

## COVID-19 AND ITS EFFECT ON SMALL BUSINESSES IN NIGERIA: A RATIONAL CHOICE THEORY AND AN EMPIRICAL APPROACH

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### Abstract

*The misery and difficulties of the novel deadly infection (COVID-19) are of great concern to analysts, researchers, policymakers, and government agencies over the globe. This investigation examines the effect of the deadly infection (COVID-19) on small businesses in Nigeria, with particular reference to Lagos State. A purposive examining procedure was utilized to choose each of the 321 small businesses owner of Nigeria (ASBON) enlisted in the Lagos Business Directory. Close-ended questionnaires were used to gather data from the members. The data analysis was performed with percentage, mean, chi-square, and component factor analysis. The outcome uncovers that the deadly infection (COVID-19) has injured all the SMEs surveyed. It was discovered that most small businesses are doomed as a result of the negative impact of COVID-19. The assessment using rational choice theory derives that credit accessibility, tax waiver for sectors, the introduction of emergency advances, and flexibility of repayments of existing loans by financial institutions are solid palliative measures that can cushion the effect of the deadly infection (COVID-19).*

**Keywords:** COVID-19, Small Businesses, Rational Choice Theory, ASBON.

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## INTRODUCTION

The massive contributions of small businesses to economic sustainability have been documented in the literature and mentioned by economists, scholars, and researchers across the globe. Prior studies verify that the sector accounts for many business organizations and significant contributors to job creation, wealth creation, and Gross Domestic Product in advanced countries and emerging economies (Odetayo, Sajuyigbe, and Adeyemi, 2020). The total number of SMEs as of 2014 was 17.28 million in Nigeria. However, the number has increased due to necessity (Eniola and Entebang,

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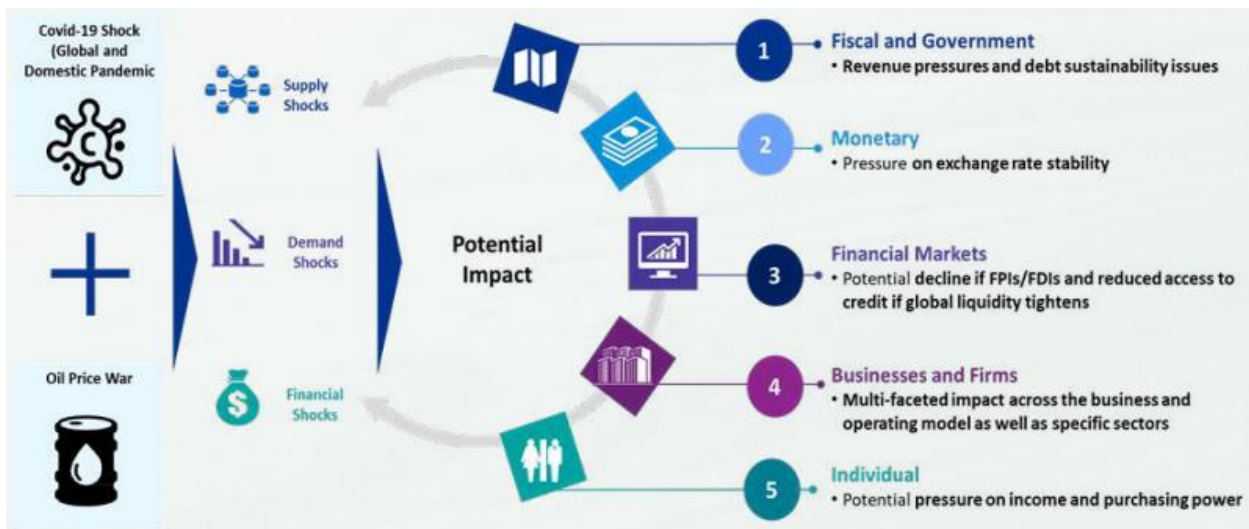
2014). NBS/SMEDAN(2017) reports that the total number of MSMEs stood at 41,543,028 as of December 2017. The formal sector and micro-enterprises have the most significant components of 99.8 percent, while SMEs account for the remaining percentage.

Moreover, Lagos States accounted for the highest numbers of enterprises across all classes. One of the reasons for this study is looking into how COVID-19 affects SMEs in the state. While the major economic sectors are manufacturing, education, trading, hospitality, food and beverages, and health work together accounted for 87.2 percent of the SMEs (NBS/SMEDAN, 2017). Furthermore, regarding the ownership status, the one-person business predominates the primary business formation, followed by limited liability companies, faith-based institutions, partnerships, cooperative societies, and others with total revenue of N2.719 trillion as of December 2017.

