

Operational Strategies of Small Medium Enterprises (SMEs) in Lusaka Zambia – Post Covid-19

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ABSTRACT

The problem for this paper emerged from the impact of COVID-19 pandemic on operational strategies for small medium enterprise (SME) in Lusaka, Zambia. There is insufficient literature on the operation strategies for SME globally, Zambia inclusive worse still in times of crisis. An insufficient literature may contribute more to post-COVID 19 economic recovery or coping strategies. It is against this backdrop that this paper conducted a systematic literature review.

Design/Methodology: This paper used a systematic literature review. This was done by following a key word search and an assessment of relevant or related literature to COVID-19 on SME. Methodology included review of the report by ITC and government interventions/strategies during the pandemic were analysed.

Findings: The literature confirmed that the pandemic affected small businesses more severely than larger ones. SME operations mostly involving reduced sales (75%), difficulty accessing inputs (54%), demand depression which led to reduced sales and business revenue, which led to termination of employment of many workers in the SME sector. Government interventions included diversification of SME, introduction of on-line selling, promotion of local products and risk management regarding employee availability.

Research implication: Additional scientific research on the impact of COVID-19 on SMEs, strategy implementation and control in the SME risk management is required.

Originality/ value: This paper is the first comprehensive review of literature on the impact of COVID-19 pandemic on operational strategies for small medium enterprise (SME) in Lusaka, Zambia

Keywords - COVID-19, operational strategies, Small Medium Enterprises (SMEs)

I. INTRODUCTION

The COVID-19 pandemic, which was first identified in the Chinese city of Wuhan, has had both human health and economic impact. The pandemic has led to unprecedented economic disruption around the world. Businesses around the world have had to respond to the negative economic consequences of the various lockdown measures imposed by Governments to try and slow down the spread of this disease. Small and Medium sized Enterprises (SMEs) are among the most adversely affected businesses due to lack of financial depth necessary to support firms in times of economic recession or when faced with harsh external pressures. This paper looks at the measures that have been implemented by the Zambian Government to ameliorate the negative impact of COVID-19 on the operations of SMEs in Zambia. It will further examine how the SMEs have had to change their operational strategies in order to cope with the lockdown measures imposed by the Government and the negative economic shocks as occasioned by the pandemic. The paper will contribute to the discourse on the impact of COVID-19 on the operations of the SMEs in Zambia. .

Statement of the problem

The economic ramifications of the pandemic quickly became apparent, and small and medium sized enterprises (SMEs) have been on the front lines. With workers and customers staying indoors, and supply chains tested by shutdowns, the small companies that provide 70% of jobs in countries around the world and about half of economic activity have been put under stress.

The Government of the Republic of Zambia reported the first confirmed cases of COVID-19 on 18th March 2020. Zambia introduced a series of measures including closure of three international airports, closure of all schools, movement restrictions and closure of non-essential services such as restaurant, bar, gym and public gatherings to curb the transmission rate. International land borders remained open, including movement of commercial and border crossing, to avoid negative impact on trade and the economy. COVID-19 pandemic travel and movement restrictions would have a devastating impact on livelihoods for vulnerable populations who particularly depend on their small and medium sized businesses. Over 65.4 percent of Zambians work in the informal sector where women, who account for the majority of workers in the informal sector (including street vendors), would particularly be affected.

With shutdowns being gradually lifted in China, Europe and elsewhere (Zambia inclusive), business owners and policymakers are shifting their focus towards the post-pandemic world. Companies, business support organizations and governments will have to adapt to this 'new normal' in the months and years ahead. Hence the aim of this paper to analyses the operational strategies for SMEs

