

Effects of COVID-19 Pandemic on SMEs' Business Activities: A Descriptive Analysis

Wan Noordiana Wan Hanafi *

Institute of Energy Policy and Research, Universiti Tenaga Nasional

Email: diana.hanafi@uniten.edu.my

Wan Mohammad Taufik Wan Abdullah

Universiti Tenaga Nasional

Email: WMTaufik@uniten.edu.my

Siti Norhidayah Toolib

Universiti Tenaga Nasional

Email: snhtoolib93@gmail.com

Salina Daud

Universiti Tenaga Nasional

Email: salina@uniten.edu.my

Nurul Nadiah Ahmad

Universiti Tenaga Nasional

Email: Nadiahn@uniten.edu.my

** Corresponding Author*

Abstract

Purpose: During the COVID-19, SMEs struggled to sustain their business due to the insufficient and low demand for goods and services from customers, limited resources, and issues with digitalisation. Thus, the aim of this study is to identify the impact of COVID-19 on SMEs' business activities. In this study, business activities are related to operation management, financial and market, and digitalisation.

Design/methodology/approach: Quantitative method was applied in this research through the distribution of an online survey to small and medium business (SME) owners in Pahang. 46 anonymous questionnaires were collected during data collection. Then, the data were analysed using IBM SPSS version 25.

Findings: Small businesses contribute significantly to Malaysian economic development. The result of the study indicates that SMEs owners in Pahang are deeply affected by the COVID-19 pandemic. Most of the SMEs are having high unemployment rates, facing financial difficulties, and shifting to online business to survive through the pandemic. The findings also identify the impact of COVID-19 on SMEs' operation and management, financial and market, and SMEs' digitalisation.

Research limitations/implications: This study was interested only in SMEs' business activities. Thus, future research should consider other related variables that can be considered to extend the findings in this study, such as an analysis of SMEs' business performance.

Practical implications: The outcome of this study can be utilised by SME Corporation Malaysia to propose the appropriate remedial actions in helping SMEs.

Originality/value: This paper will contribute towards understanding the impacts of COVID-19 on SMEs.

Paper type: Research paper

Keywords: SMEs, COVID-19, Pandemic, Operation management, Financial and market, Digitalisation

Introduction

COVID-19, was identified in Wuhan, China, in December 2019. It swept the country in three months flat. Since then, the World Health Organisation (WHO) has designated COVID-19 a pandemic due to its alarming rate of spread and severity. The COVID-19 pandemic has killed 19,827 Malaysians as of 10 September 2021, making it the worst outbreak of a communicable disease to strike the country since the Nipah virus killed 105 Malaysians in 1999, while the SARS outbreak in 2003 took only two lives. The mortality rate of various disorders is shown in the table below (Figure 1).

	Fatality rate (deaths/cases)	Infection rate (per infected person)
Ebola	50%	1.5-2.5
MERS	34.30%	0.42-0.92
SARS	10%	3
COVID-19	1%-3.4%	1.5-3.5
Seasonal flu	0.05%	1.3

MERS = Middle East Respiratory Syndrome, SARS = Severe Acute Respiratory Syndrome.

Figure 1: Fatality rate and Infection Rates of COVID-19 and Other Epidemics
Source: World Health Organisation (2019)

Businesses of all sizes and industries have been affected by this worldwide health crisis. Although some industries have shown resilience or even discovered a new operational niche, the majority of Small and Medium Enterprise (SME) businesses are still struggling. SMEs face difficulties involving a lack of funds and liquidity, finding employees and customers, and particularly using digital technology to increase efficiency. Consequently, many SMEs are expected to go out of business during and after the COVID-19 pandemic (Mahendhiran, 2020). This study aims to identify the impact of COVID-19 on SMEs' business activities. Business activities in this study highlight operational management, financial and market, and digitalisation. According to Hisham Mohamed, Mohammed Nurunnabi, and Nourah Al-Yousef (2020), these three factors significantly impact SMEs. This study is essential as it could help SMEs identify survival strategies and assist the regulators in governing the policies regarding SMEs.

