



THE COVID-19 IMPACT ON ENTERPRISES AND EMPLOYERS

SURVEY REPORT

25TH SEPTEMBER 2020

The COVID-19 pandemic has had extensive impact on businesses across various industries and sectors. The Federation of Kenya Employers conducted a survey across its member organizations to better understand how businesses can emerge from the COVID-19 pandemic. This survey was conducted in the month of August 2020 and sought to assess the business environment before the COVID-19 pandemic, the current impact of the pandemic and the areas of support required to recover and prosper after the pandemic.

Research Findings

We present the results of this survey below first by presenting demographic characteristics of the organizations that participated in the survey. Secondly, we present results on the business environment prior to the onset of the COVID-19 pandemic, and thirdly the support required for businesses to recover and prosper after the pandemic.

Description of Organization Participating in the Survey

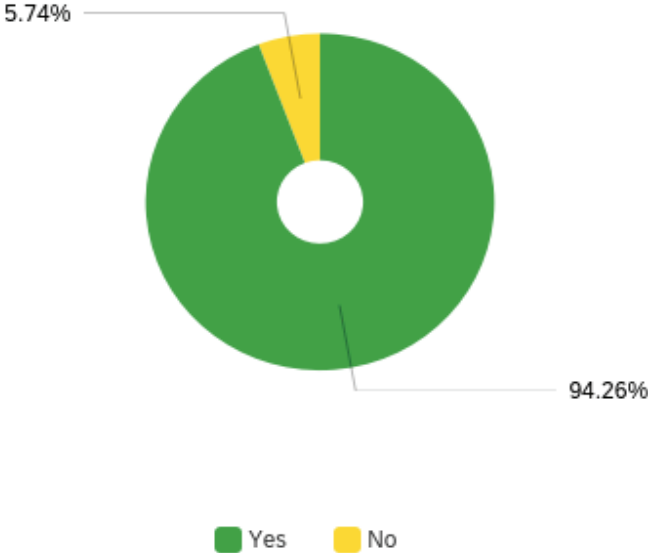
Location

A total of 122 organizations participated in the survey. Majority of them were located in Nairobi followed by Mombasa, Kisumu and Nakuru in that order representing 64.75%, 9.02%, 4.92% and 0.82% of the organizations respectively. It is also important to note that a significant number of them were located in other counties apart from the four mentioned above and these represented 20.49% of all organizations participating in the survey.

Location	Count	Percentage
Nairobi	79	64.75%
Mombasa	11	9.02%
Kisumu	6	4.92%
Nakuru	1	0.82%
Other	25	20.49%
Total	122	100%

FKE Membership

About 94% of participating organizations were FKE members and 6% were not members.



Ownership Type

Companies represented the majority of the organizations that participated in the survey representing 77.05% of the 122 organizations. Partnerships, sole traders and associations represented 1.64%, 1.64% and 2.46% respectively while those that did not fall into either of these categories represented 17.21% of all participating organizations.

Type of ownership	Percentage	Count
Company	77.05%	94
Partnership	1.64%	2
Sole Trader	1.64%	2
Association	2.46%	3
Other	17.21%	21
Total	100%	122

Sector of Operation

Majority of the participating organizations were in the manufacturing and processing, and finance and insurance sectors representing 22.95% and 12.30% respectively.

Sector	Percentage	Count
Administrative and support services activities	3.28%	4
Agriculture, forestry and fishing	4.92%	6
Arts, entertainment and recreation	0.00%	0
Construction	0.82%	1

Education	7.38%	9
Electricity, gas, steam and air conditioning supply	1.64%	2
Finance and insurance activities	12.30%	15
Hotel / tourism	4.92%	6
Human health and social work activities	4.92%	6
Information and communication	3.28%	4
Manufacturing and processing	22.95%	28
Professional, scientific and technical activities	2.46%	3
Real estate activities	1.64%	2
Restaurants	0.82%	1
Transportation and storage	5.74%	7
Water supply, sewerage, waste management and remediation activities	3.28%	4
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.64%	2
Other industrial activities, please specify	9.02%	11
Other services Industries, please specify	9.02%	11
Total	100%	122

Covid-19 Impact on Employment and Staffing

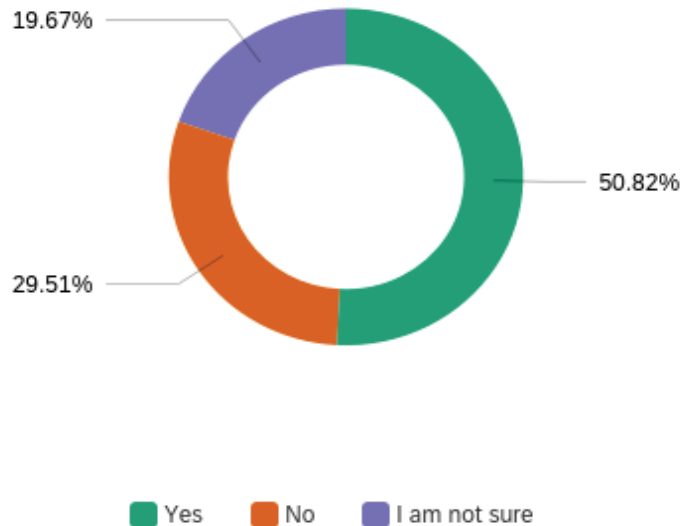
Number of employees

The mean number of employees per organization was 405 as of 29th February 2020 and this number fell to 372 employees as of 1st August 2020. This means an average of 33 employees lost their jobs per responding enterprise.

	Minimum	Maximum	Mean	Std Deviation	Variance	Count
As of 29 February 2020	2.00	6532.00	405.93	777.50	604513.84	118
As of 1 August 2020	0.00	6536.00	372.25	739.64	547073.47	118

Impact of COVID-19 on Staffing

About half of the organizations interviewed (51%) reported that they were planning to reduce staff costs over the next six months following the survey. About 30% were not planning to reduce staff costs while 19% were not sure.



Impact on Human Resource Decisions

The top cost-cutting measures were reducing or freezing of staff recruitment (27%), reduction or delay of wage increases or annual bonuses (21%), reduction of staff development costs like training (19%) and implementation of compulsory leave or unpaid holidays.

Cost-cutting measure	Percentage	Count
Reduce or completely freeze recruitment of new staff	27.69%	54
Reduce or delay increase of wages or annual bonuses	21.03%	41
Dismiss employees	5.64%	11
Implement compulsory leave or holidays without pay	13.33%	26
Reduce working hours	8.21%	16
Reduce staff development costs (e.g. training)	18.97%	37
Other, please specify	5.13%	10
Total	100%	195

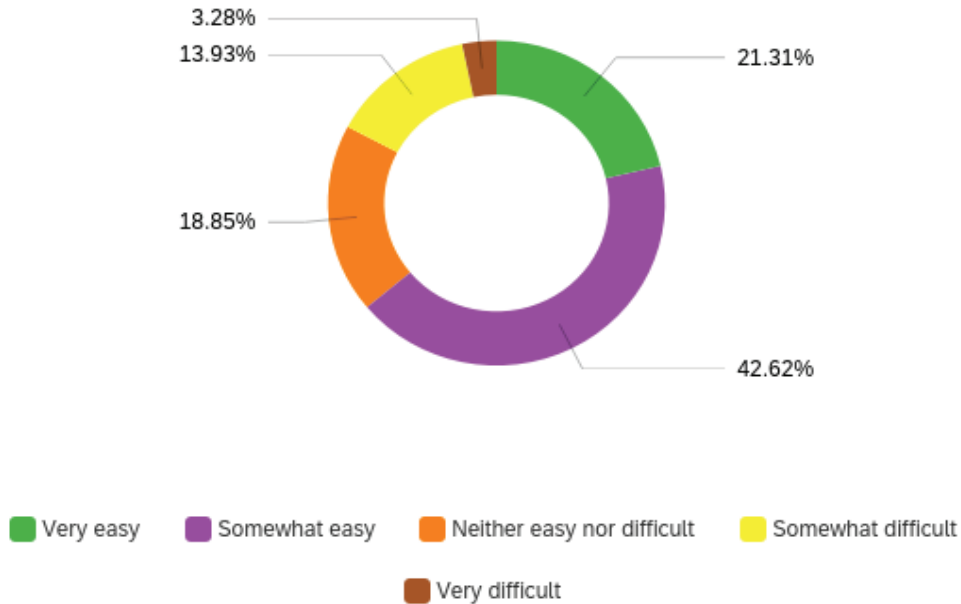
There was an equal split between those who had not dismissed any staff and those that had dismissed between 1-10% of their staff each representing 27% of participating organizations. Those that had dismissed between 11-20%, 21-30% and over 41% represented 18%, 10% and 18% respectively of participating organizations. None of the participating organizations had dismissed between 31-40% of their staff.



