

Strategies to Navigate Nigerian SMEs from the Shock of Fuel Subsidy Removal and Foreign Exchange Harmonization: A Qualitative Inquiry

Babandi Ibrahim Gumel

1. LIGS University, Honolulu, Hawaii, USA.

Abstract

The Nigerian government's decision to eliminate fuel subsidies and harmonize foreign exchange (FX) rates in 2023 represents a big macroeconomic shock. While these policies are intended to promote long-term fiscal and monetary stability, they have created a highly tough environment for Small and Medium Enterprises (SMEs), which are crucial to the country's economic growth and employment. This study investigates the specific impact of these policies on Nigerian SMEs and the strategic changes required for their survival and development. Using a qualitative study design, data was gathered through in-depth, semi-structured interviews with 25 SME owners from Lagos, Abuja, and Port Harcourt, representing various industries such as manufacturing, retail, agriculture, and services. The data were analyzed thematically. The findings indicate a multidimensional shock characterized by rising operational costs, severe supply chain disruptions, and reduced consumer purchasing power. In response, a conceptual framework emerged, outlining a three-pronged strategic path: internal resilience (cost optimization, local sourcing, and renewable energy adoption), market and financial agility (dynamic pricing, revenue diversification, and digital transition), and external enablers (targeted government support and access to finance). The study indicates that, while these policies pose an existential threat, they also serve as a catalyst for the essential structural reform of the SMEs. Nigerian SMEs' sustainability depends on their internal strategic agility, which is backed by deliberate and successful government policy initiatives. Recommendations for SMEs, policymakers, and further research are offered. The study is original qualitative data obtained from owners and managers of small businesses who were able to stabilize their firms.

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Introduction

Background of Study

Small and Medium Enterprises (SMEs) are globally acknowledged as the driving force of economic advancement, especially in developing nations such as Nigeria. They represent over 96% of enterprises and contribute 50% to the national Gross Domestic Product (GDP), while employing more than 80% of the labor force (SMEDAN & NBS, 2023). Nigerian SMEs, despite their numerical superiority and economic importance, function in a challenging environment characterized by restricted access to finance, infrastructural deficiencies, and numerous regulatory obstacles (Ariyo, 2018). Nigeria's reliance on crude oil, which provides more than 90% of its foreign exchange earnings and most of its government revenue, has caused the country's economy to confront severe challenges for decades. Because it only produced one product, the economy was particularly susceptible to fluctuations in the price of oil globally. The government used a multiple exchange rate system and a fuel subsidy regime, two significant but financially taxing and economically distorting initiatives, to control this volatility for many years.

The fuel subsidy, intended to keep the price of Premium Motor Spirit (PMS) artificially low for consumers, became a notorious conduit for corruption, smuggling, and fiscal leakage, consuming trillions of Naira that could have been invested in critical infrastructure (BudgIT, 2022). Similarly, the Central Bank of Nigeria's (CBN's) operation of multiple exchange rate windows created a vast gap between the official rate and the parallel market rate, fostering arbitrage, discouraging foreign investment, and creating chronic foreign exchange scarcity (Central Bank of Nigeria (CBN), 2023).

With trillions of Naira that could have been used for vital projects, the gasoline subsidy—which was designed to keep the price of Premium Motor Spirit (PMS) artificially low for consumers—became a well-known conduit for corruption, smuggling, and fiscal leakage (BudgIT, 2022). Similarly, by operating numerous exchange rate windows, the Central Bank of Nigeria (CBN) fostered arbitrage, deterred foreign investment, and caused chronic foreign exchange scarcity by widening the difference between the official rate and the parallel market rate (Central Bank of Nigeria (CBN), 2021).

At its inauguration in May 2023, President Bola Ahmed Tinubu declared the immediate elimination of the long-standing gasoline subsidy and began the process of unifying the nation's foreign exchange rates in a daring attempt to reset the economy for sustained growth. International financial organizations such as the World Bank and the International Monetary Fund (IMF) quickly supported these reforms as essential, if painful, moves toward transparency, budgetary prudence, and a market-driven economy (World Bank, 2023).

In 2023, the Nigerian government implemented two significant economic reforms: the total abolition of the enduring petrol subsidy and the consolidation of the nation's several exchange rate windows into a singular, market-oriented framework. The fuel subsidy, which maintained

artificially low pump prices for decades, constituted a substantial fiscal burden, costing the treasury roughly ₦4.3 trillion in 2022 alone (BudgIT, 2022). The multi-tiered foreign exchange system faced extensive criticism for promoting arbitrage, deterring foreign direct investment, and generating a persistent shortage of foreign currencies for legitimate business requirements (Central Bank of Nigeria (CBN), 2023).