II. METHODS AND MATERIALS

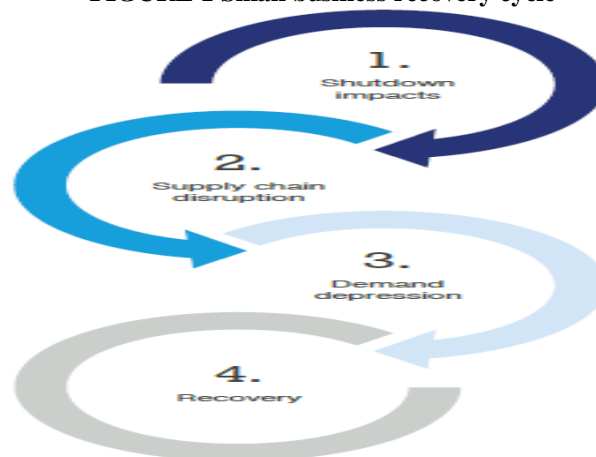
This paper is based on literature that has been recently written on Covid -19 in relation to SMEs. Some literature was obtained from the report which was written by the International trade Centre (ITC) who conducted a survey on more than 4000 small medium enterprises (SMEs) in 132 different countries. Another source of data that was used for this study was the survey conducted by the Ministry of Trade Commerce and industry conducted in corroboration with the united nations. This was a survey on the effect of Covid-19 on SMEs in Zambia whose findings were released in July 2020. A survey conducted by International Labour Organisation (ILO) on the impact of the pandemic on workers was also used in the analysis.

III. LITERATURE REVIEW

While the discussion on reducing the economic consequences of the COVID-19 pandemic response often focuses on macroeconomics, a decades-old observation by renowned economist Paul Krugman comes to mind: 'Countries do not buy or sell goods overseas; companies do.' (Kurtzman, 1998). The pandemic-induced slowdown first and foremost affects the real economy, made up of businesses and the people who work for them. Within this business world, small companies are likely to suffer more than larger ones because they tend to be more vulnerable with fewer resources to adapt to a rapidly changing context. To help small and medium-sized enterprises (SMEs), it is useful to consider the way in which the pandemic crisis affects such companies. It does not strike all at once, but in a cycle of phases.

As small businesses face the COVID-19 crisis, they travel through four phases, whether in succession or simultaneously. From shutdown to supply chain impacts and depressed demand, the cycle eventually moves to the recovery phase (Figure 1).

FIGURE 1 Small business recovery cycle



Source: ITC.

1. Shutdown impacts have affected countries and regions where the pandemic led governments to adopt measures of shutting down economic activity. Such containment efforts have hit hardest in tourism, travel, wholesale and retail, hospitality and entertainment sectors of the economy. In the short run, governments in affected countries have focused on keeping SMEs in these sectors afloat by various stimulus packages which includes tax waivers and financial support in terms of loans and other similar packages.

2. Supply chain disruptions have affected companies around the world. The pandemic-induced lockdowns in China, the European Union (EU) and the United States, also known as the group of three (G3), have had major impacts on production, imports, and exports. Halts in production in affected economies reduced the inputs available for global supply chains. SMEs elsewhere in the world that supply affected countries have seen their orders reduced as demand declined. The extent of this trade-induced cascading contagion of input and output effects has differed by supply chain and country.

3. Demand depression has occurred first in pandemic affected countries, where confinement reduced sales to consumers and businesses. But even when the health emergency began to ease, business investment remained low due to run-down savings. Households reduced spending in the medium to long term to compensate for lower incomes during the pandemic period. Confidence turned out to be low, credit overstretched, and bankruptcies among SMEs followed.

4. Recovery begins gradually in instances where containment measures have been eased. The evolution of business recovery in each country depends on how the health situation evolves and on the depth and timing of the original suppression of demand. In the weeks after lockdowns cease, economic activity was likely to rebound sharply as people went back to buying products they had missed from their favourite small businesses.

Since the period of shutdown would have permanently changed production and demand. Economies were being reshaped by the pandemic. The 'new normal' made recovery more challenging for some, and easier for others. This, combined with specific differences in the way that small businesses experience the four phases, underscores that there is no one-size-fits-all solution for all businesses in all places. Although it was widely assumed that the impact of the pandemic was greater for small businesses, there has been little detailed information available on the subject.