A majority of organizations reported that they were planning to dismiss staff. Those planning to dismiss between 1-20% of their staff represented 72% while those planning to dismiss between 21-30% represented 18%. No organization reported planning to dismiss between 31-40% and only 9% reported planning to dismiss over 41% of their staff. No organization reported not planning to dismiss any of their staff.

Staff Recruitment Pre-COVID-19

A majority of firms reported that it was easy to recruit staff with the required skills before the onset of the COVID-19 pandemic (very easy – 21% and somewhat easy 43%). Only 3% of firms reported that recruitment was very difficult as compared to 14% and 19% who reported that it was somewhat difficult and neither difficult nor easy respectively.

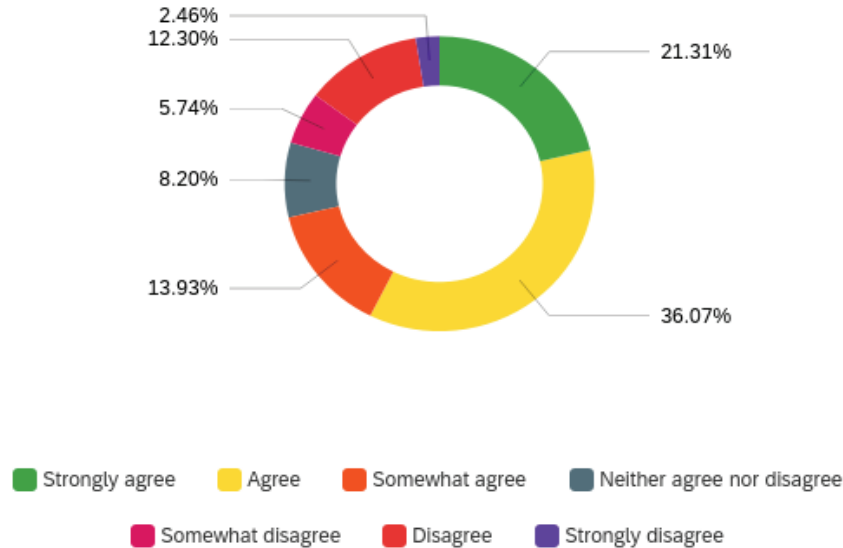


Technical knowledge, strategic thinking/problem-solving skills and teamwork and collaborative skills were the three most important skills and attributes that firms looked for in new recruits. These skills and attributes were chosen by 24%, 13% and 12% of organizations participating in the survey.

Skill and attribute	Percentage	Count
University qualifications	9.56%	26
Vocational training qualifications	4.78%	13
Technical knowledge	24.26%	66
Foreign language skills	0.37%	1
Specific software skills	1.84%	5
Organization skills and attention to detail	7.72%	21
Communication skills	5.88%	16
Teamwork and collaborative skills	12.13%	33
Networking skills	0.37%	1
Creative skills	4.78%	13
Digital/technology related skills	4.04%	11
Strategic thinking/problem-solving skills	13.24%	36
Multi-tasking skills	4.41%	12
Cultural sensitivity	2.57%	7
Other, please specify	4.04%	11
Total	100%	272

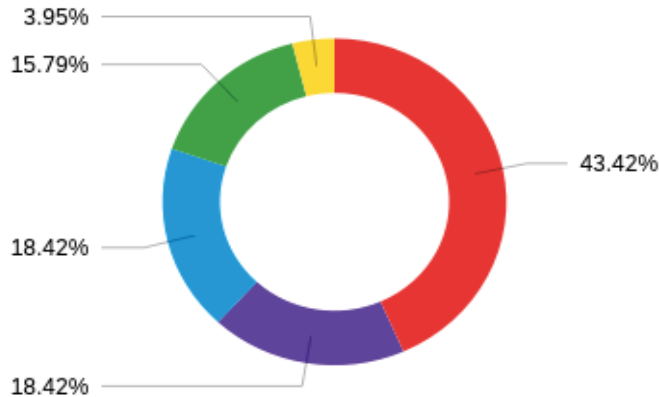
Recruitment Decision Constraints

Majority of organizations agreed that labour costs and employment entitlements like salary, wages, annual leave and 13th month salary were a constraint on their recruitment decisions. This was represented by approximately 71% of the participating organizations (21% strongly agreed, 36% agreed and 14% somewhat agreeing). About 21% of participating organizations disagreed while 8% neither agreed nor disagreed.



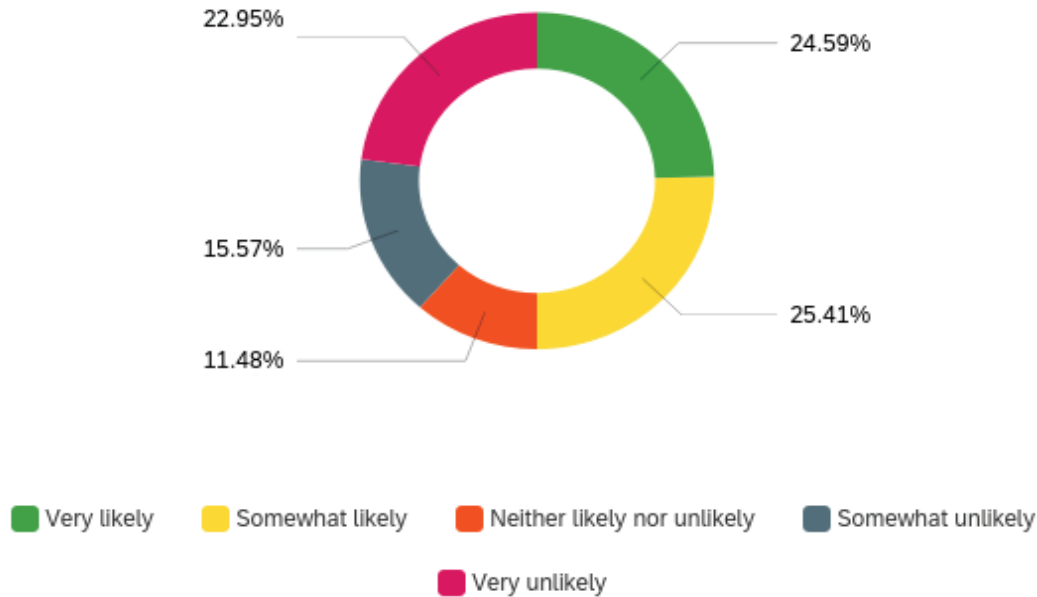
Working from Home/Teleworking

Majority of organizations reported that less than 20% of their staff were working from home representing 43% of participating organizations. There was an equal split between those reporting that between 20-40% and between 41-60% were working from home with each being represented by 18% of participating organizations. Those that reported having between 61-80% of their staff working from home represented 16% while 4% reported having over 81% of their staff working from home.



■ Less than 20% ■ Between 20-40% ■ Between 41-60% ■ Between 61-80% ■ Over 81%

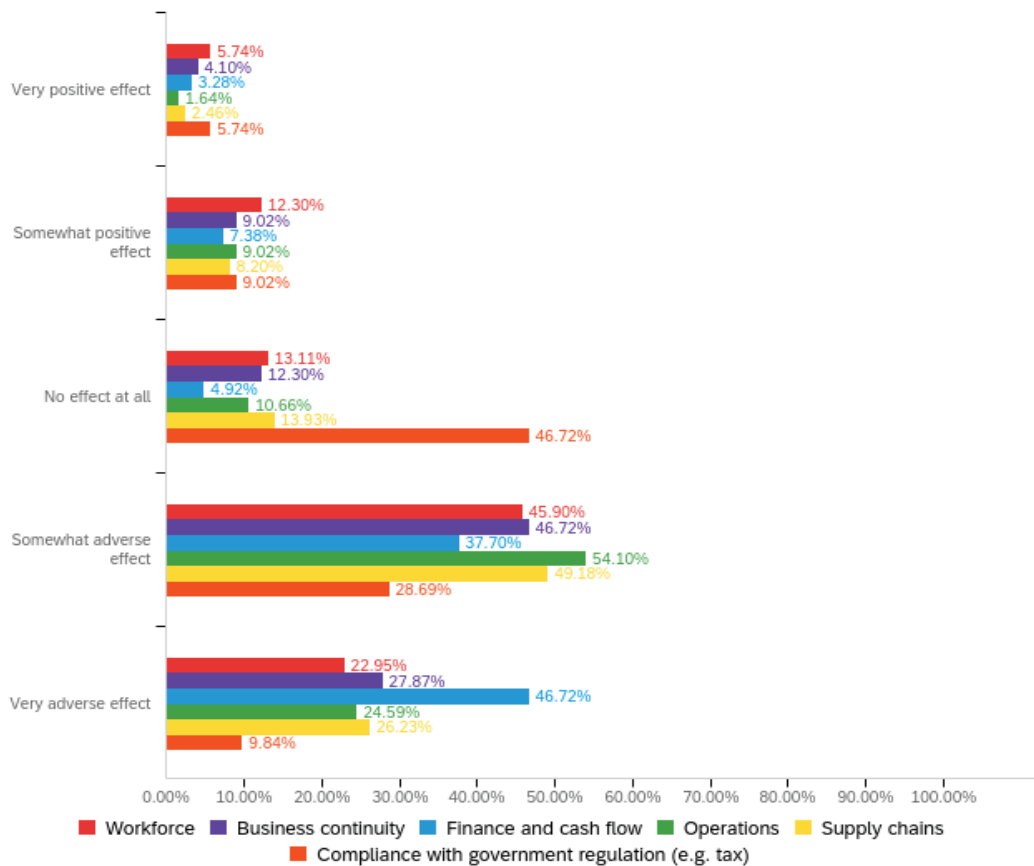
About half of all respondents reported that their firms were very likely (25%) and somewhat likely (25%) to permanently increase the levels of staff working from home or tele-working at least once per week following COVID-19. However it is important to note that about 23% and 16% of respondents reported that they were very unlikely and somewhat unlikely respectively to take this approach and 11% were undecided.



