

Competitive survival and business model adaptability during Covid-19. A case of the microfinance sector in Zimbabwe

Kudzayi Ziki¹ & More Chinakidzwa²

¹ Department of Strategy and Innovation, Harare Institute of Technology, Harare, Zimbabwe

² Department of Strategy and Innovation, Harare Institute of Technology, Harare, Zimbabwe

E-mail: kziki@hit.ac.zw

Abstract. The study explored how adaptations to the business models of micro-finance institutions resulted in competitive survival during the covid-19 period. For the players in this sector to survive, some adaptations or innovations around the business model were made. This study was mainly interested in establishing the exact adaptations and the impact of those adaptations to the business model on the competitive advantage of the firms during this period. The population for this study included all the non-banking micro-finance institutions in Zimbabwe totalling 209. A sample of 132 was derived using Krejcie and Morgan 1970 sample size table. A questionnaire was used to gather data from the respondents and it was administered online due to travel restrictions. A response rate of 37% was garnered and this was deemed very reliable as the total acceptable response rate of online surveys is often ranging from as low as 20%. Data analysis was carried out using IBM's Statistical Package for Social Scientists (SPSS). The results revealed that there is a direct but weak correlation between business model and competitive survival and this was realised to be as a result of lack of unique resources and absence of dynamic capabilities. Only 18% change in competitive advantage was as a result of business model innovations carried out during this period. It is therefore the reason why the majority of these micro-finance institutions have been finding it very difficult to survive. It was recommended that for them to effectively innovate the business model so as to realise great changes in competitive advantage under hostile external environments, these institutions should acquire unique resources. These should include technological resources which would allow them to develop dynamic capabilities required for effective absorption, adaptation and innovation.

Keywords: *Competitive Advantage, Survival, Business Model Adaptations, Covid-19, Organisational Resources, Dynamic Capabilities*

Introduction

Nearly everyone was unprepared for the unanticipated Covid-19 outbreak, and organizations had to work swiftly to adjust their operations to the new situation. The lockout and other such measures disrupted every part of a company's operations, making it necessary for some business models to vanish overnight and for the necessity to survive to become a reality. Those that exhibited innovative dynamic abilities were the ones who immediately adjusted their business strategy to the new standard. The reality on the ground revealed, exactly one year after the epidemic began, that organizations must be able to innovate around their business model in order to foster competitive survival throughout all stages of value creation, value appropriation, and value capture.

In order to establish competitive survival during the COVID-19 epidemic, participants in the microfinance sector in Zimbabwe sought to change their business models in this study.

The Covid-19 pandemic and its associated measures such as total lockdown, working from home, social distancing and travel restrictions, among many others, have completely disrupted the operations of businesses globally (Ibarra, Bigdeli and Igartua, 2020). The impact of the pandemic's associated measures threatened the existence of businesses and almost all companies struggled to survive. This was even worse for the already struggling entities with the SMEs sector being the most affected due to the delicacy of their operational models. The pandemic came at the beginning of 2020 making it more difficult for most enterprises to cope with the sudden turn of events (ZAMFI, 2018).

The measures put by government and other officials to curb the spread of the disease disrupted the existing business models for most SMEs in the micro-finance sector in Zimbabwe. Traditionally, these were the brick and motor companies who would do most of their activities physically with all the business being done at the office. The imperative to find new ways of doing business become an urgent task for management. It became very much difficult for the business to continue with operations as they couldn't have access to the offices and their clients could not be reached as well.

Reaching out to customers was made impossible as the pre-covid-19 business models didn't have any means of interacting with the customers for the majority of the micro-finance sector. The revenue streams were cut, the companies couldn't create new business and the existing financial resources couldn't meet the company's overhead costs. Faced with six months of business closure, the majority of businesses closed shop and others downsized in order to minimise the damage to the business. As other companies took advantage of the pandemic to grow their business adapting their business model, others failed to survive due to the rigidity of their business models (Ibarra, Bigdeli and Igartua, 2020).