Literature Review

The onset of the COVID-19 pandemic and the enforcement of the Movement Control Order (MCO) in Malaysia resulted in an unprecedented slump in economic activities. In order to break the chain of COVID-19, the government of Malaysia has enforced a Movement Control Order (MCO) started on 18th March 2020. The MCO requires all non-essential businesses or services to be temporarily closed, and all movement within the country is prohibited. The restriction imposed shows that COVID-19 has been jeopardising the economic well-being of people and institutions (Sneader & Singhal, 2020).

Businesses around the globe face various challenges in order to survive the pandemic. According to Kuckertz et al. (2020), lower client purchasing power, strict restrictions on engagement and working hours, raw material shortages, order cancellations, cash flow issues,

and supply chain disruptions are some of the challenges that business owners have to encounter in this pandemic. While COVID-19 affects practically everyone and every organisation on the globe, there is a concern on how the pandemic's aftermath and government reactions (lockdowns, standard operating procedures (SOPs) may affect small and medium-sized businesses (Thorgren & Williams, 2020).

The business sector in Malaysia has been highly affected since the implementation of the MCO. According to SME Corp, SMEs in Malaysia are the most vulnerable group to see drastic changes in demand for their products. A survey from the Department of Statistics Malaysia (DOSM) SMEs consist of 43.4% micro, 40.4% small, 9.1% medium and 7.2% large firm and the department found that 67.8% of respondents have no income at all while 12.3% obtain their income from online business and the rest (9.8%) through physical stores (SMEInfo, 2018). Apart from that, a report from Bank Negara Malaysia (BNM) indicates that SMEs' financial situation is visible because the debt-to-equity ratio stood at 25% and the profit margin only 5.7% (Bank Negara Malaysia, 2020). However, there is still a lack of comprehensive and official data regarding the economic impact of COVID-19 on SMEs in Malaysia.

However, since the implementation of MCO, business owners are resorting their business from offline/physical store to online business. Based on an online survey operated by Vodus (2021) involving 32,000 Malaysian adults, it is stated that non-food online shopping increased by 53%, online grocery shopping by 144%, and online food delivery by 61% and on the first day of the MCO alone, food delivery platforms GrabFood and Foodpanda witnessed a 30% increase in orders (Vodus, 2021). The finding displayed that most SME business owners are moving forward to participating in the digital economy to boost their economic activities and survive the pandemic COVID-19.

To ease the burden of the SMEs owner, on 26th March 2020, Malaysia Government launched the PRIHATIN Economic Stimulus Package Plan 2020 to assist SME business owners in sustaining business operation, employment, and domestic investment with a total budget of RM3.3 billion (Prime Minister's Office of Malaysia, 2020). Apart from that, on 6th April 2020, the Malaysian Government announced the Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) valued at RM10 billion aimed at assisting SMEs and micro-businesses to withstand the impact of COVID-19 outbreak and Movement Control Order (MCO) to their businesses.

Methods

Study Setting and Design

This descriptive study aimed to identify the impacts of COVID-19 on SMEs' business activities. Business activities in this study highlighted operation management, financial and market, and digitalisation. Sample for this pilot study consists of small and medium enterprises' (SME) owners in Pahang. Based on Diamantopoulos, Sarstedt, Fuchs, Wilczynski, and Kaiser (2012), an acceptable number of questionnaires to be administered in a pilot test is between 30 to 100, hence, this study has randomly distributed 50 questionnaires to the SME owner-managers who are the target respondents for the study. Altogether, data from 46 anonymous questionnaires were collected. Then out of this, 32 usable questionnaires representing 64% were analysed for the purpose of data analysis and discussion.