Recently, the sector has been hit severely by the outbreak of the pandemic (COVID-19). Since the World Health Organization (WHO) pronounced the novel deadly disease (COVID-19) on March 11, 2020, small businesses have been worst hit by the effect of the pandemic. Following this attestation, Abedejos (2020) confirms that since February 2020, small businesses worldwide are grappling with the difficulties of COVID-19. For instance, the record of OECD (2020) confirms that in the advanced countries such as the United Kingdom, Canada, Belgium, and the Netherlands, over 60% of small businesses have been genuinely hit by the deadly disease while a sizeable number of them are at the brink of bankruptcy. The report added that over 50% of small businesses in Asian countries have been experiencing a cash trap, while some contemplate laying off their workers (OECD, 2020).

In a similar report, the Economic Policy Research Center (EPRC) in Uganda reports that 75% of the reviewed private ventures have laid off their representatives because of the dangers posed by COVID-19 (OECD, 2020). In the same vein, the President of the Association of Small Business Owners of Nigeria (ASBON) laments that over 80% of SMEs in Nigeria are being tormented by the destructive coronavirus (Anudu and Okojie, 2020). Nigeria faces a double shock as an oil-dependent economy: the global and domestic impacts of the COVID19 pandemic and the effects of oil prices (KPMG Nigeria, 2020). The supply shock indicates that, according to the NBS, Nigeria's imports from China hit N4.3trillion (25% of total imports) in 2019, 69% higher per year. China's complete lockdown has impacted the export to Nigeria and put pressure on inflation to 12.20% as per February 2020 and above. The demand shock of oil export indicates that Nigeria's top importers of oil, India (11,555 cases), Europe (over 894,537 cases), and China (82,295 cases as of April 14, 2020), will slow down, leading to a buildup in crude inventories. This condition affects SMEs in Nigeria. The twin impact of COVID-19 is depicted in figure 1.

The record of Florida State University scientists likewise uncovers that the vast majority of small businesses have closed down entirely while only 40% are operating at total capacity due to the effect of COVID-19 (Burrows, 2020). In other reports, the Central Bank of Ireland stated that small businesses are suffering greatly due to the impact of COVID-19, and many of them are no longer able to work at total capacity. The deadly pandemic has also subjected some small businesses to danger by forcing them to resolve to close shop altogether. That attests to the adverse effect of COVID-19 on small businesses all over the world.



**Figure 1. The Twin Impact of COVID-19 in Nigeria**

Source: KPMG Nigeria (2020), *Coronavirus: Global and Domestic Impact*, April, pp. 15.

The government of various countries has introduced numerous palliative measures to sustain the sector's economic activities. For instance, the government of the United Kingdom has introduced Coronavirus Business Interruption Loan Scheme (CBILS) for small businesses to alleviate the suffering imposed on the sector by the deadly coronavirus infection (Rouse, Hart, Parshar and Kumar, 2020). In the United States of America, an extra \$250 billion has been raised to supplement \$350 billion in advance planned as a palliative measure for small businesses (Anudu and Okojie, 2020). In Nigeria, the Central Bank of Nigeria (CBN) has made a 50-billion-naira credit facility accessible for small businesses. The tax rate for the sector has been revised downwards from 30 to 20 percent as palliative measures to cushion the negative effect of the COVID-19 on small businesses (Onyekwena and Kekecheru, 2020).

Subsequently, Nigeria and all other developing nations need to confirm the effect of COVID-19 on small businesses. It has been revealed from past investigations that there are traces of COVID-19 adverse impact on small business organizations in the country. That has attracted the interest of researchers to examine the effect of COVID-19 on SMEs in Nigeria. Therefore, this study intends to assess the extent to which COVID-19 has affected small businesses and to evaluate the level of palliative measures that can adequately cushion the effect of the deadly disease.

There is no doubt that the above situations affect SMEs adversely in Nigeria and other parts of the world. To support this statement, the finding of Aifuwa, Musa, and Aifuwa (2020) reveals that the coronavirus (COVID-19) pandemic harms the performance of small businesses in Nigeria. In the same vein, Abedejos (2020) laments that since the first week of February 2020, businesses in Nigeria and worldwide have been suffering the hardships of COVID-19. In another report, Economic Policy Research Center (EPRC) uncovers that over 70% of the surveyed SMEs in Uganda have closed shops. Their workers have been laid off due to the effect of the COVID-19 (Lakuma and Nathan, 2020).