Literature review

In this section, the study reviews literature on business model innovation (BMI) and competitive survival (CS) in the context of Covid-19 in Zimbabwe's microfinance sector. Briefly, BMI adaptability depends much on two key issues namely dynamic capabilities and organisational resources (Clauss *et al.*, 2019). The study also looks into the role of technology in influencing business model adaptability. Technology plays both the role of a resource as well as that of an enabler (Chesbrough, 2007). As some organisations adapt their business models in anticipation to changes in the external environment, others fail to predict such changes due to the nature of their capabilities (Wirtz and Göttel, 2014).

Implications of Covid-19 measures on business operations

Micro-finance institutions fall within the SMEs category according to the classification by the government of Zimbabwe (SMEs Policy, 2010). Generally, SMEs are often hard-hit by various challenges with funding being one of the most common ones. Most SMEs in Africa are constrained by lack of financial support, poor management, corruption, knowledge limitations among many other challenges (Tembo, 2020). The emergence of Covid-19 and the associated measures aimed at curbing its spread has grossly disrupted the normal flow of businesses globally (ILO, 2020).

The disruption of global supply chain has not spared microfinance institutions in Zimbabwe as the majority of their services to the market depend much on the free movement of goods, services and people in the economy. Survival becomes a real challenge for the MFIs in Zimbabwe considering that they were already operating in a hostile macro-economic environment with hyper-inflation (ZAMFI, 2020a). There was a sharp decline in the aggregate number of customers in the second and third quarter of 2020 due to the total lockdown of the economy (ZAMFI Report, 2020b).

The sector witnessed a decline in its revenue streams by more than 50% between March 2020 and December 2020 mainly due to disruption of its usual customer base (RBZ, 2021). Micro-finance institutions normally thrive on the manufacturing sector, especially on SMEs who will be seeking to recapitalise their operations. The lockdown therefore indicates that there has been little or no borrowing from the manufacturing sector as there has been no production going on.

Globally, business volumes went down by over 30% with most industries operating below their usual levels. There has been over 300 million job losses in a space of 6 months in 2020 as a result of lockdown measures (ILO, 2020). The situation has been worse in developing countries such as Zimbabwe where declining GDP in 2020 meant the MFI sector had little to get from the market (Ministry of Finance and Economic Development, 2020). At global level, even large corporates found it very difficult to adjust their organisations to the demands of the pandemic (Furstenthal and Roth, 2020). According to Bar Am et al (2020), the majority of organisations indicated that they are having a difficult time adjusting their operations to the disruptions caused by covid-19.

Business model innovation

The ability of the organisation to respond to the changes in the external environment would give it an edge over its competitors and allows it to forge survival (Amit and Zott, 2012). Scholarly literature is laden with both theoretical and empirical evidence of organisations that have either folded as a result of a rigid business model or of others that have realised great success due to their ability to adapt their business model in response to disruptions from the external environment (Evans *et al.*, 2017). The collapse of global companies like Blockbuster and the rise of Netflix all reflect the implications of an organisation's ability to adapt its business model.

Organisations should have the right combination and configurations of resources and capabilities that can help them transform their business models when faced with operational challenges in order to create new opportunities and new value for its customers (Clauss *et al.*, 2019). Dynamic capabilities are central to the development of a new business model as they represent the means by which the business can sense, seize and transform new opportunities in the market (Latifi and Bouwman, 2018). Competitive survival is highly dependent on smooth adaptation to the forces of change in the industry and being proactive rather than reacting to situations (Peregrino de Brito and Artur Ledur Brito, 2019). As technology has brought about serious changes in the business world and leaving a lot of casualties due to failure to adapt to changes in the market environment, the Covid-19 pandemic has been too much a burden for most organisations, big or small.

Challenges facing the Micro-finance institutions in Zimbabwe

The underperforming Zimbabwean economy has made it difficult for the microfinance sector to survive for a number of years. As has been observed in numerous instances, the microfinance sector performs exceptionally well in struggling economies because most individuals and small enterprises would be looking for financial support to augment their incomes. Since 2000, the microfinance industry in Zimbabwe has faced significant difficulties that have forced many businesses to close and others to expand. Due to the usage of a stable currency like the dollar during the multicurrency period from 2009 to 2016, the sector was able to experience significant growth. The pandemic struck at a time when the majority of industry participants were dealing with significant difficulties in running their businesses in a climate of inflation.

