

## Original Research Article

# The Impact of Finance to Sustainability of SMEs in Post COVID-19 Pandemic in Nigeria

Mohammed Sabo Bello<sup>1\*</sup>, Alhaji Ali Tijjani<sup>1</sup><sup>1</sup>Department of Accountancy, Yobe State University, Damaturu, Yobe State, Nigeria**Article History**

Received: 14.08.2022

Accepted: 21.09.2022

Published: 25.09.2022

**Journal homepage:**<https://www.easpublisher.com>**Quick Response Code**

**Abstract:** The outbreak of coronavirus disease (COVID-19) has severely affected the global and Nigerian Economy. The most affected victims of the pandemic are the Small and medium scale enterprises (SMEs). This study aim to explore the role of finance in sustainable operations of SMEs in Nigeria post COVID-19 pandemic. The study shall adopts a quantitative approach where questionnaires are distributed to SME owners and managers in the Northeast region of Nigeria. A total sample of 384 SMEs are expected to participated in this study. The Dataset collected for the purpose of this study is expected to be analysed using both binomial and T-test. The data collected revealed that finance plays an important role in the sustainability of business in the sampled area. Based on the findings, it is recommended that government should provide means of tackling the funding challenges faced by SMEs through provision of infrastructure and loan facilities. Finally, the business owners should equally focus on wealth and profit generation, bearing in mind other social and environmental concerns.

**Keywords:** COVID-19, (SMEs). Business, loan facilities, Sustainable Development Goals.

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## 1. INTRODUCTION

Nigeria is a country dedicated to achieving the Sustainable Development Goals (SDGs) by 2030. These goals are a universal call to protect people (social), planet (environment) and profit (economic). The primary aim of these goals is to be ending poverty, protecting the natural environment and ensure the healthy lifestyle of human societies. To achieve these goals, it's the responsibility of all stakeholders such as government, private sector, and Small and Medium Enterprises (SMEs) to participate in sustainable business activities and develop strategies to tackle sustainability issues. However, SMEs' role in sustainable development in Nigeria has always been neglected, as it is deemed that they are not big enough to impact the environment and social well-being.

The role of SMEs in addressing sustainability is crucial. According to the PWC survey, in Nigeria, SMEs contribute 48% of the national GDP, account for 96% of businesses, and 84% of employment. Similarly, according to the Nigeria Bureau of Statistics, SMEs in Nigeria have contributed about 48% of the national GDP in the last five years. With a total number of about 17.4 million, they account for about 50% of industrial jobs and nearly 90% of the manufacturing sector in

terms of the number of enterprises (Onyinyechukwu, 2020). According to the NUMBEO (2017), Nigeria has recently arrived at the 8<sup>th</sup> position in the globally ranking of most polluted countries, with an Index of 85.54, and at 2<sup>nd</sup> position in the continent of Africa, just after Egypt, with 89.05. Undesirably, due to their small size they may not see the need to socially and environmentally conscious in their business activities (Spence, 2012). The impact of SMEs business activities on the environment and society adversely damaging the natural environment and societal well-being. Moreover, according to the ACCA (2012) report, the time has gone to debating whether SMEs should be implementing sustainable business practices or not. Their primary purpose is to ask how they can incorporate sustainable initiatives optimally in their business model.

Globally, studies have been increasing on SMEs' role in practicing sustainability. For example, a survey of sustainability practices in Canadian SMEs showed a medium and high implementation of sustainability practices in their business model (Burch, 2018). In contrast to this, Sarango-Lalangui, Álvarez-García, Río-Rama, and De la Cruz (2018) found that level of concern regarding sustainable practices of UK

SMEs is high. However, they are still not taking any sustainable initiatives to incorporate sustainability performance. Recently, evidence shows the decline in the number of SMEs operating in Nigeria, from 41.54 million in 2017 to 39.65 million in 2020 (The Guardian, 2022). Thus, there is also a lack of SMEs initiatives toward sustainable performance in Nigeria (Kimanzi, 2020).