Many companies that were not registered with national authorities were actually small in size and had little cash tide to them when operations were shut down. In some African and Asian countries these informal businesses accounted for 90% of all companies, and their struggle to cope with the impact of the pandemic had extensive economic and human repercussions. In countries where the pandemic-induced confinements, informal companies struggled to pay their employees, many of whom depended on daily wages for basic needs. With informal businesses providing jobs to some of the most disadvantaged people in developing countries, and more than 60% of jobs around the world, (ILO 2018) the loss of the income exposed many to hunger and precariousness. According to Pachauri (2020), in India, where more than 90% of the population was in the informal sector, there was mass migration as workers returned to their home villages in search of a social support net.

A survey was conducted by International Labour Organisation (ILO) that aimed at getting a global picture of how the pandemic affected employers and the focus of the survey was to 'listen to employers so that their realities were well understood just like employers needed to listen to their employees' in order to make better decisions. According to the survey, a number of SMEs in Lusaka Zambia faced massive job cuts of due to the impact of COVID 19 on their revenue streams. Some had to send their employees on forced leave while others maintained employees on reduced pay for hours they worked. (ILO 2020)

Governments around the world realized that SMEs acted as a lynchpin connecting the pandemic to broader economic recession. In addition to addressing the health crisis, they scrambled to alleviate the impact of COVID-19 on small businesses by introducing policies to help them cope with the short-term financial risks and long-term business implications. This was in the hope of trying to reduce layoffs, prevent bankruptcy, encourage investment and help economies get back on their feet as soon as possible in the aftermath of the crisis. Small companies were more vulnerable during such crises because they had fewer resources with which to adapt within the changing environment hence the need to evaluate their operational strategies.

The government of the republic of Zambia instituted the following measure as a way of steering the economy during the COVID-19 period.

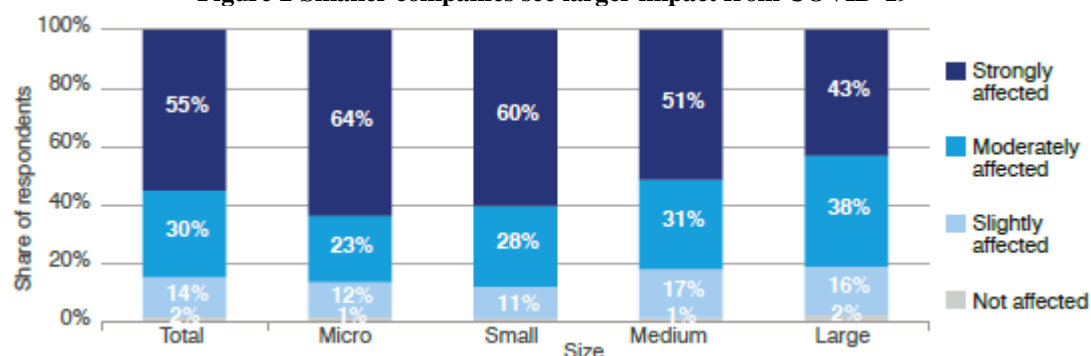
1. Government released K2.5 billion to reduce domestic arrears owed to domestic suppliers of goods and services. The money also included the reduction on outstanding arrears to pensioners under Public Service Pension Fund and retirees who were claimants under the Ministry of Justice. This was aimed at reducing outstanding third-party arrears and other employee related commitments which would in turn boost liquidity in the economy.

2. Government released K140 million to pay local contractors in the road sector. This move was aimed at protecting the businesses of local contractors whilst also extending the wide effect to the families and societies.
3. Government removed provisions of Statutory Instrument no. 90 relating to the claim of VAT on imported spare parts, lubricants and stationery. This was aimed at easing pressure on companies and enabled them to continue in Business.
4. Further the Bank of Zambia (BOZ) had taken measures to encourage use of digital financial services and mobile transaction services.
5. The Bank of Zambia also provided a K10 billion line of credit to banks that may face liquidity challenges and revoked statutory instrument for classification and provisioning of loans. This was aimed at encouraging financial service providers to provide relief to the private sector and facilitate long term lending to productive sectors of the economy. Lusaka times