On average, 20% of registered microfinance institutions often don't survive past their first five years of operation (ZAMFI, 2018). Different issues in the industry take diverse forms, but they always call for a comprehensive strategy from all interested parties (Mago, 2017). The pandemic presented most firms with an unprecedented challenge, and the majority of SMEs had to deal with the difficulties of functioning outside of their typical business surroundings. In order to restructure competitive survival during the COVID-19 pandemic, players in the microfinance sector in Zimbabwe modified their business models, which is the focus of this study. The study's initial goal is to measure the effects of Covid-19 on the functioning of Zimbabwe's microfinance industry. Second, the study aimed to identify the modifications made to the business model by SMEs in the microfinance industry in response to the influence of Covid-19 on their operations. Third, the study would assess the effects of such modifications on the business's ability to compete successfully.

The bulk of the business models that were in place before the pandemic may no longer be viable given how Covid-19 has impacted industries. Competition will undoubtedly take on a new dimension, therefore knowing how some organizations have changed their business models will be extremely helpful information that can aid others in establishing their own survival through business model innovation.

Objectives

The study is guided by the following objectives:

- To establish the adaptations made to the business model over the years
- To evaluate the implications of such changes to the business model on the competitive survival of the business.

Methods

The study employed a quantitative research design that employed structured close-ended questionnaires in data collection. The population for the study was 209 micro-finance institutions and a sample of 232 was derived using Krejcie and Morgan 1970 sample size table. Participants were selected into the study using random sampling. The data collection was done online and a 37% response rate was attained.

Results

The study looked into competitive survival through business model adaptability in Zimbabwe's Micro-finance sector. The response rate was 37% for the online questionnaire that was distributed via email. According to Morton, Robinson and Carr (2012), some studies with a response rate of as low as 20% would possibly yield more accurate results than those with 80% response rate (Genroe,2019). This depends much on the nature of the study and the technicality and complexity of the subject under study. The majority of the respondents indicated their willingness to participate in the study but could not as they cited the complexity of the subject that was under study. Online surveys are known for producing response rates that are often below 50% and this was even made more difficult due to Covid-19 restrictions which included a partial lockdown and travel restrictions. The acceptable online response rate should be between 30% and 40% which is different from the response for those distributed physically which should be between 60% and 80% (SurveyAnyplace,2018).

Reliability analysis

The study carried out a reliability analysis of the questionnaire that was used in data collection. The Cronbach's Alpha was used to determine the reliability score of the questionnaire.

Table 1.1 Reliability analysis using Cronbach's Alpha

Reliability Statistics	
Cronbach's Alpha	N of Items
.974	60

Source: Study Results (2021)

The reliability score for the study was .974 which is very much acceptable as it is above the lowest acceptable threshold of .600. This indicates that the questionnaire had the desired level of internal consistency and the results could be used as they are accurate measures of what was intended to be measured.

Normality test

The normality test is a measure of whether the data is normally distributed or not so that the right kind of test could be run. It's a requirement for running a regression analysis and if the data is normally distributed, then a linear regression analysis is carried and a Pearson correlation is done. However, if

the data is not normally distributed, then an Ordinal regression analysis is carried out together with the Spearman Rank correlation. So the normality test is a precondition for running a regression analysis.

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
R	.184	50	.000	.850	50	.000
C	.141	50	.014	.915	50	.002
BM1	.145	50	.010	.932	50	.007
CA	.259	50	.000	.738	50	.000

a. Lilliefors Significance Correction

From the results above, we are mainly interested in the Shapiro-Wilk results and they significance levels are indicating that the score are statistically significant and below .05 which indicates that the data not normally distributed. As a result, the study would do an Ordinal regression and a Spearman correlation analysis to establish the relationship between the variables.

Business model adaptations

The study provides data on the business model adaptations that were carried out by the microfinance institutions over time.