Consequently, the majority of them could not meet their statutory obligations. The reports of OECD (2020) reaffirm that small businesses have been adversely affected worldwide by the plague of COVID-19 (see table 1). Kim, Kim, Lee, & Tang's (2020) study affirms that infectious epidemic disease outbreaks negatively affect small businesses.

**Table 1: OECD (2020) 's report on SME Surveys on the impact of COVID-19**

<b>Date</b>	<b>Country</b>	<b>Impact on SMEs</b>
March	Poland	Over 33% of the SMEs experience growing costs and decreased sales, while 27% already encounter a cash trap
March	Greece	Almost 60% of the SMEs ride marked a decline in sales
March	Korea	About 61% of the SMEs have been impacted negatively, while most fear being out of business.
March	Belgium	About 75% of the SMEs record declines in turnover, while over 50% of them cannot pay costs in the short term.
April	UK	Over 70% of the SMEs expect to lay off, while 70% are out of cash.
April	Canada and the US	About 90% of small businesses are affected, while 33% of them lack financial resources.
April	Portugal	37% of SMEs surveyed experience dwindling production, and more than 50% do not have financial and material resources.
April	Germany	About 58% of SMEs experienced sales decline, while 50% of SMEs have a financial crunch.
May	Canada	About 81% of SMEs indicate that lethal diseases negatively affect their operations, while 32% doubt their business continuity.

Source: OECD, 2020

Deduction to be made from these findings is that the coronavirus outbreak has inflicted severe injuries on the SMEs and, at the same time, threatening their survival and making it difficult for them to continue to function as drivers of economic sustainability across the globe.

The theory underpinning this study is the rational choice theory (Chapman, 1994). This theory reflects a theoretical paradigm in which individuals' choices are explained based on maximizing preferences. The theory advocates those human beings behave rationally when making strategic decisions. The theory accepts that most human decisions aim to augment their advantages while limiting what can hurt them. Aifuwa, Musa, and Aifuwa (2020) indicated that the rational choice theory is a monetary statute that expects that people constantly make reasonable and legitimate inclinations that furnish them with tremendous and private preferences or fulfillment. Elster (1989) also has a similar view on the substance of rational choice theory when he expressed that "when confronted with quite a couple of distributions of activity (pandemic episode), people ordinarily do what they consider probable to produce the desired result. Critics of this theory believe that this theory is lacking in ethical objectivity because whatever I need to realize is possible if I possess wealth and power." Ethical objectivity is also not considered since

the philosophy does not consider how individuals maximize their preferences. The consideration should also be given to the fact that not all choices are economically viable.

Furthermore, many small business operators rationally think and respond to the new normal created by COVID-19 by adjusting their business models to adapt to the new realities. For instance, one local brick-and-mortar store in Festac Town, Lagos, responded to the pandemic by creating an online presence and setting up a virtual store. The business is now selling wares online and making physical deliveries to designated locations. The rational and reasonable solution to the COVID-19 problems in SMEs, as suggested by Nwokocha et al. (2021), is to adopt or institutionalized the use of strategic alliance in operations. Other businesses are also making such rational choice adaptation to bring them out of the pandemic scourge. For this reason, the rational choice theory is considered adequate to drive this study due to the fact that under the scourge of the COVID-19 pandemic, small business operators are making rational choices bordering on safety and security side by side with business model adjustments to survive the pandemic era. Based on this reasoning, this research hypothesizes that **SMEs will choose a reasonable solution to overcome the COVID-19 pandemic.**

## RESEARCH METHOD

*Research Design:* A survey study was employed for this examination on the ground that it is very convenient to administer remotely via an online, mobile device, mail, or telephone (Wyse, 2012).

*Sampling Technique and Sample Size:* Purposive examining procedure was utilized to choose every one of the 321 small businesses that are enlisted and recorded in the Lagos Business Directory are education, wholesale/retail trade, manufacturing, accommodation & food services, and human health & Social work. According to NBS/SMEDAN (2017), the sectors mentioned above are the bedrock of the country's economic sectors. Close-ended copies of the questionnaire were utilized to gather data from the members. The selection of Lagos is based on the ground that it has the most significant number of small businesses coupled with the fact that Lagos State has the highest number of recorded cases of the deadly virus in Nigeria (OECD, 2020; Aifuwa, Musa, and Aifuwa, 2020).