Problem Statement

The concurrent execution of these initiatives, while economically warranted from a macroeconomic viewpoint, has produced an unprecedented "twin shock" for Nigerian SMEs. The immediate repercussions include a significant increase in inflation, reaching 28.92% in December 2023 (National Bureau of Statistics (NBS), 2024); a sharp devaluation of the Naira; and a substantial decline in consumer purchasing power (World Bank, 2023). For SMEs, this has manifested as: A significant increase in operational expenses (transportation, energy, and raw materials). Interruptions in supply chains and inventory management. There has been a significant rise in the expense of servicing foreign currency obligations. Sales have sharply declined due to diminished consumer demand.

The primary issue is that the current strategies and business models of most Nigerian SMEs are not prepared to endure this compounded shock, jeopardizing their existence and, consequently, the stability of the Nigerian economy. An important necessity exists to identify and comprehend effective strategic paths that might transition these firms from basic survival to enduring success in the current turbulent economic landscape.

Objective of the Study

The main aim of this study is to investigate and outline the techniques that Nigerian SMEs can utilize to effectively manage the economic disruptions caused by the elimination of fuel subsidies and the alignment of foreign exchange rates. Specific objectives encompass:

- I. To analyze the exact nature and effects of the dual shocks on SME operations.
- II. To ascertain the adaptive techniques employed by resilient SMEs.
- III. To construct a conceptual framework for strategic navigation within a high-cost, variable economic landscape.
- IV. To furnish evidence-based advice for small and medium-sized enterprise proprietors and policymakers.

Significance of Study

This research is pertinent to various stakeholders. It offers SME proprietors and managers a systematic framework of implementable techniques to bolster resilience and guarantee business continuation. It provides policymakers with essential insights regarding the tangible effects of these reforms, emphasizing areas requiring focused assistance to avert a collapse of the SME sector. This work enhances the literature on SME resilience, policy shock adaptation, and company strategy in emerging markets, highlighting areas for future research.

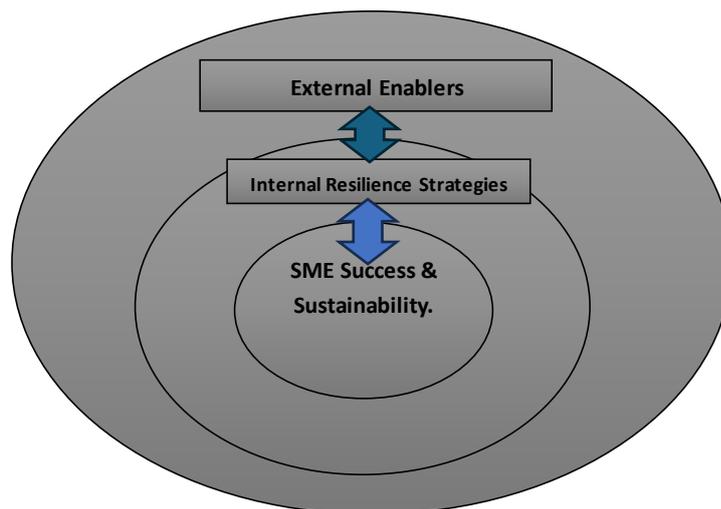
Conceptual Framework

This study is guided by a conceptual framework derived from the literature on organizational resilience and strategic management (Teece, 2018; Williams, T. A., Gruber, D. A., Sutcliffe, K. M., Shepherd, D. A., & Zhao, E. Y., 2017). It asserts that addressing a substantial

external shock necessitates a multifaceted reaction. The paradigm, depicted in Figure 1, posits that the success of SMEs following a shock is contingent upon three interrelated strategic domains:

- **Internal Resilience Strategies:** Concentrated on optimizing internal processes, encompassing cost leadership, operational efficiency, and supply chain re-engineering.
- **Ways to be flexible in the market and finances:** Focusing on how to improve revenue models, adjust prices quickly, manage finances well, and embrace digital
- **External Enablers:** The essential support provided by the government and financial institutions, encompassing access to capital, infrastructure development, and policy consistency.