	SD	D	NA/D	A	SA
<i>We regularly utilize new technical opportunities in order to extend our product and service portfolio.</i>	2	22	10	36	30
<i>We are constantly searching for new collaboration partners.</i>	4	20	4	32	40
<i>New collaboration partners regularly help us to further develop our business model.</i>	6	20	8	32	34
<i>We regularly utilize new distribution channels for our products and services</i>	6	22	10	30	32
<i>Constant changes of our channels have led to improved efficiency of our channel functions.</i>	6	20	22	24	28
<i>We consistently change our portfolio of distribution channels.</i>	6	24	12	32	26
<i>We try to increase customer retention by new service offerings.</i>	6	10	10	42	32
<i>We emphasize innovative/modern actions to increase customer retention</i>	8	12	10	34	36
<i>We recently took many actions in order to strengthen customer relationships.</i>	8	12	14	30	36
<i>We recently developed new revenue opportunities (e.g. additional sales, cross-selling).</i>	6	16	14	26	36
<i>We increasingly offer integrated services (e.g. maintenance contracts) in order to realize long-term financial returns.</i>	6	18	18	32	26
<i>We do not rely on the durability of our existing revenue sources</i>	20	10	16	24	30
<i>We regularly reflect on our price-quantity strategy</i>	4	14	10	42	30
<i>We regularly utilize opportunities which arise through price differentiation.</i>	2	16	16	32	34

The table shows that the majority the respondents changed almost all aspects of their business model with creation of new products and services being the most. A total of 40% of the respondents strongly agreed that they sought new collaboration partners whilst 42% said they sought to retain customers by offering new products to the market. Price adjustments was also a very important adaptations made in order to remain competitive in the market. Technology was also harnessed over the years to adapt the business model in the micro-finance sector.

Correlating business model adaptations and competitive survival

The study ran the Spearman correlation since the data was not normally distributed and the competitive survival was the dependent variable whilst business model adaptations were the independent variable. So this was a non-parametric analysis of how BM adaptations influenced competitive survival.

Correlations				
			BM1	CA
Spearman's rho	BM1	Correlation Coefficient	1.000	.422**
		Sig. (2-tailed)	.	.002
		N	50	50
	CA	Correlation Coefficient	.422**	1.000
		Sig. (2-tailed)	.002	.
		N	50	50

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficient in the table shows a score of .422 which is a direct yet moderate correlation between Business model adaptations and competitive survival in Zimbabwe’s microfinance sector. There is a statistically significant relationship between BMI and competitive survival as shown by the *P* value of .002. This basically translates to say that there is a **42%** change in competitive advantage as a result of any adaptations made to the business model.

Regression analysis: BMI on Competitive survival

The analysis was mainly concerned with the Pseudo R-Square as shown below of which in this case, the Nagelkerke was considered for the analysis.

Pseudo R-Square	
Cox and Snell	.175
Nagelkerke	.181
McFadden	.058
Link function: Logit.	

The Nagelkerke score was .181 which means that there is an 18% change in competitive advantage of the organisation due to variations or adaptations of the business model. This confirms that business model adaptations were not able to yield much on competitive advantage.

Discussion

The Zimbabwean micro-finance institutions have been faced with a number of problems mostly emanating from the macro-economic environment during the period under study (2016-2020) until 2020. These include a move from the multi-currency regime that was in operation since February 2009 back to the Zimbabwean dollar that was called the RTGS\$. Such changes were so abrupt which disturbed the flow of business in the sector (ZAMFI, 2020). All prices, interest rates, loan repayments and other charges which were pegged in US\$ were now being settled in RTGS\$. This destroyed business in a greater way as it would then become very difficult for the business to underwrite all those losses.

To make matters worse, the newly introduced RTGS\$ was not a reliable currency as it continued to lose its value due to inflation. The business community was called to take drastic measures in order to survive. Accordingly there has been many casualties as majority of the companies were under during the period following the introduction of the RTGS\$ (CZI, 2020). For organisations to survive under such hostile conditions, major adjustments to the business model should be put into place (Clauss *et al.*, 2019). Adaptations to the business model under these conditions don’t normally yield the best results due to lack of preparedness.