*Method of Data Collection:* Close-ended questionnaire was used to collect data from the participants. Copies of the questionnaire were administered via the Google document platform due to the lockdown development of COVID-19 in the country (Aifuwa, Musa, and Aifuwa, 2020). Information on a palliative measure in different countries was also collected from the news of Covid-19. This information is then used to compare the result within Nigeria.

*Validity and Reliability of the Instruments:* The scale's validity was determined by the four experts in the Department of Business Studies, Landmark University. In addition, a pilot test was conducted using 20 respondents. At the same time, the scale's reliability was also determined by

adopting a split-half reliability test, and the correlation value obtained was 0.79 with the aid of SPSS. Survey research was used for this study on the ground that it is very convenient to administer remotely via an online, mobile device, mail, or telephone (Wyse, 2012).

*Method of Data Analysis:* The data analysis was performed with the help of percentage, mean, chi-square, and component factor analysis.

## RESULTS AND DISCUSSION

### **Palliative Measures Put in Place by various Countries**

Various countries of the world have put in place different palliative measures to curtail the effect of the deadly virus on their citizens. The palliative measures introduced by foreign nations are discussed below:

#### 1. United Kingdom

The United Kingdom first experienced the novel COVID-19 on January 31, 2020. The government put many palliative measures, such as restrictions on traveling and social distancing and introducing business and ant-interruption loans with a 100% government guarantee. Subsequently, these commendable palliative measures made life easy for families and strengthened small businesses to triumph amid deadly diseases (COVID-19) (IMF, 2020).

#### 2. United States of America

In January 2020 first case of COVID-19 was recorded in the United States, leading to the closure of bars, restaurants, parks, and schools. Palliatives introduced by the government of the United States include; provision of extra unemployment benefits, loans, and guarantees to help small businesses sustain operations. The government provided \$75 billion to hospitals to assist in combating the virus and \$25 billion for expanding virus testing (IMF, 2020).

#### 3. Canada

Canada had experienced 173,000 cases of COVID-19 and more than 9,500 deaths as of October 7, 2020. That leads to the introduction of palliative measures by the government to cushion the effect of the novel virus on the citizenry. Palliatives introduced such as increased lending and lowering of interest rates to firms under stress, government support to the tune of \$5.2 billion to entrepreneurs (IMF, 2020).

#### 4. South Africa

South Africa witnessed the plague brought by the novel virus (COVID-19) on May 5, 2020. Because of this, the government came up with the national state of disaster policy as the infection rate continued to rise. Sequel to this, the government introduced palliative measures such as social distancing, wearing nose masks, and a travel ban on visitors. Firms and the workforce facing distressed syndrome were helped via insurance schemes. Small businesses such as tourism, hospitality, and agro-allied that were adversely affected received palliatives funding from the government (IMF, 2020).

## 5. Malaysia

Malaysia is experiencing double shocks due to the drop in oil prices and the spread of the novel deadly virus (COVID-19). By October 8, 2020, COVID-19 cases have reached 141 deaths. Consequently, the government restricted the operation of businesses, traveling, and opening of schools to curtail the spread of deadly diseases. In addition, the government also introduced commendable palliatives such as approval of the sum of RM 6 billion on February 27, 2020, for health spending, social security assuagement, and making funds available to the affected sectors. On March 27, 2020, the government also introduced the second palliative measure to cushion the effect of deadly diseases. For example, the sum of RM 25 billion was expended on the health sector. At the same time, cash transfers were made available to low-income earners, and wages were subsidized for employers of labor to avoid lay-off of workers. Additional palliative packages were introduced on April 6, 2020. The sum of RM 10 billion as the grant was given to small-scale businesses to cushion the effect of the COVID-19. Banks were advised to extend the repayment period to all entrepreneurs affected by the COVID-19 plague.

## 6. Nigeria

Nigeria experienced an economic crunch due to the devastation brought by COVID-19 and the dramatic decline in oil prices. This scenario has made the country not stand on its feet among the comity of nations. Cognizant of this fact, the government introduced some palliative measures to curtail the effect of the deadly diseases, such as the closure of worshipping centers, local and international airports, and closure of both public and private schools. In addition, the sum of N2.3 trillion was made available to reboot the economy. The Central Bank of Nigeria (CBN) also assisted the federal government by reducing interest rates on loan facilities granted entrepreneurs from 9% to 5% (IMF, 2020).