Impacts of COVID-19 on Businesses

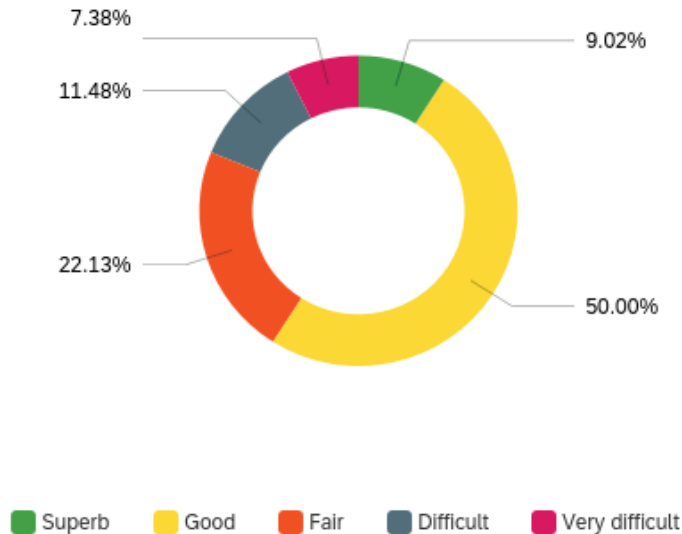
Overall, most organizations reported COVID-19 as having effects ranging from somewhat adverse to very adverse on their business operations. Workforce, business continuity, finance and cashflow, operations and supply chains were all reported by a majority of organizations as having been adversely affected by COVID-19. Compliance with government regulation was reported as not having been affected as adversely as the other business aspects.

Business aspect	Very positive effect	N	Somewhat positive effect	N	No effect at all	N	Somewhat adverse effect	N	Very adverse effect	N	Total
Workforce	5.74%	7	12.30%	15	13.11%	16	45.90%	56	22.95%	28	122
Business continuity	4.10%	5	9.02%	11	12.30%	15	46.72%	57	27.87%	34	122
Finance and cash flow	3.28%	4	7.38%	9	4.92%	6	37.70%	46	46.72%	57	122
Operations	1.64%	2	9.02%	11	10.66%	13	54.10%	66	24.59%	30	122
Supply chains	2.46%	3	8.20%	10	13.93%	17	49.18%	60	26.23%	32	122
Compliance with government regulation (e.g. tax)	5.74%	7	9.02%	11	46.72%	57	28.69%	35	9.84%	12	122



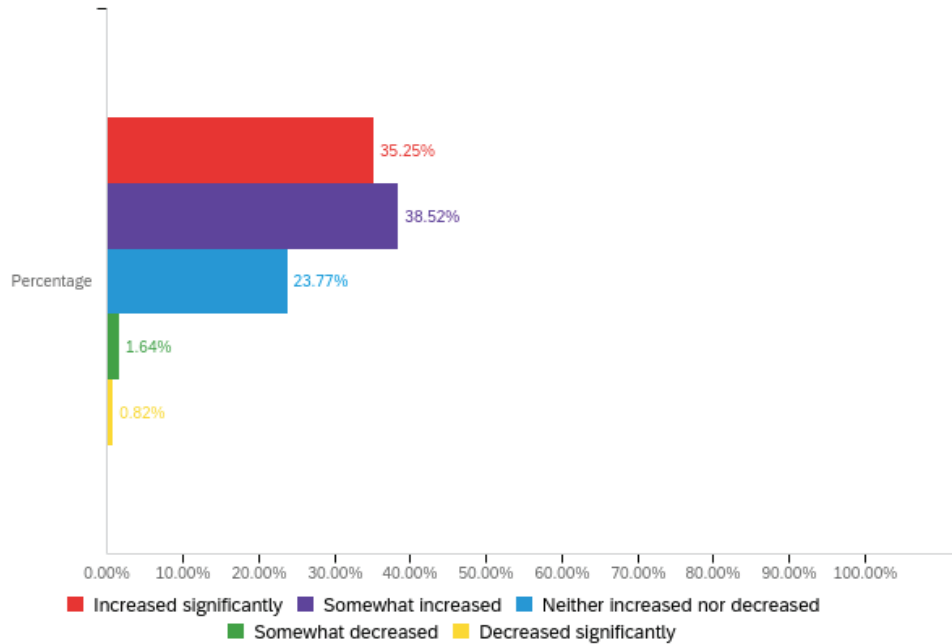
Business Environment Pre- COVID-19

Half of the participating organizations rated the overall business environment prior to COVID-19 as good while 22% rated it as fair. About 9% rated it as superb while 11% and 7% rated it as difficult and very difficult respectively. This rating was evident across all sectors with more than half of the organizations reporting that the business environment was either good, fair or superb.



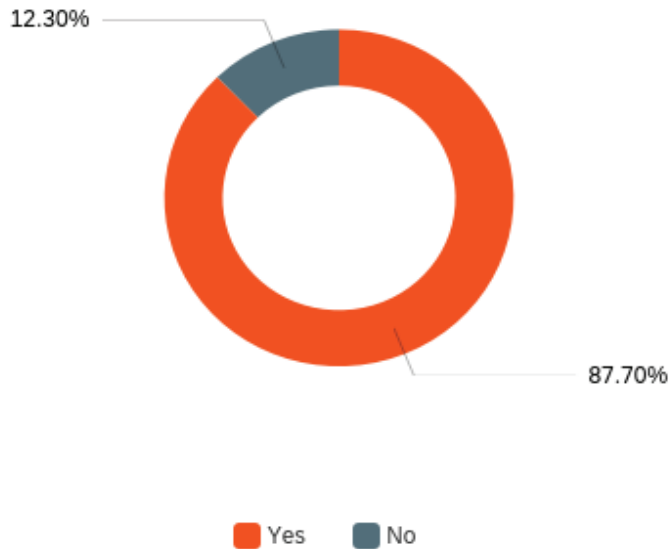
Impact on Information Communication Technology Usage

Majority of organizations reported that the importance of ICT infrastructure such as speed and coverage to their firms had increased with 74% (increased significantly = 35% and somewhat increased = 39%) reporting an increase. About 24% reported that things had remained the same while only 2% reported a decline.



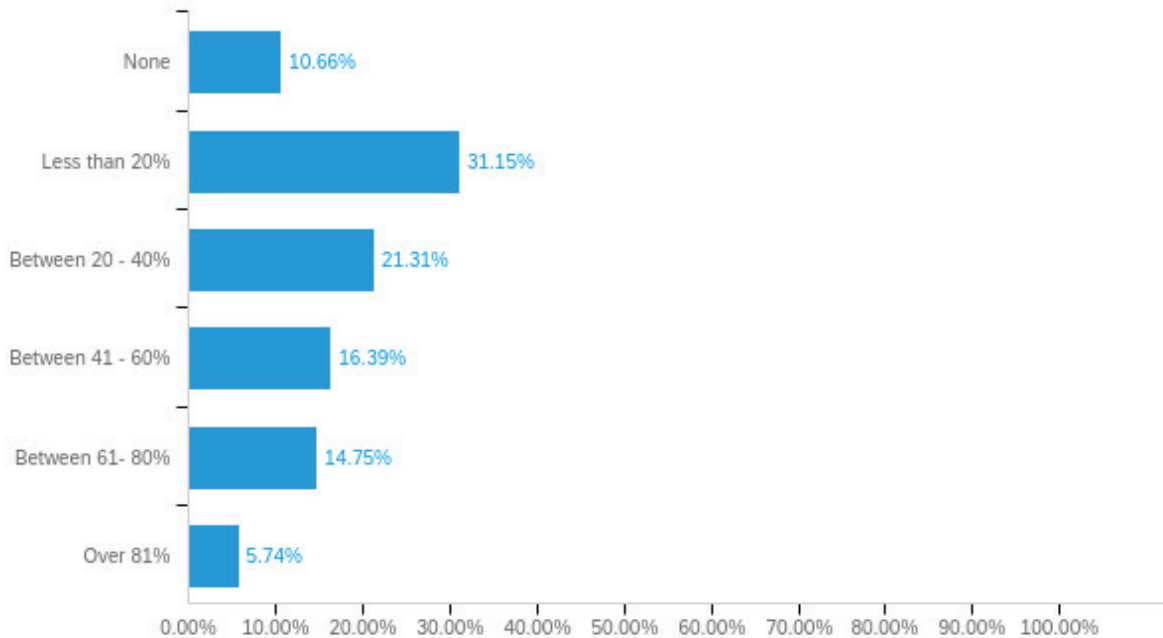
Internet use

Majority of organizations (88%) reported that they use the internet for interaction with public authorities to submit administrative procedures, completion of forms electronically and submitting proposals in a public electronic tender system.

