected by the pandemic, majority of businesses have started showing a sign of liquidity problem due to the problem of cash reserves. Hence, Bulafara, and Adamu, (2021) postulated that any liquidity problem from this sector of the economy will result in liquidation in much other large business.

Effect of covid-19 Control Measures on Operations of Nigerian SMEs

Disruption in supply chain brought about shortage of raw materials needed for continues production by SMEs during the pandemic. Consequently, customers were left with no choice than to shift their demand to a more adaptive and efficient large-scale competitors. This has further worsened the operationalization of SMEs in Nigeria. Odinaka and Josephine (2020) stated that increased challenges faced by SMEs in operation due to shortage of inputs has consequential effect on increased costs from factor underutilization which add more burden to the SMEs.

Remedies to Effects of Covid-19 Control Measures on Nigerian SMEs

PwC publication (2020) proposed the following strategies to be adopted by Nigerian SMEs in mitigating the consequences of Covid-19 control measure:

- i. Take actionable steps to ensure health, safety and well-being of workforce to sustain productivity and ensure innovative feedback.
- ii. Evaluate supply chain and create alternative supply sources by adopting local quality materials as substitutes for imports in the short-term.



- iii. Adoption of E-Business Model and organize virtual training of ICT tools and usage to improve staff skills in use of online shopping, social media, robotics and artificial intelligence.
- iv. Strategize to meet current customer needs and enhance customer satisfaction via alternative and efficient communication channels.
- v. Make clear policies to address absence due to sickness or caring for relatives, and protocol for visitors to company sites.
- vi. Revisit the business's crisis and continuity plans. Generic plans may be tailored to cope with specific challenges from the pandemic.
- vii. Make adequate plans for resources and communication with employees.
- viii. Full implementation of fiscal policy measure initiated by government e.g., reduction in existing tax or give tax break to certain SMEs and increase spending on basic infrastructure so that it will reduce the cost of doing business by SMEs.
- ix. Full implementation of monetary policy measures such as the government approved sum of N50 billion (\$138.89 million) as a credit facility for household and SMEs that have been badly affected by the affected the pandemic, N1 trillion (\$2.78 billion) credit facility for the manufacturing sector and the reduced interest rate from 9 to 5 percent and a one-year moratorium on all the CBN interventions.
- x. Ensure multiple sources of income to support SMEs operations and mitigate the effect of lockdown.

Concept of Insecurity

Security is the most vital element in human life. Without it, social, economic, and political achievements cannot be attained (Charas, 2015). It is a condition which guarantee safety of human beings and properties in the absent of threat, danger or any harm. However, Ewetan and Urhie (2014) defines insecurity as breach of peace and security, civil, social, economic and political that contributes to recurring conflicts and leads to the wanton destruction of lives and property. Achumba, Ighomereho and Akpor-Robaro (2013) on the other hand described insecurity from two perspectives; as a condition of being susceptible to danger and being exposed to risk and anxiety in anticipation of some misfortune which could be caused both internally and externally. Insecurity of all kind be it terrorism perpetrated by Boko haram in the North east and other parts of the north, wanton killings and destruction of properties by IPOB in South east, militancy in the Niger Delta, kidnapping in virtually all part of country, banditry in the North central and North west, agitation for succession in south east and south west, human trafficking, killings by political vanguards, assassins and business rivals, arm robbery, theft, and cybercrimes, have negative impact on the performance and survival of Nigerian SMEs (Abbas and Sani, 2016).

Although security of lives and properties of the Nigerian citizens is what every government should hold at outmost priority as enshrined in the Nigerian constitution, in the recent years, the reverse has become the case. Instances of security where lives of innocent Nigerians are butchered, their valuable properties destroyed have become a big challenge. Many experts see the insecurity in Nigeria to constitute different dimensions. Insecurity is continually on the increase thereby engulfing all the inhabitants of Nigeria as the government faces insurmountable pressure to guarantee the security of lives and properties of its citizens (Ifeoma, Purity, & Anagbogu, 2015).