IV. DISCUSSION OF FINDINGS

The ITC COVID-19 Business Impact Survey gathered evidence on how the pandemic affected 4,467 companies in 132 countries. Analysis of this data, collected from 21 April–2 June 2020, show that the pandemic strongly affected 55% of respondents. Nearly two-thirds of micro and small firms reported that the crisis strongly affected their business operations, compared with about 40% of large companies. One-fifth of SMEs said they risked shutting down permanently within three months. In Africa, two out of three businesses said they had been strongly affected by COVID-19, mostly involving reduced sales (75%) and/or difficulty accessing inputs (54%). Service companies were the hardest hit around the world. In accommodation and food services, for instance, 76% of surveyed firms said partial and full lockdowns strongly affected their business operations. Insights from an ITC COVID-19 Business Impact Survey helped provide information on how the pandemic had affected SMEs. The findings confirm that the crisis has affected small businesses more severely. The majority (55%) of businesses responding to the survey said they had been strongly affected by the pandemic and the measures taken to contain it. Smaller companies tended to be more strongly affected by COVID-19 than larger ones (Fig 1)

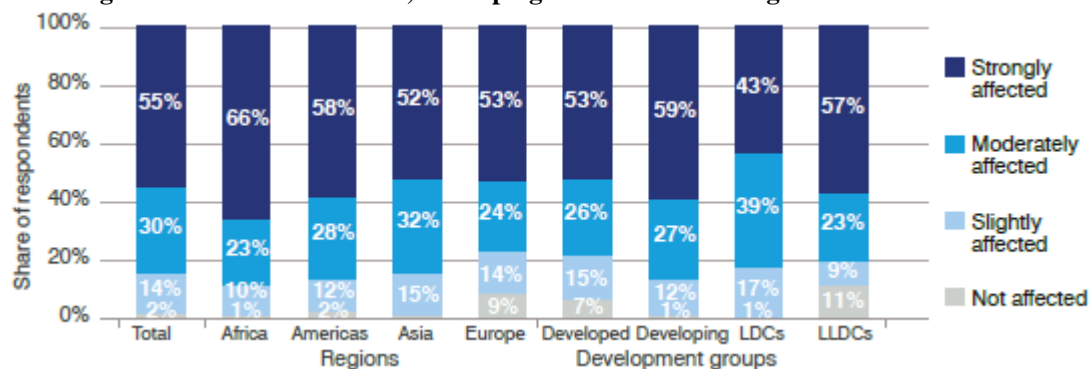
Figure 2 Smaller companies see larger impact from COVID-19



Source: ITC.

The crisis has had a severe impact on firms in Africa, with two companies out of three reporting that they were strongly affected by COVID-19, mostly through reduced sales (75%) and/or difficulty in accessing inputs (54%).

Figure 3 Businesses in Africa, developing countries cite strong effects of COVID-19



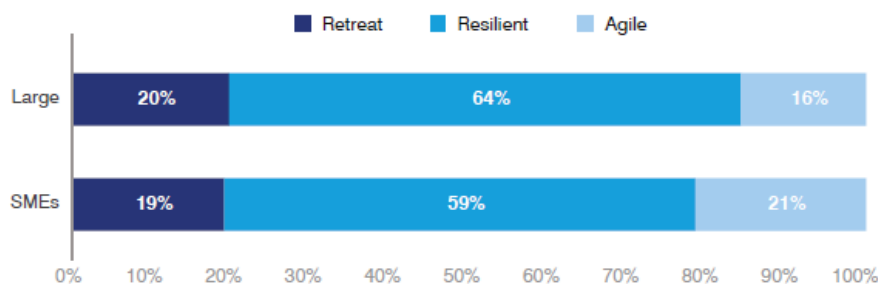
Source: ITC.

Companies that participated in the ITC COVID-19 business survey indicated that tax waivers, temporary tax relief and financial programmes would be the most helpful government measures. A third of small enterprises also highlighted the importance of cash transfers, showing their concern about surviving the crisis. Large companies, on the other hand, favoured employment programmes to support the income of their workers.