The concept of sustainability has developed due to pressure from various stakeholders. However, past literature related to developing economy document that sufficient action have not been taken towards ensuring that the economic activities of the SMEs do not harm the immediate society in which they operate. Furthermore, the finance function plays an essential role in supporting and expanding sustainability initiatives. However, businesses in Nigeria are currently faced with some challenges, ranging from insufficient access to fund, inconsistent government policies and high cost of business operations. The country has recorded a 61% rate of business start-ups failure for nine consecutive years (Business Day, 2020). Thus, it is crucially important to investigate the extent at which the impact of COVID-19 pandemic on the finance ability strength of the SMEs towards ensuring a sustainable business operations.

## 2. LITERATURE REVIEW

In the 21<sup>st</sup> century, the business sector's environmental, social, and economic scope is critical. Increased pressure from stakeholders and targets to achieve 2030 sustainable development compels all types of corporations such as private organizations, public organizations, non-profit organizations, government institutions, SMEs, and civil societies to participate in sustainable practices (Naciti, 2019). For an innovative, accountable business model, a robust and proactive attitude is mandatory for the coming 15 years to sustain the business. Following the sustainable development goals will allow private corporations and SMEs to develop a good relationship with stakeholders, and these corporations would have new business opportunities (Rahdari & Rostamy, 2015). The integration of sustainable development goals in organizations cannot be possible without corporate governance planning, structural measurement, and financial investment (Van Marrewijk, 2003). Finance plays a pivotal role in adapting and implement sustainable practices in corporations. Kaufer (2014) argues that the conventional finance theory emphasizes creating value for the shareholder. Corporations have witnessed an increase in societal demand to behave and operate their business operations ethically regarding their stakeholders (Brigham & Ehrhardt, 2013). From now, corporations have found themselves under pressure to consider sustainability in their financial decisions and investments. To handle this pressure Carolina Rezende de Carvalho Ferreira, Amorim Sobreiro, Kimura, and Luiz de Moraes Barboza (2016)

documented that corporations consider allocating financial resources and adopting sustainable practices in business activities.

### 2.1 Finance Function in SMEs Sustainability

The contribution made by the SMEs has motivated government at all levels in Nigeria to support the business. In a study conducted by Kadiri (2012) it was observed that SMEs relied on the informal financing to start their start-up capital. Owenvbiugie and Igbinedion (2015) revealed that the rate of development of SMEs is hindered by their inability to access more funds due to stringent policy imposed by financial institutions. However, in a recent study, Temeh and Ilemobayo (2021) states that the formal and informal sector plays a vital role in providing finance to production sector of the Nigerian economic.

In a recent literature, Olowookere *et al.*, (2021) examines the relationship between SMEs financing and sustainable development in Nigeria, covering the period from the year 1992 to 2019. The findings revealed that SMEs financing contribute to sustainable economic development. Similarly, Ogunmuliwa *et al.*, (2020) concluded on the note that there is significant relationship between cooperative finance on performance and survival of micro businesses, the study concludes that the survival of SMEs does not only depend on financing. Additionally, Bosma (2018) examine the relationship of institutions and economic growth in twenty five (25) European countries for a period of 2003 to 2014. The finding is further supported by a recent study of Kareem *et al.*, (2022) state that bank loan is serve as determinant for the growth of SMEs in Nigeria.

Kimanzi and Gamede (2020) argue that government should impose regulations on corporations to incorporate sustainability practices in their business activities. These regulations directly address sustainability issues by adapting and initiating the new sustainable strategies. The regulatory bodies can impose penalties if corporations do not take steps to fulfil the legal requirement related to sustainability issues (Louw, 2013). A number of problems frustrate the influence of finance in business sustainability. Campbell, Fisher, and Stuart (2012) affirms that the finance function is apprehensive of corporate sustainability performance of businesses. This assertion is further confirmed by Annandale (2003) the study documented that taking steps to mitigate sustainability issues increase corporation cost. Specifically, the cost will expand when it comes to compliance with regulatory bodies for unsustainable behaviour.