Pilot Study and Questionnaire Development

A prior study by Hisham Mohamed et al. (2020), which examined samples from Iranian SMEs, served as the basis for the development of the questionnaire. Three SMEs Corporation and firm owners took part in a focus group discussion on the topic. Based on their suggestions, an

adjustment was made to the questionnaire. After then, SurveyMonkey was used to generate the study's final questionnaire.

Data Collection

The authors used SurveyMonkey, an online survey platform, to contact the intended respondents and invite them to answer the self-administered surveys. It was completely up to the respondents whether they wanted to take part. Before any data was collected, the study's objectives, confidentiality policies, and other ethical considerations were communicated to the participants. They were instructed to provide as many answers as possible to a series of questions.

Data Processing and Analysis

For data documentation, we imported SurveyMonkey results into Microsoft Excel. A later version of IBM SPSS, version 25, was used to explore further into the data. 14 participants were excluded from the sampling because they only answered 70% of the questions completely. To analyse the result, descriptive statistics were used on respondent profiles and on each of the questions concerning business activities.

Findings

Respondent Profile

32 participants participated in this pilot study survey, with 21 respondents (65.6%) are business owners. In this study, SMEs are divided into four sectors which are service (15 respondents), manufacturing (9 respondents), construction (2 respondents), and agriculture (5 respondents). Half of the respondents have a paid capital of less than RM 5,000 (46.9%). In terms of year of business, most respondents have been operating less than five years (62.5%), with several employees and the total number of full-time employees less than 10 (24 respondents, 75.0%). Lastly, in terms of foreign workers, only 13 respondents hired foreign workers, with the highest number of respondents for less than 10 employees with 12 respondents (92.3%)

Table 1: Composition of Sample

Characteristics	Number	Percentage
<i>Designation of respondent</i>		
Owner	21	65.6%
Director	6	18.8%
Assistant Manager	5	15.6%
<i>Type of business sector</i>		
Service	15	46.9%
Manufacturing	9	28.1%
Construction	2	6.3%
Agriculture	5	15.6%
<i>Paid-up Capital</i>		
Less than RM5,000	15	46.9%
RM5,001- RM15,000	6	18.8%
RM15,001 – RM25,000	3	9.4%
RM25,001-RM35,000	0	0.0%
More than RM35001	8	25.0%

<i>Year in Business</i>		
Less than 5 years	20	62.5%
6-10 years	5	15.6%
11-15 years	3	9.4%
More than 15 years	4	12.5%
<i>Total number of employees</i>		
Less than 10 employees	0	0.0%
10–50 employees	24	75.0%
51–100 employees	5	15.6%
101–200 employees	0	0.0%
More than 200 employees	3	9.4%
<i>Number of full-time employees</i>		
Less than 10 employees	0	0.0%
10–50 employees	25	78.1%
51–100 employees	5	15.6%
101–200 employees	0	0.0%
More than 200 employees	0	0.0%
<i>Number of foreign employees</i>		
Less than 10 employees	0	0.0%
10–50 employees	12	92.3%
51–100 employees	0	0.0%
101–200 employees	0	0.0%
More than 200 employees	1	7.7%

Impacts of Pandemic on SME’s Operation Management

The questionnaire section on SMEs operation management describes the impacts of COVID-19 on SMEs’ business management. From Figure 1, it can be concluded that majority of the respondents (93.7%) agreed that business of all size is affected by the COVID-19 pandemic. Most of the SMEs are highly impacted by the COVID-19 pandemic (refer to Figure 2). Of the total of 32 respondents, 62.7% respondents are highly affected. Regarding the number of branches, the highest number of respondents said that they have one branch. Additionally, as shown in Figure 4, due to the COVID-19 pandemic, the SMEs are forced to close down “at least one branch”, which constitutes the highest number of respondents (11 respondents).