As indicated in the list, countries are adopted reasonable choices in solving COVID-19 problems according to their conditions.

### **Rationale and Reasonable Solution to Overcome COVID-19 Pandemic.**

Before proving the rational choice theory in solving problems, it is necessary to determine what problems SMEs are facing caused by the covid pandemic. Table 2 shows an assessment of the COVID-19 effect on SMEs.

Table 2 reveals the assessment of COVID-19's effect on Small Businesses in Nigeria. It can be deduced that, first, 67% of small businesses have stopped operations since the outbreak of the lethal disease in March. Second, 64.8% attests to the fact that their members of staff are unable to come to work. Third, 63% confirm that their customers have been prevented from buying their goods and services. Fourth, 65.7% could not access credit facilities available for small businesses. Fifth, 62.6% lament they may be out of business by December if the lethal virus persists. Sixth, 60.7% experience cash flow problems, and seventh, 61.7% could not pay wages and salaries. At the same time, 57.9% lay off most of their staff members due to the effect of COVID-19. Thus, the grand mean of 4.05942 and the p-value of Chi-square, which is 0.000, show a high level of acceptance that all the listed items are the challenges imposed by lethal disease (COVID-19) on

small businesses in Nigeria. This study concurs with the findings of the previous studies (Aifuwa, Musa and Aifuwa, 2020; OECD, 2020; Kim, Kim, Lee, and Tang, 2020) that the coronavirus outbreak has adversely affected the growth and survival of small businesses globally. That implies that COVID-19 has hit the sector negatively, and if proper palliative measures are not provided, the economic fallout of the pandemic on Nigerians could be severe.

**Table 2. Assessment of COVID-19' Effect on Small Businesses in Nigeria**

Statement	N	Disagree	Agree	Mean	Chi-Square
Your business has not been in operation since WHO declared COVID-19 on March 11, 2020.	321	33%	67%	4.6098	108.938 (P<.05)
Most of your staff members are unable to come to work till today.	321	35.2%	64.8%	4.5330	143.121 (P<.05)
During the outbreak, you find it extremely difficult to meet up your statutory obligations	321	38.3%	61.7%	3.9851	118.611 (P<.05)
COVID-19's disruptions harm your customers' ability to buy products or services	321	37%	63%	4.2212	102.941 (P<.05)
Over 70% of your raw materials cannot be accessed because they are imported.	321	40.5%	59.5%	3.5950	101.619 (P<.05)
Your company is currently considering the lay-off of workers because of the epidemic	321	42.1%	57.9%	3.5794	103.973 (P<.05)
You face difficulties accessing the 50 billion Naira credit facility available for small and medium enterprises	321	34.3%	65.7%	4.6573	127.676 (P<.05)
During the outbreak, you experience cash flow problems	321	39.3%	60.7%	3.8075	274.168 (P<.05)
Due to the effect of COVID-19, you lay off most of your staff.	321	42.1%	57.9%	3.5794	188.935 (P<.05)
You anticipate being out of business by December if the outbreak persists.	321	37.4%	62.6%	4.0265	81.327 (P<.05)
<b>Grand Mean</b>				<b>4.05942</b>	

Source: Field Survey (2020)

Table 3 summarizes the results of KMO and Bartlett's Test. The Kaiser-Meyer-Olkin (KMO) test of Measurement of Sampling Adequacy is 0.627, and Barlett's Test of Sphericity (Chi-Square = 944.475, P < 0.000) is highly significant. Kaiser (1974) suggests that when the (KMO) test value is more than 0.5 and the probability's value of Barlett's Test of Sphericity is less than 0.05 is appropriate for the factor analysis. This test implies that we are confident to proceed.

**Table 3. KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.627
Bartlett's Test of Sphericity	Approx. Chi-Square	944.475
	Df	21
	Sig.	.000

Source: Data Analysis, 2020



Table 4 reveals the significance of each of the seven principal components. The first four factors are meaningful as they have Eigenvalues > 1. Factor 1 (making credit facility available for small businesses in the local governments), 2(introduction of emergency loans to support small businesses by financial institutions), 3 (flexibility for repayments of the existing loans), and 4 (personal and corporate income tax waiver) explain 20.62%, 17.91%, 16.213% and 14.471% of the variance respectively. Together, these explain 69.21% of small businesses' survival variation during and after COVID-19, while some unknown factors explained the remaining 30.79% of the variation.