Figure 1: Conceptual Framework for SME Navigation of Economic Shocks



Hypotheses of the Study

Due to the qualitative and exploratory nature of this research, formal hypotheses are not evaluated. The study is directed by the following propositions:

- Small and medium-sized enterprises that actively adopt internal resilience methods will demonstrate greater operational stability following a disruption.
- Small and medium-sized enterprises exhibiting market and financial agility will be more adept at sustaining profitability and retaining their customer base.
- The efficacy of SME-led methods is largely dependent on the availability of supportive external facilitators from the government.

Literature Review

This review consolidates pertinent academic literature related to the study, concentrating on four primary domains: the function of SMEs, the backdrop of recent reforms, the theoretical foundations of strategic adaptation, and the gaps this research intends to address.

The Strategic Importance and Innate Vulnerabilities of Nigerian SMEs

The literary consensus confirms that SMEs are essential to the Nigerian economy. According to SMEDAN & NBS (2023), they represent the greatest employers and a substantial contributor to GDP, serving as essential agents for poverty alleviation and income distribution (Onwuchekwa, 2023). Nonetheless, their supremacy coexists with persistent weaknesses.

Researchers such as Ariyo (2019) and Nwankwo (2018) have thoroughly documented these obstacles, which encompass a continual financing deficit attributed to collateral demands and elevated interest rates, an erratic power supply necessitating dependence on costly generators, and a convoluted regulatory framework that frequently advantages larger enterprises. This foundational backdrop is essential; it indicates that Nigerian SMEs were already functioning in a high-risk environment prior to the 2023 shocks, devoid of the financial reserves and institutional assistance that larger enterprises may have.

The Fuel Subsidy and FX Regime: A Legacy of Distortion

The discourse on Nigeria's political economy offers a distinct justification for the current reforms. Obasi et al. (2017) characterized the fuel subsidy as fiscally unsustainable and regressive, with a substantial share of the benefits going to the affluent and cross-border traffickers. The elimination, albeit distressing, was strongly supported by foreign financial institutions and local economists, such as those at BudgIT (2023), to allocate resources for capital investment in infrastructure and social services. The multiple exchange rate system has long been recognized as a significant barrier to economic growth. Research conducted by Igwe (2025) and reports from the CBN (2023) emphasized how the system fostered an environment conducive to corruption, deterred foreign investment owing to concerns over repatriation, and obscured the genuine value of the Naira. The harmonization was thus a measure aimed at rectifying these market distortions and conforming to the best global practices for a market economy.

Theoretical Underpinnings of SME Resilience and Strategic Adaptation

This study utilizes established theoretical frameworks to elucidate how SMEs can adapt to such shocks. The Resource-Based View (RBV), augmented by Teece's (2018) notion of Dynamic Capabilities, is especially pertinent. The resource-based view posits that a firm's distinctive resources and capabilities are the principal factors influencing its competitive advantage. During a crisis, this entails utilizing internal strengths. Dynamic capabilities denote a firm's capacity to integrate, develop, and reorganize internal and external competences to respond to swiftly evolving circumstances. For SMEs, the focus is less on extensive R&D and more on the agility to adapt business models, reorganize supply chains, and rapidly embrace new technology.

Moreover, the notion of organizational resilience offers a valuable perspective. Williams et al. (2017) define resilience as the ability to foresee future dangers, manage disruptive occurrences, and adjust to new circumstances. The strategic reactions seen in crisis situations correspond with this.

- Operational Resilience: Encompassing cost reduction, efficiency enhancement, and supply chain re-engineering (Inuwa, M., & Usman, A., 2022).
- Strategic Resilience: Encompassing market diversification, product innovation, and digital transformation (Ayokunmi, 2022).
- Financial Resilience: Highlighting effective cash flow management, smart pricing, and availability of varied financing alternatives (Brigham, E. F., & Ehrhardt, M. C., 2020).

Empirical Evidence on Policy Shocks and SME Responses

Historical economic crises provide valuable insights into possible responses by SMEs. Ayobami's (2019) study on the FX crisis in Nigeria indicated that SMEs predominantly dependent on imported inputs were the most adversely affected, prompting numerous entities to adopt severe

cost-reduction strategies, including workforce reductions, to endure. Research on transportation non-linear responses on oil prizes changes demonstrated a clear pass-through effect from gasoline prices to the final costs of products and services, disproportionately impacting SMEs in the logistics and retail sectors (Ihugba, O. A., & Adefabi, R. A., 2025). A crucial technique recognized in previous crises and endorsed by academics is backward integration and local sourcing to reduce foreign exchange vulnerability and enhance supply chain resilience (Ayobami, O. T., , 2019).