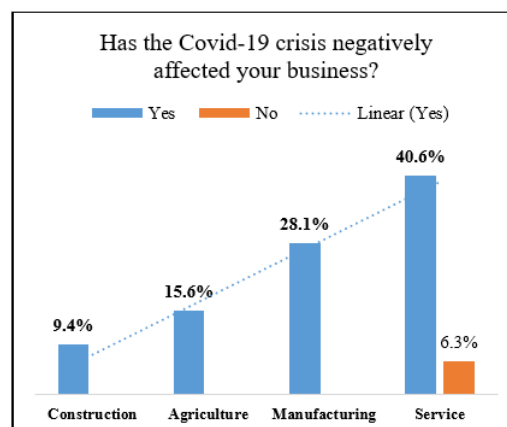


Figure 1: Negative Effect of COVID-19 on Business

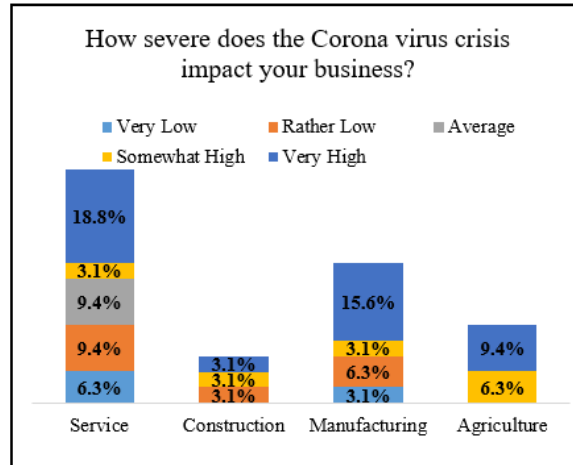


Figure 2: Impact of COVID-19 on Business

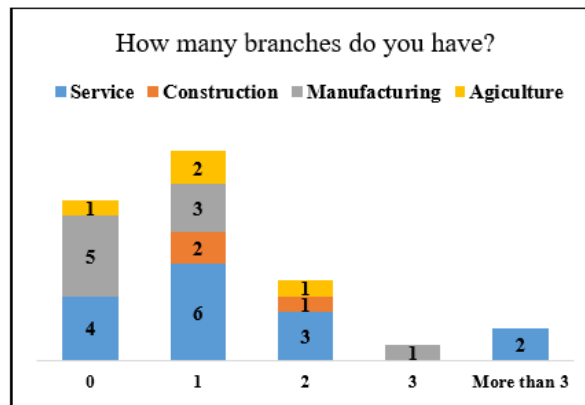


Figure 3: Number of Branches

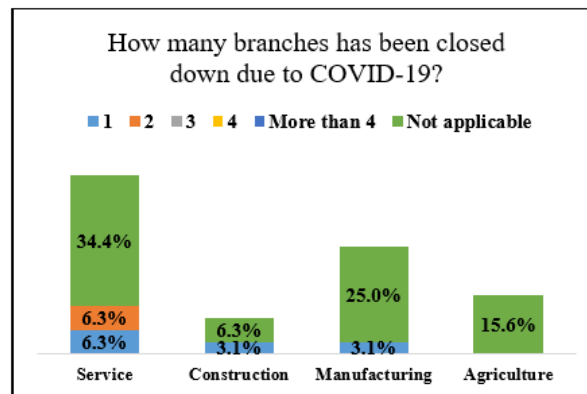


Figure 4: Number of Branches Closure

Studies have shown that SMEs have played major roles in fostering economic growth, generating employment opportunities, and reducing poverty (Aziz, Mahmood, Tajudin, & Abdullah, 2014). However, due to the COVID-19 pandemic, findings from this study indicate that from four sectors (service, manufacturing, agriculture, and construction), at least 1-5 employees have been laid off due to COVID-19 restriction. The closure of business during MCO has contributed to unemployment.