In the first days of the pandemic, small and medium-sized companies across the world responded in similar ways. They took steps to protect employees and customers against infection, and communicated to clients about whether the business was going to close temporarily. Many firms also reached out for support from government, industry groups and business support networks. Beyond these common immediate tasks, businesses diverged in their responses. Some adopted retreating strategies, drawing down their assets to get through the day. Many firms laid off employees, sold off assets or took on new debt, all of which would hurt their long-term viability. Approximately 20% of the businesses that participated in the ITC COVID-19 survey took this type of approach.

Other companies followed a strategy of resilience, scaling down or adjusting the business temporarily in a manner that would allow it to resume fully later on. Being resilient during the pandemic entailed strategies such as; shifting the sales mix towards online channels, sourcing from new suppliers or learning to telework. About 60% of the businesses that responded to the ITC survey adopted this approach to cope with the pandemic. The most agile firms transformed themselves to fit the new situation, creating novel products such as designer masks or rapid testing technologies. When lockdowns prevented their businesses from opening, they loaned their workers to other active businesses in essential industries. Roughly 21% of the businesses that participated in the ITC COVID-19 survey adopted this approach to cope.

Figure 4 Small firms are more likely to opt for agile strategies



Source: ITC.

The survey responses reveal that smaller firms were significantly more likely to adopt agile responses to the crisis than larger enterprises. At the same time, however, they also tended to adopt retreating strategies more than bigger companies. Small firms that exported were significantly less likely to take the retreating approach than those that sold only domestically. The take-away from this analysis was that big companies could afford to stay put and be resilient, small companies were to adapt in an agile manner or collapse.

According to a Business Survey conducted by the Ministry of Commerce, Trade and Industry in collaboration with the United Nations Development Programme (2020), it was established that across the nation of Zambia, about 38% of SMEs experienced revenue reduction of more than 50%; 51% of SMEs had their revenue reduce by less than 50%; 4% of SMEs completely halted their operations and 5% of SMEs reported no change in demand for their goods and services hence had no change in their revenue. A number of factors could be attributed to the demand going down. Seric *et al* (2020) stated that imposed restrictions on movements of individuals that was part of safety measure to prevent further spread of the pandemic, together with a spiral effect of low demand for goods that led to low demand for finance adversely affected SMEs in financial sector who began to accumulate stock of funds as those in the manufacturing and wholesale or retail had no use for the funds.

GOVERNMENTS INTERVENTION AND IMPLICATION FOR SMEs OPERATIONAL STRATEGIES

In order to mitigate excessive effects of COVID 19 pandemic on the economy, the government of the Republic of Zambia developed policies that were aimed at keeping the vulnerable businesses at micro and medium levels afloat. These policies had implications for SMEs despite aiming to increase their resilience and avoiding future bottlenecks.

1. Diversification of SME businesses to involve lines that do not involve sourcing abroad.

As the pandemic halted any imports and exports, the government encouraged SMEs to diversify and supply locally manufactured goods or manufacture goods that did not require raw materials that were sourced abroad so as to remain in business. This saw a number of SMEs engage in manufacturing and supply of personal protective equipment that were so much needed by health centres and business houses.

Innovative SMEs whose businesses got grounded as a result of not being able to import quickly tapped into the opportunities of producing and supplying critical COVID 19 supplies to offer themselves a temporary solution to remain afloat. Santiago (2020) postulates that in the long run, firms would only be able to develop the necessary flexibility if they retained production and innovative capabilities, which resulted from long term investments in science, technology and innovation.

2. Introduction of online selling, buying and payments

Due to restrictions on individual movements to stop the spread of the COVID 19 pandemic, the government of the Republic of Zambia encouraged business houses to, as much as possible use mobile and internet based communication and payment methods. Historically, in Zambia, SMEs and their customers relied so much on physical appearance to transact. The Survey by Ministry of Commerce and Industry revealed remarkable improvement in non physical payment though further improvement was required if SMEs were to survive similar pandemics business wise in future. The table below shows the survey report on usage of payment methods:

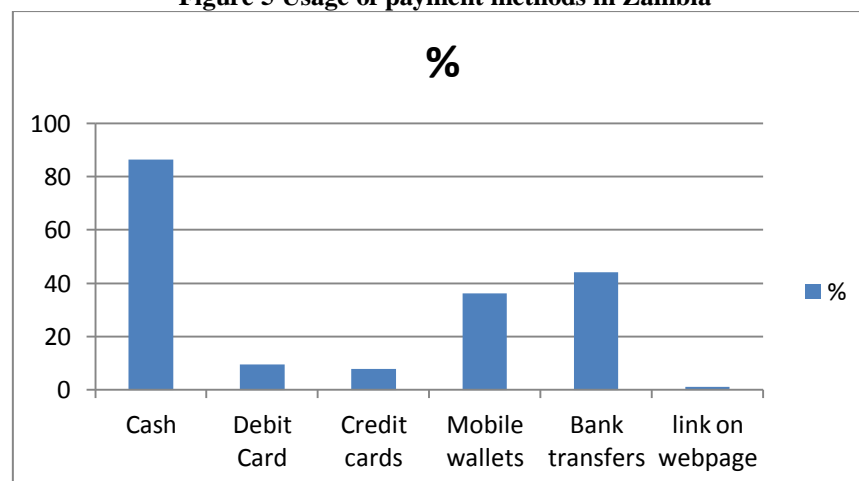
Table 1 Usage of payment methods in Zambia

Variable	Frequency	Percentage (%)
Cash	611	86.5
Debit Card	69	9.6
Credit cards	55	7.8
Mobile wallets	255	36.1
Bank transfers	312	44.2
link on webpage	7	1

Source: Ministry of Commerce trade and Industry.

The majority respondents, representing 86.5% used cash payments, followed by Bank transfers at 44.2%, Mobile wallet at 36.1%, Debt Cards at 9.8% and credit cards at 7.8%. The least used method of payment is Webpage which is representing 1.00%. This indicates that Zambian enterprises' transactions are predominantly cash based. However, Bank transfers and mobile wallets are also highly rated methods of transacting.

Figure 5 Usage of payment methods in Zambia



Source: Ministry of Commerce trade and Industry.

This signifies SMEs were slowly switching to non physical methods of transacting, though more needed to be done to increase the current utilization rate.

3. Promotion of local products in South African owned chain stores operating in Zambia

In April 2020, a policy was released by Zambia's Ministry of Finance that led to establishment of a task force mandated to ensure more Zambian products were being sold on the floors of South African

owned chain stores. This policy was facilitated by the lock down measures in South Africa that meant that no goods could be imported from there and if measure prolonged, Zambians would be at a disadvantage with especially grocery and foodstuffs that these chain stores stock were mainly from South Africa. Zambia saw an opportunity to empower its own SMEs in the manufacturing sector to take advantage of the circumstance and developed policies so that even after the COVID 19 pandemic, local manufactures should be given priority to fill the floors of these South African owned chain stores. The task force consisted of South African Chain Stores Representative, Zambia Association of Manufacturers (ZAM), Zambia Farmers Union (ZNFU) and Zambia Chamber of Commerce and Industry (ZACCI). This policy direction excited the Zambian manufacturers and farmers who cut across micro, medium and large enterprises as this would entail more business opportunities for them locally, thereby reducing their cost of doing business. Historically, Zambia's own locally produced goods have hardly found much space on the shelves of the South African owned chain stores. Arguments have been on issues of quality to a certain extent and preference for foreign products to another extent by Zambian consumers (Ministry of Commerce, Trade and Industry 2020).

The implication of this policy for SMEs was that, quite alright they would have a ready and reliable market for their produce or supplies but that this comes with need for SMEs to show commitment to enhance quality of their products as they risk loss of business if products continued to be of poor quality (Ministry of Commerce, Trade and Industry). SMEs should have the capacity to improve their infrastructure and to innovate in the sense that multi-lateral partners have come on board, through various governments to respond to the challenges all businesses in various economies are facing. According to WHO (2020, April), the World Bank Group, International Monetary Fund and other multi-lateral development banks like Global Fund and UNITAID have provided emergency support for developing countries to fast-track financial and operational facilities for COVID - 19 response.