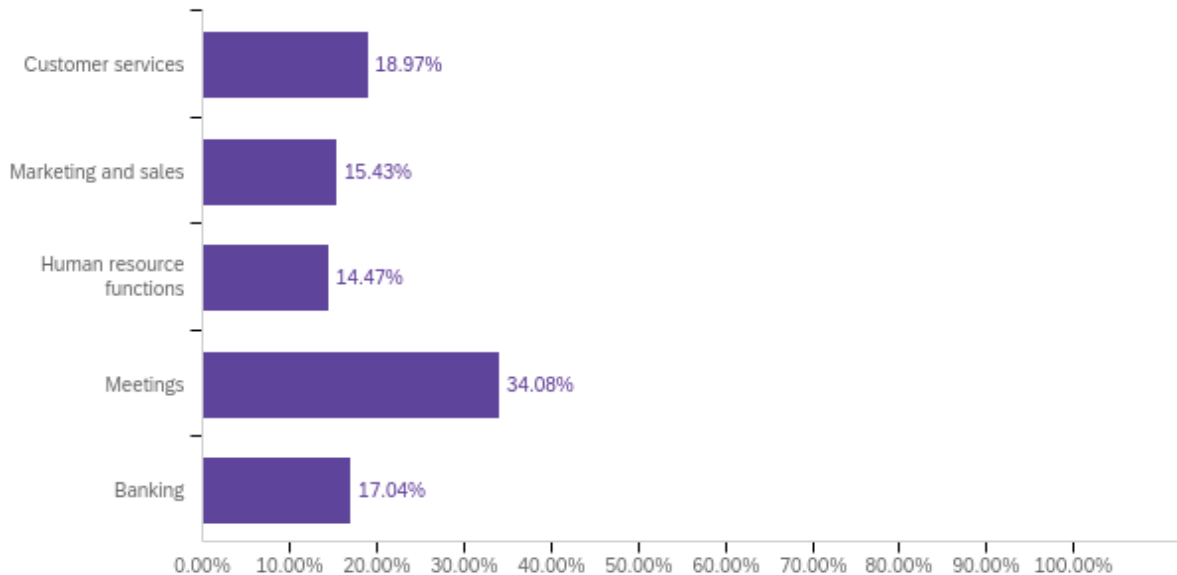


Automation of Operations

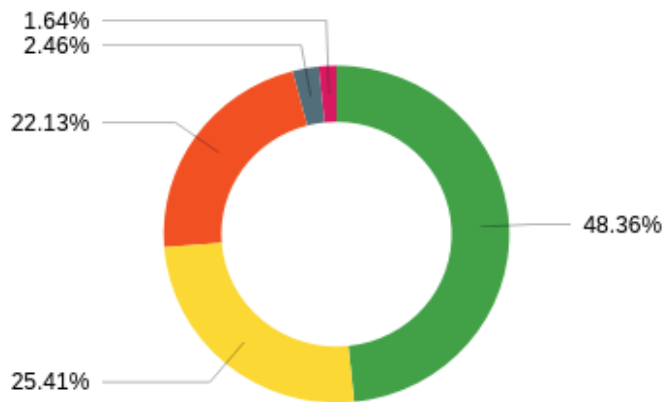
Most organizations (approximately 31%) reported that they had shifted less than 20% of their operations to online platforms followed by 21% of participating organizations that reported having shifted 21% of their operations to an online platforms. About 11% of participating organizations reported not having shifted any of their operations to an online platform while only 6% reported having shifted over 81% of their operations to an online platform.



The operations that were reported by most organizations as having been shifted to online platforms were meetings reported by 34% of respondents, followed by customer services reported by 19% of respondents and thirdly banking as reported by 17% of respondents.



Around 48% of the respondents reported that they envisioned their online operations growing by over 20% with 25% envisioning a growth of up to 20% while about 22% envisioned their online operations remaining the same. Only about 4% of respondents envisioned their online operations decreasing.



■ Yes, our online operations will grow by over 20%

■ Yes, our online operations will grow up to 20%

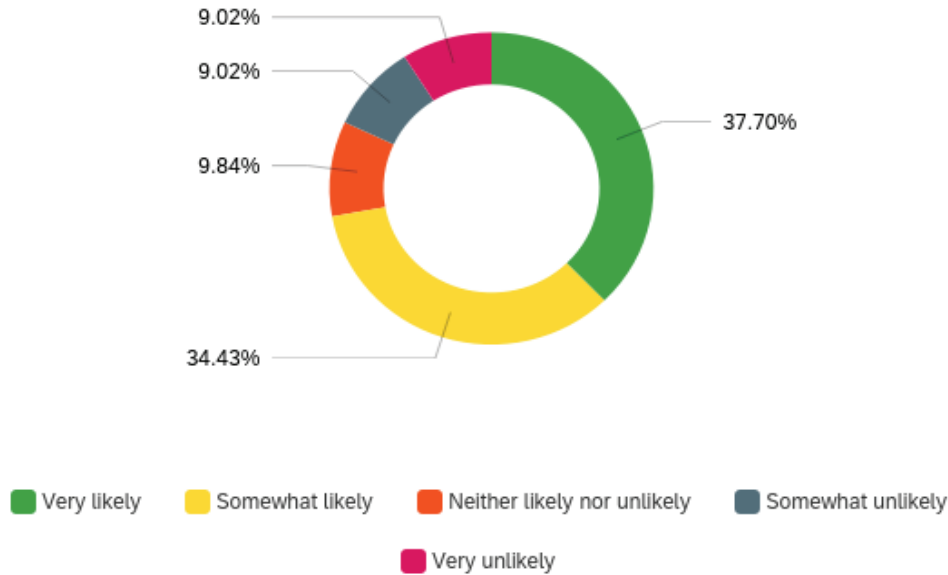
■ Our online operations will stay about the same

■ No, our online operations will decrease by less than 20%

■ No, our online operations will decrease by over 20%

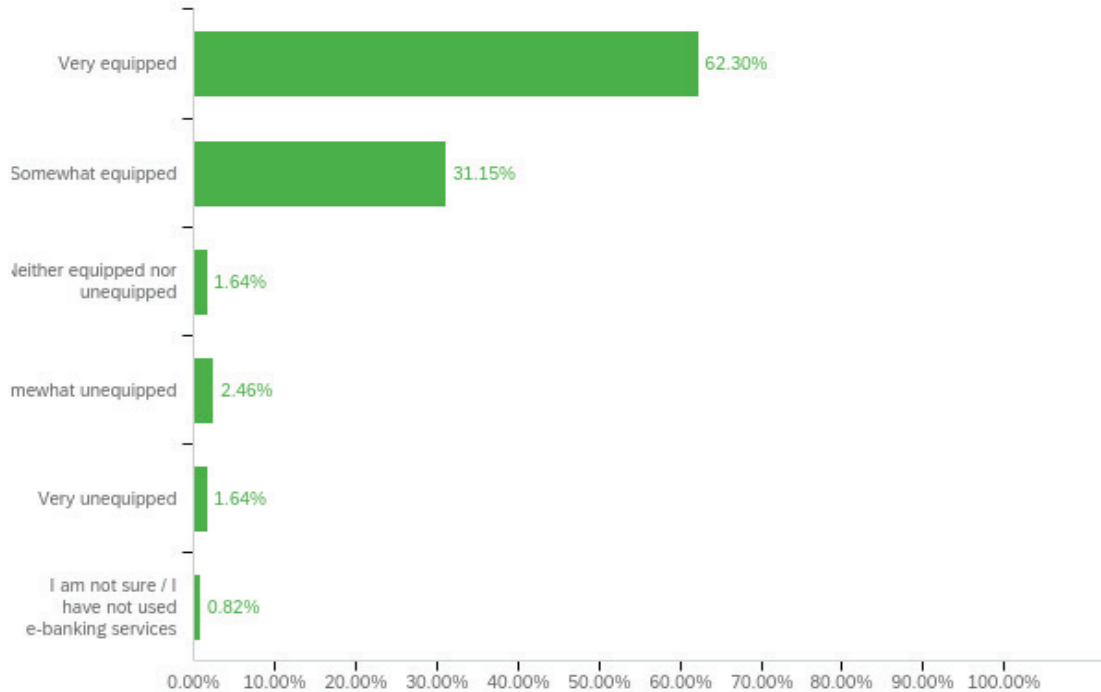
Adoption of Advanced Technologies

Majority of respondents reported that their firms were somewhat likely (34%) and very likely (38%) to introduce new advanced technologies (e.g. digitization, automation and Artificial Intelligence). Those that were somewhat unlikely and very unlikely to introduce advanced technologies represented about 9% each of respondents while about 10% were neither likely nor unlikely to adopt this approach.