The latest work emphasizes the expedited function of digitalization as a crisis-response mechanism. The COVID-19 pandemic revealed that SMEs utilizing e-commerce, digital payments, and social media marketing were more resilient during lockdowns and fluctuations in demand (Ayokunmi, 2022). This indicates that digital transformation is an essential strategic tool in the present situation.

Identified Gap in Literature

Although the current literature provides valuable insights on SME issues, the need for reforms, and overarching crisis management techniques, a notable deficiency persists. There is a lack of empirical, context-specific research examining the joint effects of simultaneous fuel subsidy elimination and foreign exchange harmonization on Nigerian SMEs. Most studies analyze these shocks in isolation or within varying temporal circumstances. Additionally, a synthesized strategy framework is required that transcends mere enumeration of issues to offer an integrated model for navigation, connecting internal SME efforts with requisite external support. This study seeks to address this gap by offering a modern, qualitative analysis of the "twin shock" and establishing an empirically based paradigm for resilience and success.

Methodology

Research Approach

This investigation employed a qualitative methodology. This paradigm was considered most suitable, as the research will examine a complex, contemporary issue within its real-life setting, where the experiences, attitudes, and strategies of SME owners are critical (Creswell, J. W., & Poth, C. N., 2018). A qualitative approach provides the depth and richness of data necessary to comprehend the intricate methods by which SMEs are managing this disruption.

Research Design

A phenomenological research design was utilized. This design aims to articulate the shared significance of a concept or phenomenon as experienced by multiple individuals (Creswell, J. W., & Poth, C. N., 2018). The phenomenon pertains to the experience of maneuvering through the corporate landscape following the elimination of gasoline subsidies and the harmonization of foreign exchange rates. This design facilitates an in-depth exploration of the participants' strategic decision-making processes.

Population and Sampling

The study population comprised owners and top managers of registered SMEs in Nigeria. A purposive sampling technique was used to select 25 participants from three major commercial hubs: Lagos, Abuja, and Port Harcourt. This sampling strategy ensured the inclusion of SMEs from diverse sectors, including manufacturing (6), retail (7), agribusiness (5), and services (7), all of whom are directly impacted by the policies under study. According to Obaje (2020), small businesses in Nigeria fail within the first five years, with very few surviving. Therefore, participants

were selected based on their experience (minimum of 5 years in business) to ensure they could offer advice about operations both before and after the policy shocks.

Data Collection

Primary data was obtained via comprehensive, semi-structured interviews. An interview protocol was created using open-ended questions aimed at obtaining comprehensive responses. Principal domains of investigation encompassed:

They recognized the effects of the elimination of the gasoline subsidy and the harmonization of foreign exchange on their business.

- Targeted measures are employed to alleviate these effects.
- Obstacles faced in executing these tactics.
- The perception of governmental and financial organizations' roles is essential.
- Prospects for the future of their enterprise.

Each interview, conducted either in person or over secure video conferencing technologies, lasted between 45 and 75 minutes. All interviews were audio-recorded and transcribed verbatim with the participants' approval. Field notes were additionally recorded to document nonverbal signals. Data gathering persisted until theoretical saturation was reached, at which point subsequent interviews produced no further thematic insights.

Data Analysis

The transcribed data underwent thematic analysis, adhering to the six-phase methodology established by Braun and Clarke (2006):

- I. Familiarization with the data
- II. Generation of initial codes
- III. Identification of themes
- IV. Evaluation of themes
- V. Definition and nomenclature of themes, and
- VI. Compilation of the report.

The NVivo 12 program was employed to methodically manage and code the data. To ensure reliability, member checking was utilized, wherein a summary of the findings was presented to a select group of participants for accuracy verification, and peer debriefing was performed with academic peers.

Ethical Considerations

All participants received an information leaflet and executed a consent form. They were guaranteed anonymity and confidentiality; hence, pseudonyms are employed in the presentation of findings.

Limitations of the Study

This research possesses multiple limitations. The qualitative design and limited sample size, although offering depth, restrict the generalizability of the findings to all Nigerian SMEs. The study concentrated on established, registered SMEs; the experiences of micro-enterprises and informal firms may vary considerably. The dynamic character of the economic landscape indicates that the suggested strategies pertain to a particular moment in time. Future longitudinal studies would be essential in monitoring the progression of these techniques over time.