Effects of Insecurity on Performance and Survival of Nigerian SMEs

There is hardly a time when incidence of insecurity erupts in area without seeing the dwellers confused and running for their lives. In such situations, no one thinks of his shop, business, or any valuable property. Such incidence results in loss of several lives and businesses (Abbas & Sani, 2016). In most



cases, the attackers target market places when profitable businesses are going on with large number of innocent businessmen and women. According to June 11 2021 publication of global conflict tracker, more than 37,500 people were killed with about 2.5 mill people displaced by the activities of the Boko Haram in Nigeria since 2011 to date. Most of the people killed or displaced are common people engaged in small scale business as means of livelihood. The consequence of insecurity at all-time anywhere is protracted displacement of people, destruction of business and loss of income.

The Nigerian insecurity situation halted business operations during the periods of violence and also caused the outright closure of many small businesses especially in the North-east, South east and some part of North central. Generally, if there is no peace and security, it is extremely difficult for business to survive. Ordinary citizens having small and medium scale business cannot open shops for business transactions and many business are deserted when violence erupt (Oriazowanlan, & Erah 2019). Insecurity everywhere is a risk factor which businesses owners and managers dread and wish to avoid by relocating their businesses elsewhere. For example, it is evident that thousands of people especially Igbos who are in different categories of business in the north have relocated their enterprises to safer and more secured parts of the country (Epron, 2019).

Recently, the activities of banditry continue to claim many lives of local farmers who have been the major suppliers of farm inputs needed for continues production by manufacturing SMEs. This resulted in scarcity of raw materials and ultimately affects the cost of production and profitability of businesses. Similarly, the activity of kidnapping where huge amount of ransom is always paid to free the kidnaped person has negative effect on SMEs survival. In any case, the kidnappers target small scale business owners or their close relatives and families whom open payment of ransom become bankrupt and may be forced to close the business. Additionally, small scale business owners have now resorted to payment for service of private security and buying security gadgets to help save guard their businesses. This unwarranted spending affects the profitability of SMEs and consequently deters their survival (Oriazowanlan, & Erah, 2019).

Solutions to Rising Insecurity in Nigeria for Optimum Performance and Survival of SMEs

Business especially SMEs who have limited resources and capital are the worst hit by insecurity in Nigeria. Hence addressing insecurity challenges is pivotal to continue survival and growth of SMEs. In doing so, there is need to identify the causes of insecurity which several empirical findings suggest include; the menace of unemployment and poverty, elite exploitation of ethnicity and religious difference, corruption, weak security apparatus, porous border, marginalization and inequality in the country, bad governance and poor leadership (Onifade, Imhonopi, & Urim 2013; Zubairu, 2020). Solving this problem requires a more robust effort as recommended below:

- i. Establishment of community policing within each divisional police headquarters for effective management of insecurity.
- ii. There is a need to create an economy with appropriate social, economic, and physical infrastructure for business and industrial growth.
- iii. There is a need for our security apparatus to ultimately improve the training of security officers, sufficient training in borders security methodologies, the provision of state-of-the-art equipment and appropriate remuneration, good service conditions, and convenient after-service arrangements.
- iv. The government should boost people's living standards by establishing more centers of entrepreneurship across the nation, most notably in the north and north east.



- v. The government should create more job opportunities for the youth; this will make them abstain from committing all such crimes.
- vi. Politicians who use thugs should be barred from politics for life.
- vii. Governments should promote good governance openness, accountability through the use of print and digital media, and inform the public through conferences, seminars, and NGOs.

Conclusion and Recommendations

This paper discusses the effects of socio-political factors on performance and survival of Nigerian SMEs. It was gathered that covid-19 control measure imposed by Nigeria government and rising insecurity across the nation has resulted in decline in sales and profits, decline in working capital, halt in production due to disruption of supply chain and ultimate closure of many SMEs. The loss of job and closure of many businesses will further fuel and worsen the deteriorating security and economy of the nation. Hence it is recommended that:

- a. Government and all stakeholders should ensure full implementation of all policies made to improve performance and survival of Nigerian SMEs to caution the adverse effects of covid-19 control measures.
- b. Robust effort should be made to ensure normalcy is return to all areas affected by insecurity so that full scale economic activities will be restored.
- c. Nigerian SMEs should take precautionary measures in talking unprecedented outbreak of any kind of disease or insecurity that may affected their activities.
- d. SMEs should seek for expert advice in the mid of crises for proper handling of the crises before it get worse.

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