Table 2: Number of Employees Laid Off During COVID-19

Sector	No employee	All employee	1-5 employee	6-10 employee	More than 10 employees
Service	9	0	5	1	0
Manufacturing	5	0	2	2	0
Agriculture	3	0	2	0	0
Construction	2	0	1	0	0

Impact of Pandemic on SME’s Financial and Market

The findings identify that the SMEs face negative impacts due to preventive measures such as the enforcement of MCO/CMCO/EMCO to combat the spread of COVID-19. The respondents also indicated that, on average, their sale rates are impacted from 26% to 50%. In addition, as presented in Figure 4, manufacturing and agriculture sales rate are also affected by 76-100%. These vulnerable segments of the economy are expected to experience harder consequences in recovering, especially in the midst of the prolonged health crisis attributed to the escalation of COVID-19 cases and social and economic restrictions imposed nationwide.

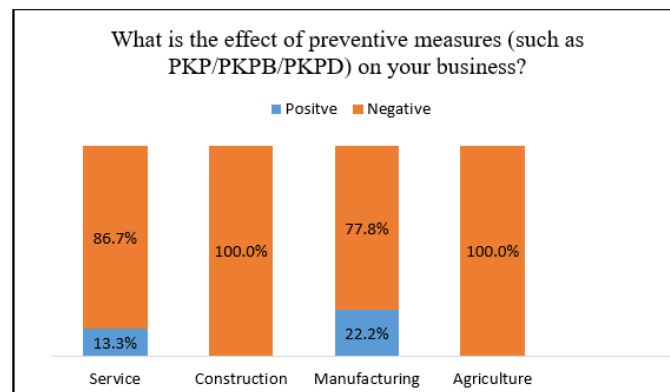


Figure 5: Effect of Preventive Measures

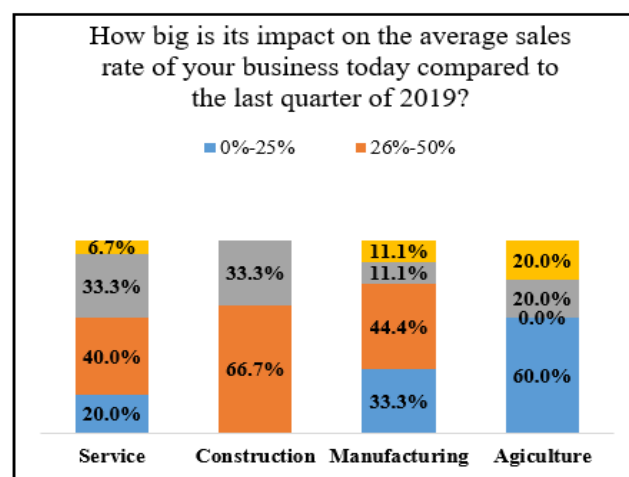


Figure 6: Impact on Average Sale Rate

In terms of the impact on the company’s profit before and during the COVID-19 pandemic, as shown in Figure 5 below, SMEs have already been affected by the COVID-19 pandemic since 2018-2019. Other than that, the SMEs from the service, construction, manufacturing, and agriculture sector expect that their revenues to be affected by more than 50% (59.4%) by the end of 2021. The results show that most of the SMEs studied are experiencing an unprecedented liquidity crisis, with business owners still uncertain about their future (as of the date of the questionnaire distributed).

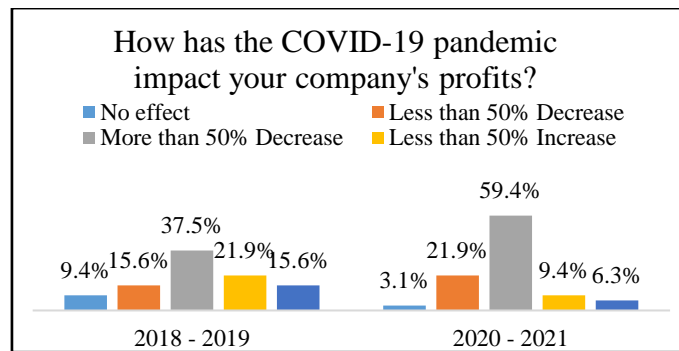


Figure 7: Impact on Company Profits

Thus, to ease the financial burden, as in Table 3, 11 owners deducted salaries to ease financial burdens, 5 of them paid salary in instalments. 6 of those employers, however, opted to terminate their employees, and 8 of them stopped the new employment.