Data Presentation and Analysis

The examination of the interview data uncovered a compelling combination of obstacles and tactical replies. The results are structured according to the principal themes that surfaced, aligned with the conceptual framework.

Theme 1: The Multifaceted Nature of the Shock

All participants characterized the policy changes as a significant and cumulative shock.

Operational Cost Surge

A manufacturing SME proprietor in Lagos remarked, "The cost of everything has tripled. The expenses for diesel to operate my facility, the transportation costs for importing flour, and the price of the flour itself have risen owing to currency swings. Our monthly operating expenses have surged by more than 200%." Participant M4, Manufacturing.

Disruption in the Supply Chain

A shopkeeper in Abuja stated, "My suppliers are raising prices weekly. Occasionally, products fail to arrive due to exorbitant transportation costs. I can no longer provide my customers with steady prices or reliable inventory." Participant R2, Retail.

Consumer Demand Decline

A service provider in Port Harcourt observed, "Individuals are exclusively purchasing essential items. Individuals currently perceive our consultation services as a luxury commodity. Previously, we settled invoices within 30 days; however, they now require 90 days, assuming payment is received at all." Participant S5, Services.

Theme 2: Internal Resilience Strategies

In response, SMEs are implementing internal measures to strengthen their operations.

Proactive Cost Optimization

This was the predominant immediate reaction. Strategies encompassed shrinking physical office space, minimizing non-essential personnel, transitioning to energy-efficient lighting, and implementing stringent inventory management to save carrying costs.

Supply Chain Re-engineering and Local Sourcing

Numerous manufacturers are currently pursuing domestic substitutes for imported materials. An agribusiness proprietor stated, "We previously imported all our packaging materials. We are now collaborating with a local supplier. The quality is not identical; however, the cost savings exceed 60%, and we are assisting them in enhancement." Participant A3, Agribusiness.

Adoption of Renewable Energy

Several SMEs with substantial capital reserves are investing in solar energy. "The diesel expenses were debilitating us. We secured a loan and installed solar panels. The initial expenditure was substantial, although our energy expenses are now consistent and significantly reduced. It constitutes a long-term investment." Participant M2, Manufacturing.

Theme 3: Market and Financial Agility Strategies

Small and medium-sized enterprises are also modifying their market-oriented and financial strategies.

Dynamic Pricing and Valuation Re-engineering

Most players have raised prices; however, many are doing it with strategic intent. Some have launched smaller, more economical product sizes. Others have disaggregated services, providing fundamental and premium bundles. "We cannot simply double our price. We need to

elucidate the cost breakdown to our clients and present a simplified version of our service that maintains essential value.” Participant S1, Services.

Revenue Diversification

Numerous entities are investigating alternative income sources. A retail clothes business proprietor established a thrift division. A restaurant commenced providing culinary workshops and retailing bottled spices. “One can no longer depend on a singular source. We must exhibit creativity.” Participant R5, Retail Sector.

Digital Transformation for Enhanced Efficiency and Outreach

The adoption of digital tools has intensified. Small and medium-sized enterprises utilize social media for cost-effective marketing, implement accounting software for enhanced financial management, and exploit e-commerce platforms to diminish dependence on physical customer visits. “Our online sales have become essential to our survival. Foot stores have declined; nevertheless, we are engaging clients in other states via Instagram and WhatsApp.” Participant R7, Retail Sector.

Theme 4: The Critical Gap in External Enablers

A predominant and uniform issue throughout all interviews was the perceived dearth of adequate external help.

Unattainable Government Assistance

Participants articulated significant dissatisfaction with governmental intervention initiatives. “Palliatives and loans are frequently mentioned in the news; however, the process of obtaining them is exceedingly difficult. They are accessible only to individuals with connections, not to someone of my stature.” Participant M5, Manufacturing.

Adverse Financial Climate

Banks were characterized as risk-averse and uncooperative. “Loan interest rates are currently exorbitant.” They are recalling existing loans and denying new ones. Could you elucidate how we are anticipated to invest in solar energy or new gear with a 30% interest rate? Participant A1, Agribusiness.

Policy Inconsistency

The incessant alterations in foreign exchange market laws and the absence of transparent information from authorities were seen as significant obstacles to strategic planning. “Just as you believe you comprehend the new FX regulation, it is altered once more. There is a lack of stability to strategize for the upcoming quarter.” Participant S3, Services.