## 3. METHODOLOGY

The current study is based on a quantitative approach, using survey technique to investigate the role of finance in sustainability practices of SMEs. The quantitative approach provide an avenue for testing the

relationship between variables using numeric values. The population of the study comprised of all SMEs in Nigeria. According to (PwC, 2017) there are average of about 17.4 million SMEs in Nigeria. Using a random probability sampling, the study shall target a sample of 384 SMEs, the sample shall be selected equally across the Northeast region of the Nigeria. The region comprises of six states namely; Adamawa, Bauchi, Borno, Gombe, Taraba and Yobe. The sample size was determined using the Krejcie & Morgan (1970) table for sample above one million. The selection of the sample size is based on a purposive sampling technique.

The study shall use 384 self-administered questionnaires as a method of data collection with SME owners and managers, the questionnaire is adapted from the work of (Kimanzi, 2020). The basic objective of the questionnaires in this study was to obtain information from the SME owners and managers on the role of finance in their organizations. The questionnaire designed is divided in to two sections, with the first section relating to the demographic information of respondent while the second part contained range of

questions Data shall be analysed using both descriptive and inferential statistics. The variables in the questionnaire are presented using tables. Furthermore, to enable the researchers achieve the set objectives, the study uses one sample t-test to estimate the mean of a population and compare it to a target or specific value of a sample. The test is used to determine whether the mean of a group differs from a specified value.

#### 4. RESULTS AND DISCUSSION

This section reports findings and discussions on the survey conducted to explore the role of finance to sustainability of SMEs in post COVID-19 pandemic in Nigeria. A total of 384 questionnaire were distributed for the study, however, a total 357 were returned, as 27 are rendered invalid. The demographic information of respondents is presented in Table 1. The respondent for the current study are selected across various business types, 158 (44%) are traders, while 79 (22%) are in the manufacturing and service sectors respectively, while 63 (18%) are engaged in other forms of businesses.

**Table 1: Demography of respondents**

<b>Business Type:</b>	<b>Manufacturing</b>	<b>Trading</b>	<b>Services</b>	<b>Other</b>	<b>Total</b>
<b>Number of respondents</b>	79	158	57	63	357
<b>Percentage %</b>	22%	44%	16%	18%	100%
<b>Form of Business:</b>	Sole Proprietor	Partnership	Limited Liabilities	Joint Venture	Total
<b>Number of respondents</b>	209	35	99	14	357
<b>Percentage %</b>	59%	10%	28%	4%	101%
<b>Age of Business</b>	Less than 2 years	2-5 years	6-10 Years	More than 10 years	Total
<b>Number of respondents</b>	49	74	150	84	357
<b>Percentage %</b>	14%	21%	42%	24%	100%
<b>Total Assets:</b>	Less than N5m	N5m to N50m	N50m - N100m	Greater Than N100m	Total
<b>Number of respondents</b>	70	138	86	63	357
<b>Percentage %</b>	20%	39%	24%	18%	100%
<b>Position:</b>	Owner	Manager	Accountant	Others	Total
<b>Number of respondents</b>	195	71	35	56	357
<b>Percentage %</b>	55%	20%	10%	16%	100%
<b>Business Type:</b>	Manufacturing	Trading	Services	Other	Total
<b>Number of respondents</b>	79	158	57	63	357
<b>Percentage %</b>	22%	44%	16%	18%	100%

Furthermore, 150 (42%) businesses among the sample size have been in business between six to ten years. About 63 (18%) of the selected businesses have total Asset of over one hundred Million naira, while, majority of the selected businesses reported total assets between Five Million to Fifty Million Naira only. In the current study, 195 (33%) of the respondents are

business owners, 71 (20%) are Managers, 35 (10%) are Accountants while 56 (16%) represents other staff within the business. Finally, the sample size is selected across different types of businesses, 158 (44%) respondents are engaged in trading. While 79 (22%) are into manufacturing.