**Table 4. Principal Component Analysis of palliative measures to cushion the effect of COVID-19**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.444	20.623	20.623	1.444	20.623	20.623	1.272	18.178	18.178
2	1.254	17.910	38.533	1.254	17.910	38.533	1.236	17.659	35.837
3	1.135	16.213	54.746	1.135	16.213	54.746	1.181	16.873	52.710
4	1.013	14.471	69.217	1.013	14.471	69.217	1.155	16.507	69.217
5	.869	12.411	81.628						
6	.768	10.973	92.601						
7	.518	7.399	100.000						

Extraction Method: Principal Component Analysis.

Source: Data Analysis, 2020

This finding implies that the 50 billion Naira credit facility made available for over 41 543,028 small businesses in Nigeria has to be double. Also, the government should introduce an additional lending scheme in which the operators of small businesses will be eligible to access the loans, and the government should provide a guarantee to the lender for 100% of the loan value. The government should also grant a tax holiday for small businesses for one year to enable them to survive the pandemic era.

The results from Table 5 confirm that making credit facilities available for small businesses in all the local government areas, the introduction of emergency loans to support small businesses by financial institutions, flexibility for repayments of existing loans, and personal and corporate income tax waiver with mean values of 4.7913, 4.7414, 4.6231 and 4.5452 are strong palliative measures. At the same time, SMEs should engage in in-home delivery or online transactions as a weak palliative measure to cushion the negative effect of (COVID-19) on small businesses in Nigeria. This study is in line with the assertion of the OECD (2020) measure. This measure includes the provision of specialized funds for small businesses, tax reduction or tax exemption on the products of small businesses, deferment of income tax, withholding tax, value-added tax, and

excise tax will assist small businesses to continue to wax stronger amid COVID-19. Table 5 summarizes the palliative measures to cushion the effect of COVID-19.

**Table 5. Descriptive Statistic Response Scores on palliative measures to cushion the effect of COVID-19.**

Statement	N	Minimum	Maximum	Mean	Std. Deviation
Making credit facilities available for small businesses in all the local governments.	321	4.00	5.00	4.7913	.40703
Personal and corporate income tax waiver for the year 2020.	321	3.00	5.00	4.5452	.61134
The cash reserve ratio should be reduced to the barest minimum to provide liquidity for the banks so that the banks can, in turn, extend credit to small businesses.	321	1.00	5.00	3.8006	1.26891
SMEs should engage in in-home delivery or online transactions	321	1.00	5.00	3.6542	1.11890
Introduction of emergency loans to support small businesses by financial institutions	321	3.00	5.00	4.7414	.44560
Flexibility for repayments of existing loans	321	3.00	5.00	4.6231	.56289
Granting of a one-year moratorium on all principal repayments for small businesses	321	3.00	5.00	4.3863	.66167

Source: Field Survey (2020)

## CONCLUSION

The misery and difficulties of novel deadly infection (COVID-19) is a significant worry to analysts, researchers, policymakers, and government agencies over the globe. This investigation consequently aims to evaluate the effect of deadly ailments (COVID-19) on small businesses in Nigeria with explicit reference to Lagos State. The outcome uncovers that the deadly diseases (COVID-19) have injured all the SMEs surveyed. It was discovered that most small businesses are doomed due to the plague experience of the COVID-19 pandemic. This study believes that making credit accessible and a tax waiver for the sector, the introduction of emergency advances, and flexibility of repayments of existing loans by financial institutions are solid palliative measures that can cushion the effect of the lethal virus (COVID-19). The reason is that because tax being paid by small businesses is higher compared with what other West African countries are paying. For instance, small businesses pay 17.5% tax in Ghana, while in Nigeria, they pay as much as 40% (Aryeetey and Ahene, 2020).

### *Managerial Implication*

The ramification of this assessment is that small businesses have been hit adversely by the deadly infection (COVID-19). If appropriate palliative measures are not provided, the economic aftermath of the plague on Nigerians could be extreme. To help small businesses to succeed and flourish during and after COVID-19, the government at all levels should make credit facilities accessible for the sector and implement a tax waiver policy for SMEs. In addition, the Central Bank of

Nigeria should direct financial institutions to make advances accessible and make the repayments of existing loans flexible for the sector.

#### *Limitation and Future Study*

One of the study's limitations is the geographical as the survey was carried out in southern Nigeria. Further studies can be extended within the shore of the country. Likewise, the study did not capture all the sectors of the economy in the country. Other sectors of the economy, for future research, could be taken into account.

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