Online Payments

Majority of respondents reported that their financial services and banking partners were suitably equipped to deal with online payment services with 62% and 31% reporting they were very equipped and somewhat equipped respectively. Only 4% reported that they were unequipped and about 2% were neither equipped nor unequipped.

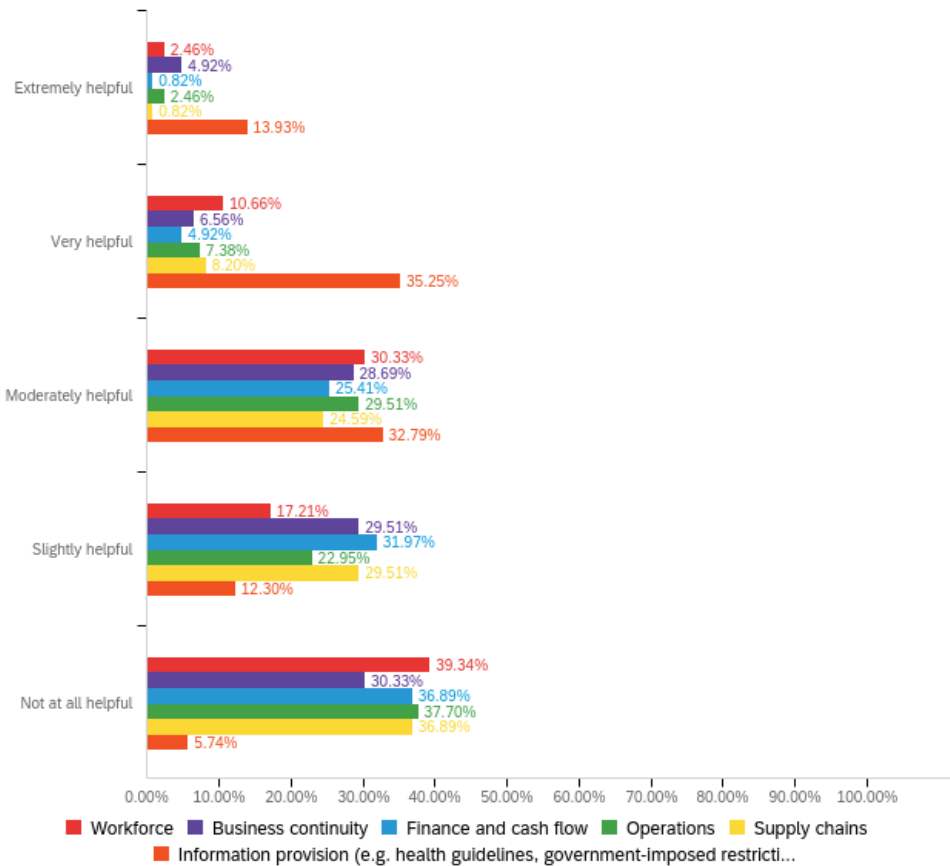


Government Interventions

Government support rating

Most help from government was considered to be either moderately helpful, slightly helpful or not at all helpful with the exception of information provision which was considered very helpful and extremely helpful by 35% and 14% of respondents respectively. Government support was not considered to be helpful at all in the areas of; workforce (39% of respondents), operations (38%) supply chains (37%) and finance and cashflow (37%).

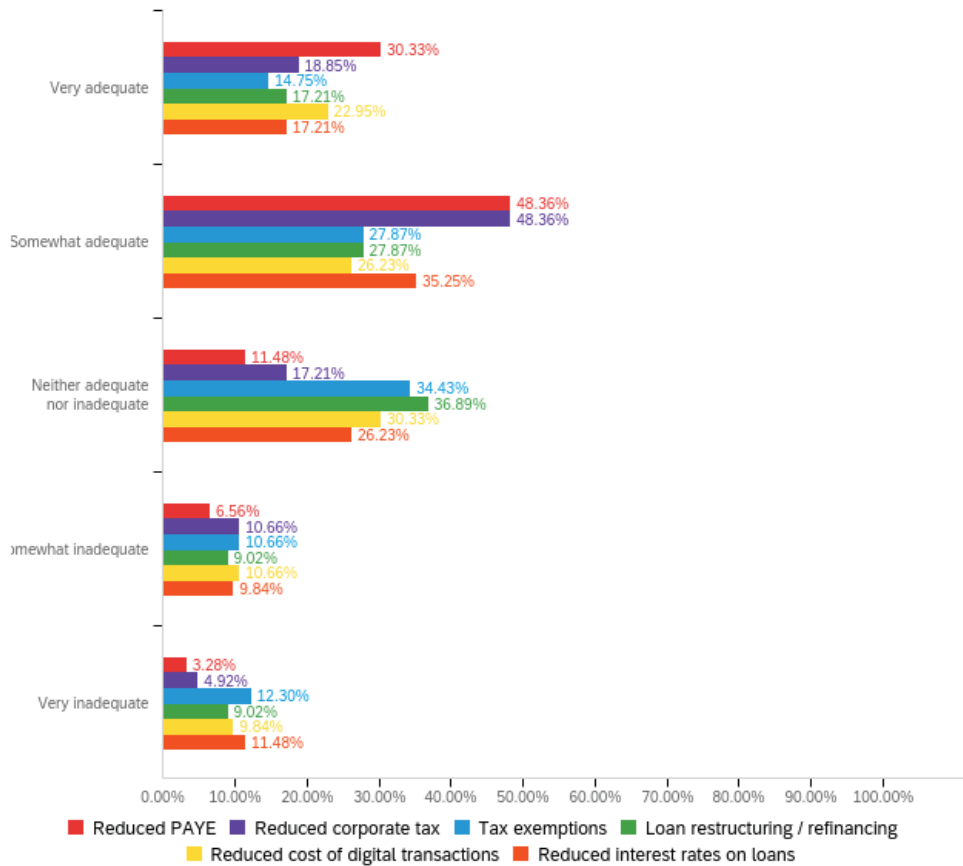
Question	Extremely helpful		Very helpful		Moderately helpful		Slightly helpful		Not at all helpful		Total
Workforce	2.46%	3	10.66%	13	30.33%	37	17.21%	21	39.34%	48	122
Business continuity	4.92%	6	6.56%	8	28.69%	35	29.51%	36	30.33%	37	122
Finance and cash flow	0.82%	1	4.92%	6	25.41%	31	31.97%	39	36.89%	45	122
Operations	2.46%	3	7.38%	9	29.51%	36	22.95%	28	37.70%	46	122
Supply chains	0.82%	1	8.20%	10	24.59%	30	29.51%	36	36.89%	45	122
Information provision (e.g. health guidelines, government-imposed restrictions)	13.93%	17	35.25%	43	32.79%	40	12.30%	15	5.74%	7	122



Adequacy of Government Measures in Curbing the Effect of COVID-19

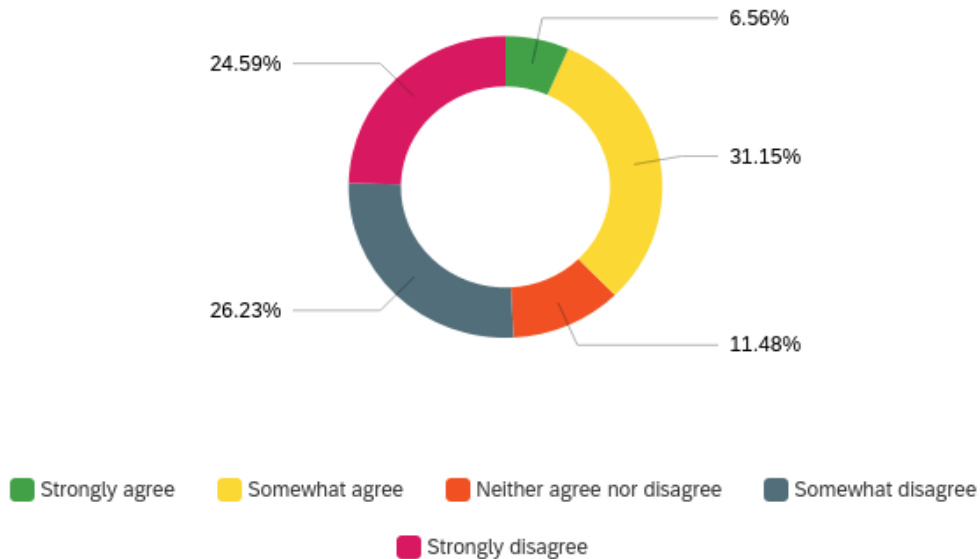
Reduced PAYE and cost of digital transactions were reported as the two measures that were very adequate in curbing the effects of COVID-19 on businesses. Reduced PAYE, reduced corporate tax and reduced interest rates on loans were reported by most organizations as having been somewhat adequate. Tax exemptions, loan restructuring or refinancing and reduced cost of digital transactions were reported by majority of organizations as neither being adequate nor inadequate. Tax exemptions, loan restructuring, reduced cost of digital transactions and reduced interest rates on loans were also reported by most organizations as having been inadequate.