Successful adaptations of the business model can only be more effective in yielding competitive advantage for the organisations if the organisation possesses adequate resources and dynamic capabilities (Minatogawa *et al.*, 2020). Possession of unique resources, chief among them, technological resources, are a pillar for successful business model adaptations. Most micro-finance institutions do not possess any special resources which can help them forge capabilities required to quickly transform in response to abrupt market changes (Cull, Demirgüç-Kunt and Morduch, 2018). In a study by the World Bank, possession of technological resources has been seen as an advantage for quick business model adaptations and firms that possess unique technological resources have been found to respond quicker than those without (Cull, Demirgüç-Kunt and Morduch, 2018). Micro-finance institutions in Zimbabwe are found to lack unique resources as indicated by the dominant business model in the industry. The majority of them possess ordinary technological resources but very few have exclusive technology in use in their operations.

Such realisations are the reason why there is only 18% change in competitive advantage as a result of any adaptations in the business model over the years in question. Organisations that possess unique resources, will always be able to forge dynamic capabilities of sensing, seizing and transformation of market opportunities that are brought by a change in the external environment (Clauss *et al.*, 2019). Competing on superior business model advantage through BMI during hostile market environments was found not to be very common among the micro-finance players mainly because they possess no unique resources or any dynamic capabilities that enable them to anticipate changes in the market. A market that sells homogenous products normally competes on service delivery and this is common of the micro-finance sector in Zimbabwe where their major product is micro-credit (Mago, 2017). The need to be distinct through BMI become more imperative especially when the core value of the homogeneous product is being threatened by rapid changes in external market forces (Mpofu *et al.*, 2013). Micro-credit as a product was under siege due to market volatilities which were being perpetuated by hyper-inflation that got associated with the introduction of the RTGS\$ in 2018 and the re-introduction of the Zimbabwean dollar around 2016.

For business model adaptations to quickly yield results, there is need for the organisations to possess dynamic capabilities which are categorised in three groups namely adaptive capabilities, absorptive capabilities and innovative capabilities and these are fundamental to the development of a competitive advantage for the organisation. Adaptive capabilities are more central to the business model adaptations especially during times of abrupt market changes such as those experienced between 2016 and 2020 in Zimbabwe. These are moulded around the ability to anticipate change and magnitude of its impact on the business's existing model. Such capabilities will always allow the organisation to set some contingency responses to any situation.

The study asked a number of questions on technology as technology were considered more important in business model adaptations due to its double role as resource and as an enabler for business model adaptations. In certain scenarios, business model innovation is allowed to happen through technology as an enabler whilst in certain circumstances, it is a resource that is central to building of capabilities. Lack of technological resources is seen as the key limitations to the extent to which an organisation can adapt to any changes in the marketplace. These are not just ordinary technological resources but rather exclusive technological resources that allow the organisation to compete above the average firm in the industry. The low implication of BM adaptations on competitive advantage in the Zimbabwean micro-finance sector was mainly due to the lack of unique capabilities that are backed by rare technological resources. The major changes in the macro-economic environment between 2016 and 2020 coupled by the disruptions caused by Covid-19 and its associated measures require great dynamism and agility of organisation had to survive.

Limitations

The study explored the impact of business model adaptations on competitive survival of micro-finance institutions in Zimbabwe during Covid-19. It didn't explore the factors that determine the magnitude of BMI adaptations such as organisational resources and dynamic capabilities though these issues are referenced greatly in the article. Future studies should focus on how dynamic capabilities

and organisational resource help shape the magnitude of business model innovation. This would then inform the interested stakeholders on the implications of resources and capabilities on competitive advantage directly. The period under study was chosen mainly because it represents significant changes in the external environment such as currency changes, Covid-19 among others. Future studies should focus on each specific change so that its impact could be quantified in exact terms.