Summary and Discussion of Findings

This study aimed to examine how Nigerian SMEs are adapting to the impacts of fuel subsidy elimination and foreign exchange harmonization. The findings illustrate a sector experiencing significant strain while simultaneously exhibiting notable resilience and adaptation.

The analysis validates the hypotheses underpinning this research. Firstly, the execution of Internal Resilience Strategies (P1) is undeniably fundamental to stability. The results on cost optimization and local sourcing correspond with the lean management principles proposed by Inuwa & Usman (2022) and the backward integration strategies examined by Oshodi (2022). The transition to renewable energy, although confined to larger enterprises, signifies a deliberate long-

term change that mitigates vulnerability to fluctuating fuel prices, as evidenced by Adaramola (2021).

The study identified robust evidence that market and financial agility (P2) is a crucial determinant of success. The identified tactics of dynamic pricing, income diversification, and digital transformation exemplify the "dynamic capabilities" articulated by Teece (2018). The transition to e-commerce and digital tools highlights Osinachi's (2022) conclusions regarding the significance of technology in the survival of SMEs during crises.

Thirdly, and arguably most importantly, the data strongly endorse Proposition P3: the efficacy of SME-led initiatives is significantly hindered by the lack of supportive external facilitators. The widespread grievance regarding unavailable funding and policy volatility highlights a fundamental disjunction between macroeconomic policy and microeconomic conditions. This corresponds with the World Bank's (2023) evaluation that, in the absence of focused assistance, the social and economic repercussions of these reforms may surpass their advantages.

The empirical data thus substantiates and enhances the integrated conceptual framework we initially suggested. It illustrates that the success of SMEs is not a linear trajectory but a dynamic interaction between internal resilience and external assistance. The most resilient SMEs in this study engaged comprehensively with all three aspects of the framework, whereas those facing difficulties were frequently unduly dependent on a singular strategy or entirely without external help.

Conclusion and Recommendations

Conclusion

The elimination of the fuel subsidy and the unification of foreign exchange rates signify a major reconfiguration of the Nigerian economy. This has been a challenging and disruptive process for SMEs, jeopardizing their viability due to a series of cost escalations and reduced demand. This study concludes that strategic navigation channels are indeed present. Small and medium-sized enterprises that actively cultivate internal resilience via cost leadership and local sourcing, exhibit market agility through innovation and digitalization, and meticulously oversee their finances are positioning themselves not merely to endure but to potentially prosper in the emerging economic landscape. A poor support system is hurting their commendable efforts. The final success of these essential yet arduous economic reforms will rely equally on the strategic adjustments of SMEs and the government's capacity to establish a cohesive, stable, and supportive policy framework.

Recommendations

For SME Owners and Managers

- I. **Systematize and Digitize:** Transition from informal recordkeeping. Implement accounting and inventory management software to achieve real-time financial visibility and facilitate data-driven decision-making.
- II. **Adopt Collaborative Ecosystems:** Establish partnerships with other non-competing SMEs to attain economies of scale in procurement, logistics, and marketing.
- III. **Allocate Resources to Strategic Marketing:** Avoid eliminating marketing expenses. Concentrate on economical digital marketing that effectively conveys your value offer and fosters client loyalty in a competitive landscape.

For Policymakers

- I. Establish Transparent and Accessible Financing Mechanisms: Develop SME intervention funds with streamlined application procedures, overseen by reputable third parties to prevent bureaucratic and corrupt impediments. Loans ought to feature single-digit interest rates and extended moratorium periods.
- II. Expedite Infrastructural Investments: The savings from subsidy elimination must be transparently allocated to enhancing the national grid and optimizing domestic crude oil processing. Dependable power and reduced domestic fuel costs are the most efficacious remedies for enterprises.
- III. Guarantee Policy Transparency and Consistency: The Central Bank of Nigeria and the Ministry of Finance must articulate foreign exchange policies clearly and uphold them consistently to facilitate business planning. Frequent policy reversals undermine confidence and dissuade investment.

For Future Research

- I. A comprehensive quantitative analysis is advised to quantitatively examine the correlations between the strategic themes revealed in this research and specific metrics of SME performance (e.g., profitability, survival rate).
- II. Sector-Specific Analyses: Future study ought to examine the effects and strategic adaptations within distinct sectors (e.g., technology startups versus agribusiness) to yield more customized insights.
- III. Longitudinal Research: Longitudinal research monitoring a cohort of SMEs during this transitional time would provide invaluable insights into the long-term effectiveness of various navigation techniques.

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