Measure	Very adequate		Somewhat adequate		Neither adequate nor inadequate		Somewhat inadequate		Very inadequate		Total
Reduced PAYE	30.33%	37	48.36%	59	11.48%	14	6.56%	8	3.28%	4	122
Reduced corporate tax	18.85%	23	48.36%	59	17.21%	21	10.66%	13	4.92%	6	122
Tax exemptions	14.75%	18	27.87%	34	34.43%	42	10.66%	13	12.30%	15	122
Loan restructuring / refinancing	17.21%	21	27.87%	34	36.89%	45	9.02%	11	9.02%	11	122
Reduced cost of digital transactions	22.95%	28	26.23%	32	30.33%	37	10.66%	13	9.84%	12	122
Reduced interest rates on loans	17.21%	21	35.25%	43	26.23%	32	9.84%	12	11.48%	14	122



Dialogue with the Government

About 38% of organizations interviewed agreed while 50% disagreed that there was sufficient dialogue with the government on how to develop, transform and innovate the sectors or industries that they operate in the midst of the COVID-19 pandemic. Approximately 11% neither agreed nor disagreed.



Employers Measures to Mitigate against the risk of COVID-19

The top five mitigating measure were reported to be; provision of protective equipment at the workplace (15%), provision of regular communications and updates to employees (15%), establishment of temperature check points at the workplace (13%), changing shifts or alternate staff schedules to maintain physical distancing (13%) and postponing all non-essential international or domestic travel (12%) and arranging for greater flexibility to work from home.

Mitigating measure	Percentage	Count
Provide personal protective equipment at the workplace (e.g. masks and hand sanitizer)	15.34%	114
Postpone all non-essential international and/or domestic travel	11.71%	87
Provide regular communications and updates to employees	15.07%	112
Request self-quarantine for the staff who have travelled to affected locations	9.02%	67
Change shifts or alternate staff schedules to maintain physical distancing	12.79%	95
Arrange for greater flexibility to work from home	10.23%	76
Establish temperature check points at the workplace	13.46%	100
Conduct internal survey to collect feedback from employees	5.11%	38
Other, please specify	1.35%	10
Provide workers with unpaid leave	5.92%	44

Recovery from COVID-19

The three most important trends identified by respondents as having the greatest influence on Kenya's recovery from COVID-19 were first, increased economic self-reliance and regional economic integration which was identified by 26% of the respondents, second was increased role of government in the economy which was identified by 11.4% of respondents and tied for third was growth of e-government and greater use by businesses of online tools each identified by 11.2% of respondents.

Trend	Percentage	Count
De-globalization and other changes to global supply chains	6.83%	25
Increased economic self-reliance and regional economic integration	21.58%	79
Increased role of government in the economy (for example through national industrial policy)	11.48%	42
Growth of e-government (including e-procurement, digital services, etc.)	11.20%	41
Increase in digital payments & banking	4.64%	17
Greater use by businesses of online tools for sales, operations, etc.	11.20%	41
Increased use of advanced technologies by business (artificial intelligence, digital or automated technologies, etc.)	8.47%	31
Growth of remote work or tele-working	8.20%	30
Increasing inequality and its effects on policy and society	4.64%	17
Changes to the labor market, such as reduced migration or the increasing use of contingent labor	3.83%	14
Increasing focus amongst businesses on resilience instead of efficiency	6.28%	23
Other, please specify	1.64%	6

Strategies for Increasing Revenue

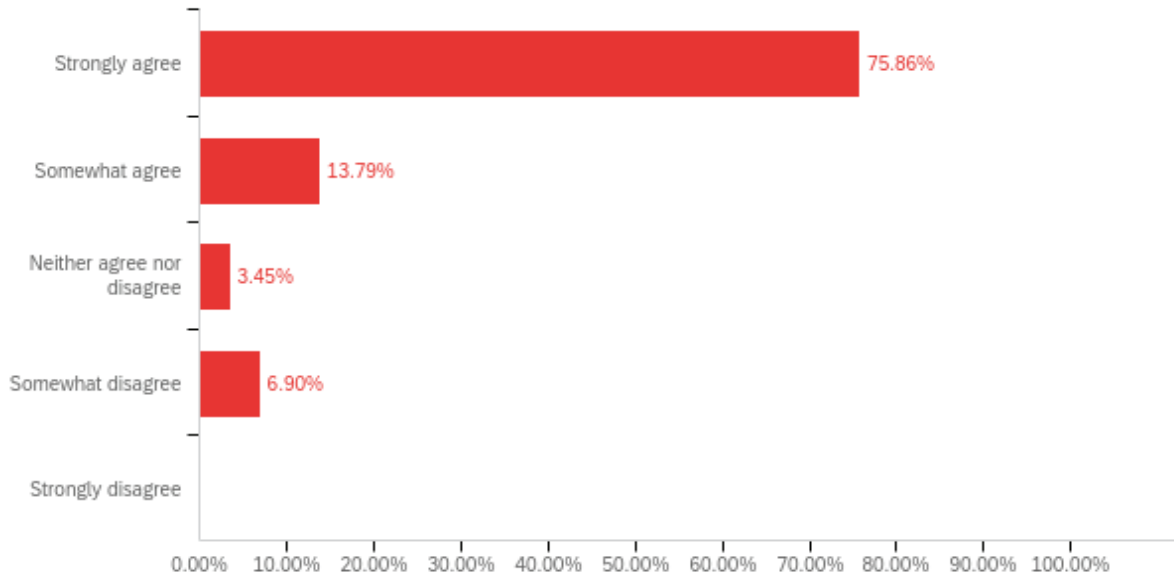
Offering new products and services was the strategy for increasing revenue that was identified by most organizations representing 17%. The second strategy was diversification of markets which was identified by 16.8% and third was change of distribution channels identified by 12% of participating organizations.

Strategy	Percentage	Count
Offer new products and services	17.30%	64
Decrease the prices of selected products and/or services (e.g. discounts, special offers)	9.19%	34
Increase price of selected products and/or services	3.24%	12
Change payment terms (e.g. establish a payment plan)	11.62%	43
Change distribution channels (e.g. promote Delivery or online purchases)	12.16%	45
Diversify markets (e.g. operate in different locations or with new clients)	16.76%	62
Modify supply chain agreements (e.g. source from other suppliers, negotiate with suppliers)	9.46%	35
Create partnerships with other enterprises or develop loyalty plans to reach more clients	13.78%	51
Expand operations to international markets	5.41%	20
Others, please specify	1.08%	4

Employers Views on other Government Initiatives

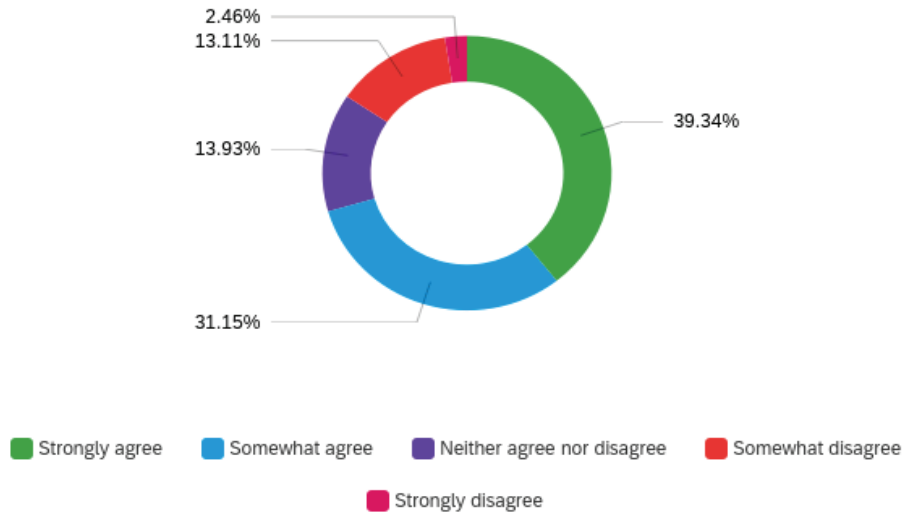
Subsidies and tax benefits for use of local raw materials

Majority of respondents (76%) agreed that firms that use local raw materials in their operations should be targeted for specific government support through subsidies or tax benefits. Only 7% of organizations somewhat disagreed while 3% did not agree or disagree.