4. Risk management regarding employee availability

Most SMEs in Lusaka, Zambia where COVID -19 started and lockdown restrictions were more pronounced than any other part of the country, deployed measures that kept businesses operational such as employee telecommuting and employee time sharing at work places. These strategies were initially a directive from the government. However, SMEs that successfully implemented the measures found that they brought about cost reduction for business operations, with employees who worked hard despite physical supervision and SMEs want to further explore the measures to see how they would continue to save costs even in the post COVID 19 era.

5. SME input to stronger Health Systems

The COVID -19 pandemic has birthed an opportunity for SMEs to venture into production and supply of medical equipment. WHO (2020) states that the pandemic has placed acute burdens on staffing levels, availability of equipment and crucial supplies such as medical oxygen, ventilators and personal protective equipment (PPE).

The government of the Republic of Zambia would be keen to see emerging SMEs engage in business lines that would improve health systems to such levels of preparedness to be able to handle similar crisis that may arise in future. Zambia and the world at large must learn lessons from this pandemic now and ensure the response wherever possible leaves a lasting positive legacy, and makes the country and hence the world a safer place for all humanity.

From the studies and literature obtained, it was evident that SMEs would have to incorporate some of the following in their strategic operations even after COVID-19

1. Teleworking; many SMEs in Zambia and world over learnt the art of teleworking. This meant working remotely wherever and whenever possible. Teleworking helped in cutting costs and at times it was more convenient as opposed to the normal way of doing business. This in turn brought about the need for SMEs to embrace ICTs applicable in their line of business. Most of the SMEs that were seen to be resilient were riding on this model and there was massive evidence that they would continue in the post COVID 19 era.
2. E-commerce though closely related to teleworking was another strategy that was deployed by most SMEs. This simply suggests the art of doing business via the various only platforms available. COVID 19 came with different forms of lock downs ranging from partial to full lock down in different countries. These situations meant that consumers would not be available physically and business linkages would not easily be conduct. A sharp rise in SMEs doing their business via online platform was seen which now meant that some SMEs would continue adopting this operational strategy of doing business by linking their customers and supplier.
3. Governments' world over showed commitment through various stimulus packages extended within economies. However, some of these benefits for SMEs required that the respective businesses were

properly registered in order for them to partake of these privileges. As the norm was in most developing countries a number of SMEs were not formally registered thereby could not automatically be recognized for these benefits. Other ceased the opportunity and had no choice but to formalize their operations so as to benefit from the various packages. Post COVID 19, it would be noted that a number of SMEs would now be formally registered because now they had realized the benefits of formalization.

4. Savings by SMEs were seen to be vital. From the several studies analysed so far, it was clearly evidenced that SMEs that were not saving for a rainy day were severely affected with the COVID 19 pandemic to the extent of closing. This meant that some SMEs had to learn it the hard way that savings were important. The Post COVID -19 era would now see SMEs saving and investing for the future.
- 5.

V. CONCLUSION

Developing countries like Zambia have an opportunity to actually turn the COVID 19 crisis into a renewed commitment that would foster innovation and industrialization, which in turn would reduce the level of reliance on the global economy for much of its required supplies. It is envisaged that the recovery from COVID 19 pandemic should leave SMEs with a mark to innovate like never before to levels that impact the economy as a whole so everyone can have a more inclusive and sustainable future.

Further, the COVID 19 pandemic is seen to help Zambia achieve its Sustainable Development Goal (SDG) 9 with ease as motivation levels to innovate and beat the negative effects of the pandemic on SME businesses are higher than ever before. It has been noticed that even policies that seemed difficult to implement have been implemented with ease as they have turned out to work to the advantage of the development of the country and its citizens. It is predicted that these policies will continue to be relevant even in the post COVID 19 period.

Most firms are likely to embrace new ways of operations that will factor in use of information technology which is likely to broaden their mark and increase demand for their products and services. Physical presence in specific places will not be necessary for these businesses to make an impact. Thus, there is likely to there will be an increased demand for ICT services as SMEs adapt to the post covid-19 new normal. With adequate financing, a number of SME are likely to experience unprecedented growth or expansion post covid-19.

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