**Table 2: Role of finance in sustainability of SMEs in Nigeria**

<b>Statements</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>t</b>	<b>p</b>
Finance function plays a key role in decision making of sustainability programs in post COVID-19 period.	4.04	1.187	24.504	0.000
Finance function plays a key role in tracking progress of sustainability programs.	4.22	1.149	28.249	0.000
Finance function plays a key role in developing a cost benefit analysis on	4.16	1.132	27.737	0.000

Statements	Mean	Std. Dev.	t	p
sustainability programs in post Pandemic period.				
Finance function plays a key role in developing tax planning strategies related to sustainability (incentives, tax breaks).	3.96	1.383	20.001	0.000
Finance function plays a key role in initiating cost cutting measures, e.g., energy savings.	4.16	1.273	24.585	0.000
Finance function plays a key role in environmental reporting during the post COVID-19 period.	4.13	1.270	24.236	0.000
The finance function is involved in developing metrics for measuring sustainability practises.	4.29	1.211	27.959	0.000
The availability of finance aids in implementation of sustainability programs as contained in budget.	4.26	1.088	30.628	0.000

One sample t-test results revealed that there was significant agreement among the respondents that finance plays significant role in decision making relating to sustainability programs in post COVID 19 period (M = 4.04, SD = 1.187),  $t(357) = 24.504$ ,  $p = 0.000$ ); Tracking process of sustainability programs (M = 4.11, SD = 0.728),  $t(357) = 28.249$ ,  $p = 0.000$ ); development of cost-benefit analysis on sustainability programs (M = 4.12, SD = 0.733),  $t(357) = 27.737$ ,  $p = 0.000$ ); development of tax planning strategies in relation to sustainability (M = 3.96, SD = 1.383),  $t(357) = 20.001$ ,  $p = 0.000$ ); initial cost cutting measures (M = 4.16, SD = 1.273),  $t(357) = 24.585$ ,  $p = 0.000$ ); key role in environmental reporting (M = 4.13, SD = 1.270),  $t(357) = 24.236$ ,  $p = 0.000$ ); developing metrics for measuring sustainability (M = 4.29, SD = 1.211),  $t(357) = 27.959$ ,  $p = 0.000$ ); implementation of sustainability program (M = 4.26, SD = 1.088),  $t(357) = 30.628$ ,  $p = 0.000$ ).

Based on the finding, this study provides evidence that finance has significant impact on sustainability of SMEs in the north-east region of Nigeria. In consonance the findings of the current study, Olowookere *et al.*, (2021) stated that to ensure a sustainable economic growth, SMEs financing must be given utmost priority. Furthermore, the finding is also supported by Ogunmuliwa *et al.*, (2020) that finance has significant effect on performance and operations of MSEs, however, with less effect on micro scale businesses survival. In addition, the findings is also similar to the conclusion of other previous studies such as Aderemi *et al.*, (2019), and Khandker (2013).

### 5. CONCLUSION

This study explores the impact of finance to sustainability of micro, small and medium scale enterprises in Nigeria. Over the past decades, there has been considerable attention given to the going concern of SMEs in the country. These became necessary considering the rate at which SMEs die few years after they were established. Thus, this study underlines some of the issues faced by SMEs in post Covid-19 era. The finding revealed a clear impact of finance to the sustainability of SMEs in the six north-eastern states of Nigeria. The relationship is specific to areas of decision

making; tracking progress of sustainability; developing cost benefit analysis; development of tax planning strategies; initiating cost cutting measures; environmental reporting; measurement of sustainability practices and in the implementation of sustainability programs.

### 6. RECOMMENDATION

The current study has contribute towards establishing the impact of finance to sustainability of micro, small and medium scale enterprises in Nigeria. Based on the findings, the study therefore recommends the following;

1. The governments should strategize means of tackling the funding challenges faced by SMEs as this ensure the sustainability of the businesses.
2. The Nigerian government at all level should improve the conditions of the basic infrastructure through provision of standard road network, electricity, security, portable water supply among others. This shall invariably reduce the running costs of SMEs.
3. Government should create more avenues SMEs to obtain soft loan from micro finance banks at reasonable interest rates.
4. SMEs are considered as drivers of economic growth, hence, in addition to wealth and profit maximisation, the business owners and managers need to focus on other social and environmental issues concern relating to their business operations.

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**Cite This Article:** Mohammed Sabo Bello & Alhaji Ali Tijjani (2022). The Impact of Finance to Sustainability of SMEs in Post COVID-19 Pandemic in Nigeria. *East African Scholars J Econ Bus Manag*, 5(8), 245-250.