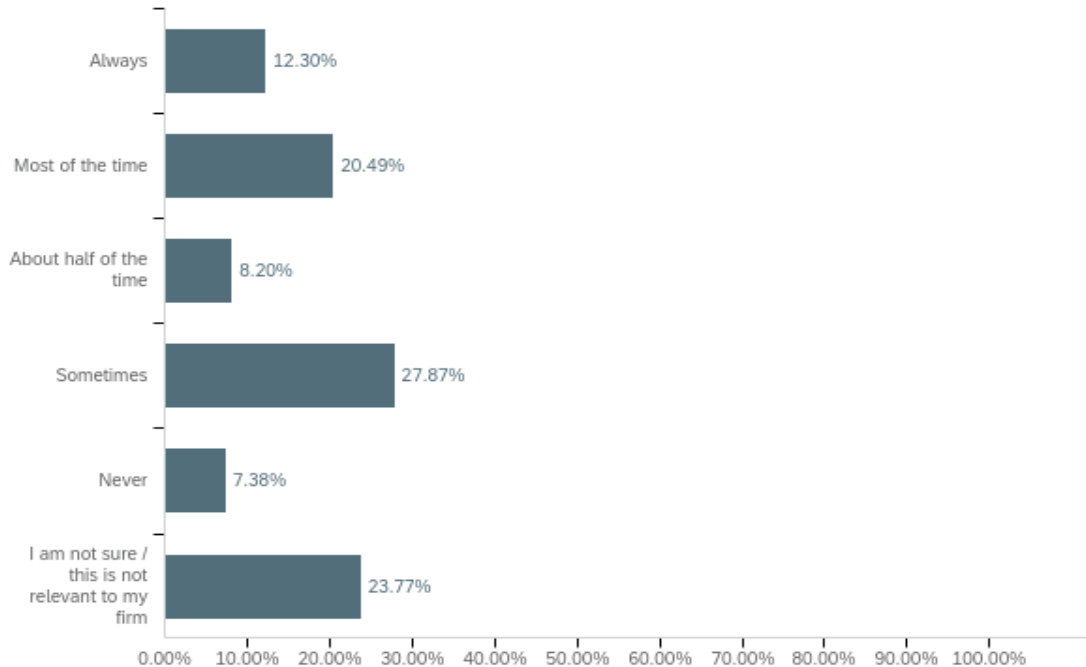
Tax Administration

Majority of the participating organizations agreed that the administration of tax contributions by their businesses was efficient and time-effective with about 40% and 31% strongly agreeing and somewhat agreeing respectively and only 2.46% disagreed.



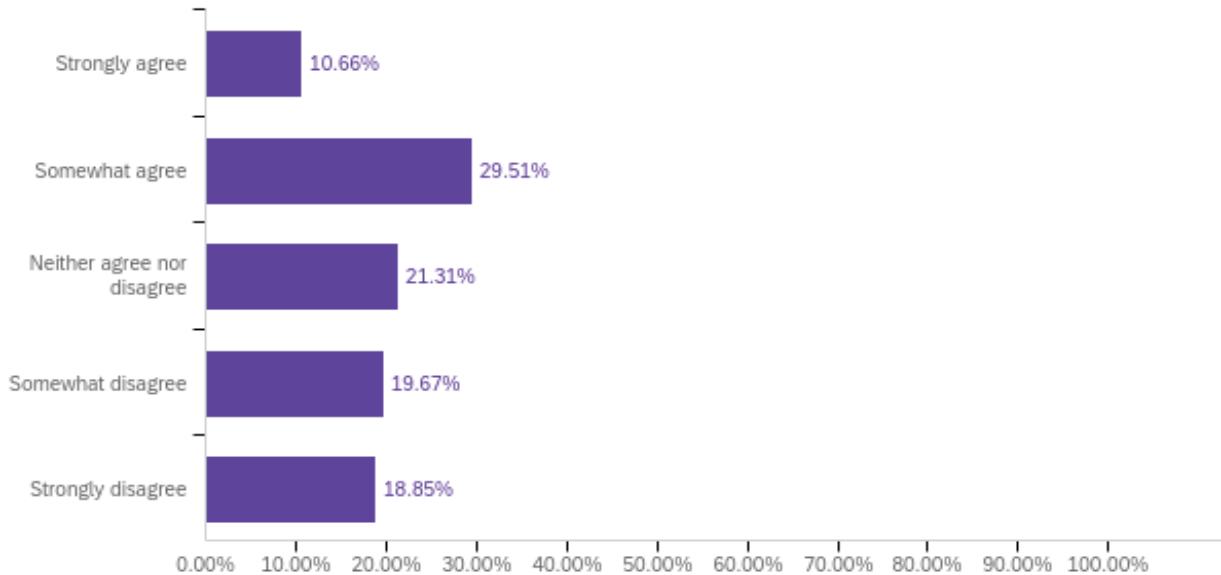
Access to Overseas Markets

There were mixed responses about the frequency of access to information and networks to trade in overseas markets. Those that always had access represented 12%, 20% had access most of the time, 8% had access about half of the time and 28% had access sometimes. Those that had never had access represented 7% while 24% were either not sure or the issue was not relevant to them.



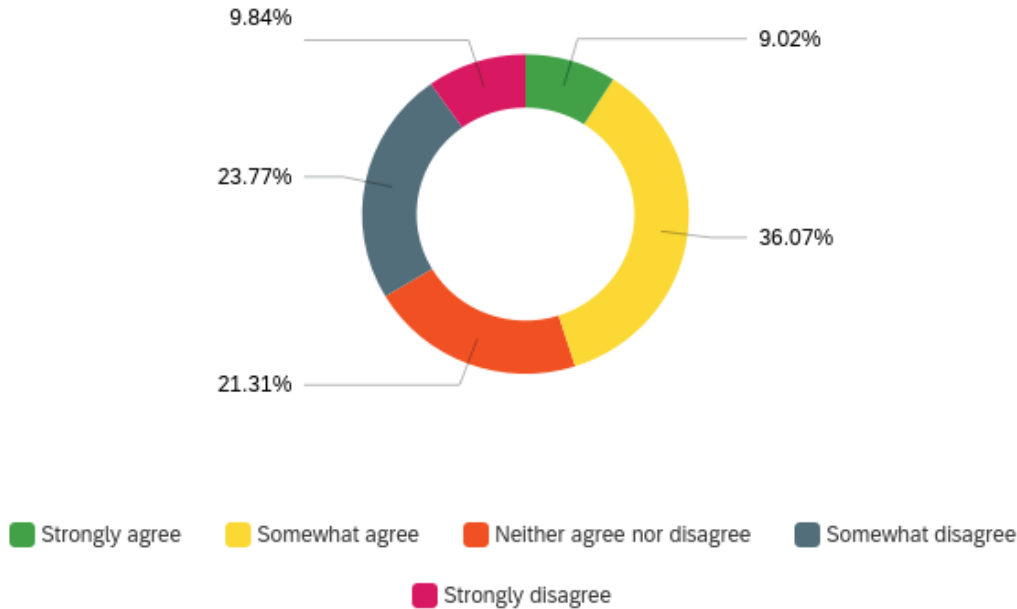
Ease of Importing and Exporting Goods

Majority of the organizations interviewed either were neutral or did not agree that authorities made it relatively straightforward for Kenyan firms to import and export goods. Approximately 40% were in agreement while 38% and 21% were in disagreement and neutral respectively.