Managerial implications

This study comes at a time when managers and leaders both in business and society are cracking their heads as to how best they can prepare their institutions to remain competitive in the face of harsh external environments. The study is therefore expected to provide some useful insight into how adaptations to the business model of an organisation could bring more impact on its competitive advantage when faced with life-threatening situations. This becomes more important especially in industries that offer homogeneous products as both comparative and differential advantage will not yield much differences. The study tackles issues associated with the possession of unique resources and dynamic capabilities which are essential in promoting realisation of a competitive advantage for the business.

Conclusion

The study reveals that there was a direct but insignificant correlation between the business model adaptations made by micro-finance institutions and competitive survival in the sector between 2016 and 2020. This was mainly due to limited the lack of unique resources and dynamic capabilities as the sector on average offered a homogeneous product using a similar business model. The adaptations to the business model made during this period couldn't result in any significant changes in competitive advantage due to lack of the requisite resources and capabilities that would give the organisations either a differential or a comparative advantage. For the micro-finance players to significantly attain competitive advantage, they need to acquire and be in possession of unique resources that are valuable, rare, imperfectly imitable and non-substitutable (VRIN). These resources should then help them to develop dynamic capabilities which would allow them to absorb, adapt and innovate around any changes in the external environment.

References

- [1] Amit, R. and Zott, C. (2012) 'Creating value through business model innovation', *MIT Sloan Management Review*, 53(3), pp. 41–49.
- [2] Chesbrough, H. (2007) 'Business model innovation: It's not just about technology anymore', *Strategy and Leadership*, 35(6), pp. 12–17. doi: 10.1108/10878570710833714.
- [3] Clauss, T. *et al.* (2019) 'Strategic Agility, Business Model Innovation, and Firm Performance: An Empirical Investigation', *IEEE Transactions on Engineering Management*. doi: 10.1109/TEM.2019.2910381.
- [4] Cull, R., Demirgüç-Kunt, A. and Morduch, J. (2018) 'The microfinance business model: Enduring subsidy and modest profit', *World Bank Economic Review*, 32(2), pp. 221–244. doi: 10.1093/wber/lhx030.
- [5] Evans, S. *et al.* (2017) 'Business Model Innovation for Sustainability: Towards a Unified Perspective for Creation of Sustainable Business Models', *Business Strategy and the Environment*, 26(5), pp. 597–608. doi: 10.1002/bse.1939.
- [6] Ibarra, D., Bigdeli, A. Z. and Igartua, J. I. (2020) 'Business Model Innovation in Established SMEs : A Configurational Approach'.

- [7] Latifi, M. A. and Bouwman, H. (2018) ‘Business model innovation and firm performance: The role of mediation and moderation factors’, in *31st Bled eConference: Digital Transformation: Meeting the Challenges, BLED 2018*. University of Maribor Press/Association for Information Systems Electronic Library, AISEL, pp. 67–84. doi: 10.18690/978-961-286-170-4.5.
- [8] Mago, S. (2017) ‘Microfinance in Zimbabwe : A Historical Overview Microfinance in Zimbabwe : A Historical Overview’, (November 2013). doi: 10.5901/mjss.2013.v4n14p599.
- [9] Minatogawa, V. L. F. *et al.* (2020) ‘Operationalizing business model innovation through big data analytics for sustainable organizations’, *Sustainability (Switzerland)*, 12(1). doi: 10.3390/su12010277.
- [10] Mpofu, S. *et al.* (2013) ‘Evaluation of the effectiveness of Zimbabwean micro-finance institutions in promoting entrepreneurs in Bulawayo : post dollarisation’, 2(5), pp. 12–17.
- [11] Peregrino de Brito, R. and Artur Ledur Brito, L. (no date) *Dynamics of Competition and Survival*. Available at: <http://www.anpad.org.br/bar> (Accessed: 3 April 2021).
- [12] Wirtz, B. W. and Göttel, V. (2014) ‘Business Model Innovation’, *WiSt - Wirtschaftswissenschaftliches Studium*, 43(10), pp. 529–535. doi: 10.15358/0340-1650_2014_10_529.
- [13] ZAMFI (2018) ‘Performance report of the microfinance sector as at 30 September 2018’, (December).