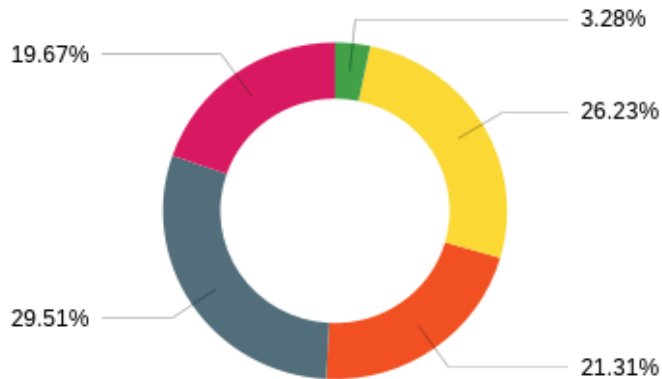
Infrastructure

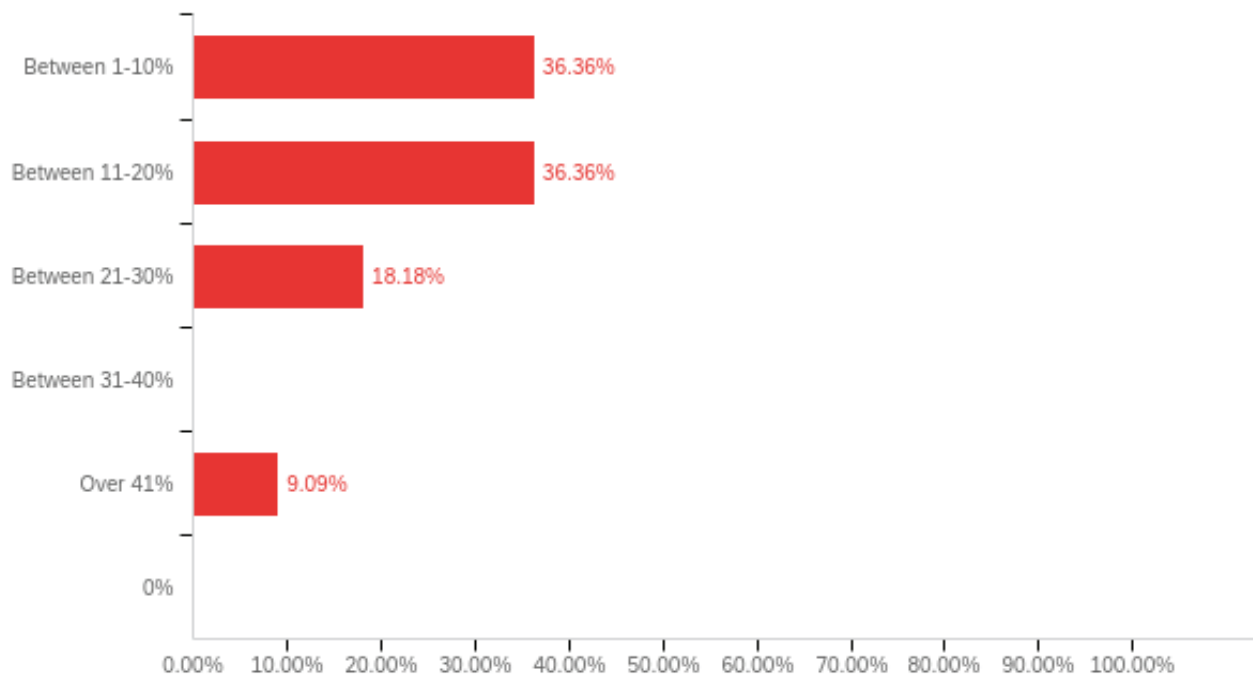
About 35% (strongly agree – 9% and somewhat agree - 36%) of those interviewed agreed that present infrastructure adequately supported their business operations while 34% were of the contrary opinion. Approximately 21% did not agree or disagree.



Renewable Energy

About 29% of respondents agreed that the government is providing enough incentives towards the use of renewable energy while 50% disagreed and 21% neither agreed nor disagreed.





Conclusion

Many businesses reported that the business environment before the onset of the COVID-19 pandemic was either fair, good or superb. However, the pandemic has adversely affected a majority of aspects of their operations forcing them to adopt a number of mitigating measures to shield them from the adverse effects of the pandemic. Some of these measures included reduction of staff numbers, hiring freeze, reduction and or delayed increase in wages or bonuses, sending employees on unpaid leave and a reduction in staff development costs. The pandemic has changed the way organizations conduct their operations. These changes include tele-working and embracing the use of ICT. More firms now have a significant proportion of their staff working via online platforms, virtual interaction with public authorities. In addition more firms have come to the realization that more aspects of their operations will need to shift to online platforms and more are willing to adopt online platforms.

The efforts by government to ease the effects of the pandemic on businesses has been acknowledged as being useful and adequate but some of the efforts like tax exemptions and reduced costs of online transactions were noted as not being adequate and this needs to be looked into further so that efforts are targeted at those aspects where they will have the greatest positive impact. This could be attributed to the nature and frequency of engagements with the government on ways to develop, transform and innovate the various sectors or industries in which organizations operate in. Sufficient engagements with the governments will ensure that there is a more targeted approach will be more effective. On the contrary FKE efforts seem to be popular with member organizations with a majority of them regarding them as useful.

Moving forward most organizations acknowledge that it will not be business as usual and they need to automate more of their operations. Majority of organizations have automated only upto 40% of their operations and this will need to be reviewed as we move into the post-covid era. Most organizations acknowledge that there needs to be a shift in how they conduct their operations and this is evidenced by their admission that they will likely introduce new advanced technologies in their operations after COVID-19.

Recommendations

- **Concentration of risk hence concentration of Potential:** Since Nairobi is both the epicenter of COVID-19 and the economic hub, concentrating of supporting Nairobi business is key and could have it special focus and great multiplier effect.
- **Size matters:** There is a high correlation between organizational size and the economic impact of COVID-19. Therefore, larger companies will need special attention since they are also the mainstay of the economy
- **Hot spot sectors:** Nearly 60% of the economy has been hit (service & industry). The knock on effect will also be huge and for long. This requires a strategic intervention to change the “reality”
- **Labour cost is a hindrance:** Labour has led to significant job losses and also slowed job creation. This creates the need to evaluate statutory labour costs as seen in salary cuts and deferrals.
- **It is time for local industries:** COVID-19 has taught the Kenyan economy of the need to build local economy. This crisis presents an opportunity for local industry and government needs to be a catalyst through economic incentives.
- **Information asymmetry:** It is time to reduce information asymmetry to give more local Kenyan businesses a chance to enjoy foreign markets. Government agencies that deal with foreign trade need to be strengthened.
- **Key skills to develop:** In the context of such a pandemic, technical, strategic, problem solving and collaborative skills will reign supreme. Government needs to change tact on human capital building for the economy and government agencies like NITA may need to come in handy. In this regard, the kind of skills employers are looking for has more to do with abilities than qualifications.
- **Physical Infrastructure is not a barrier:** as digital infrastructure becomes prominent, physical infrastructure reduces in prominence. Government budgeting process needs to be aligned to this new reality by having an incremental budget on digital infrastructure. However, shifting to online platforms for service delivery is still more of the talk than the walk.

- **ICT Strategy is relevant:** ICT strategy of the country is on track as digital payment system supported the economy during the COVID-19 context. More of these needs to be planned and budgeted for. There is even more need for ICT solutions in the economy hence lobbying for digital economy is the way to go. More investment in broadband connectivity is key and running a knowledge-based economy is the way to go.
- **Less accessible Government:** Business community needs to have more forums to engage the government. More forums to discuss specific solutions to business challenges are needed.
- **Job losses are inevitable.** But there will be a new economy with new jobs streaming. There is need for stakeholders to re-look at the future of work
- **Finance and Cash flow management is key:** The fact that most business had these challenges shows that financial management, risk management are needed as part of support to businesses in the economy. There is a need for this support or capacity building to be offered to businesses.
- **Offering of PPE and information is key:** During such pandemics, businesses suffer due to lack of timely and accurate information. They may also just need some small but concrete support from the state.
- **Working from home doesn't work:** The Tripartite Partners need to develop guidelines on working from home. This is because there is a lot of talk on working from home but the reality is that not many companies were able to do so, only a small proportion of staff were able to work from home. In this regard, the proposed guidelines need to come in quickly and handy.
- **Supply side of incentives is not enough.** The Government has offered mostly supply side of incentives to the economy like PAYE reduction, Tax reductions and cost of transactions, loan restructuring, CRB. But this has not improved the businesses climate since the demand side is dormant. This needs to be the second focus of Government in fighting COVID-19.
- **Shrinking role of the state:** The fact that Government intervention is seen as not having much impact whether positive or negative, The Government of Kenya needs to improved its economic relevance not only on enforcing the collection of taxes but boosting the economy to even grow its tax collection. This is highlights the issue of

dialogue and involvement of private sector players by government. The private sector feel un-involved.

- **Building self-reliant economy:** With the effect of COVID-19, there is a need the Kenyan economy to improve local industries. Government incentives will play a key role in this by having policies that encourage more local content than foreign. Expansion of regional collaborations would also boost Kenyan competitiveness.
- **Automation of products and services:** Incentives that would enhance automation, machine learning and artificial intelligence is required. Additionally human capital to drive this is needed.



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