Table 3: Measures Taken to Ease the Financial Burden

	Temporary layoff	Salary instalment	Salary cuts	Annulment of employment contracts
Sector				
Service	3	4	2	4
Manufacturing	1	1	5	2
Agriculture	3	0	2	0
Construction	1	0	2	0

Impacts of Pandemic on SME’s Digitalisation

The Impacts of COVID-19 motivate SMEs to rethink their core competencies and seek new opportunities. Since COVID-19 affected the SMEs significantly, the outbreak is also accelerating SMEs’ digitalisation and transformation. Findings from this study gathered the information on the transformation of SMEs towards digitalisation which is presented in Figure 8. More than half of the respondents did not include online service prior to the COVID-19 pandemic, but they are doing so as of now, and they managed to increase 25%-50% sales number during the crisis (refer to Figure 8).

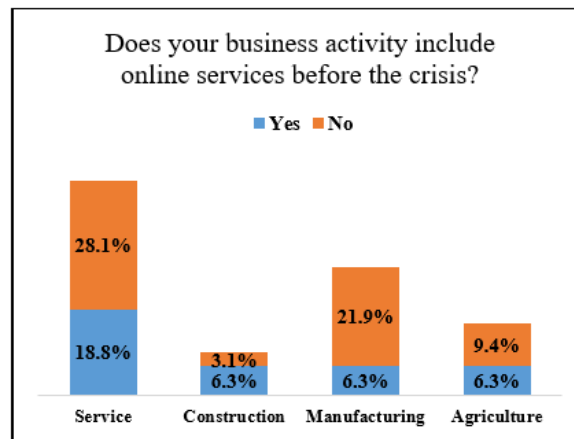


Figure 8: Online Service Before the Crisis

Next, in terms of the degree of digitalisation, as presented in Table 4, 17 respondents agreed that the business has fully adopted digital artifacts, supported by the findings shown in Figure 9. Other than that, the majority of the respondents agreed with all statements related to digitalisation, for example, item “the business adopts digital business models – 18 respondents”, and “the business adopts digital management models-15 respondents.”

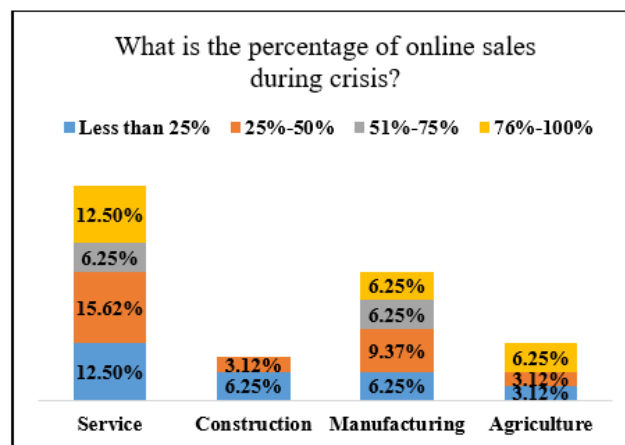


Figure 9: Percentage of Online Sales During the Crisis

Table 4: Degree of SMEs Digitalisation

Questions	Strongly Disagree	Disagree	Agree	Strongly Agree
The business fully adopts digital artifacts (products or services)	0	6	17	9
The business adopts digital platforms that support digital products and services	0	4	15	13
The business adopts digital infrastructures, such as technology tools and systems	0	5	19	8
The business adopts digital business models	0	5	18	9

The business adopts digital management models	0	9	15	8
Firm digitalisation relies on internal R&D	0	9	17	6
Firm digitalisation relies on external purchases	0	9	17	6

Discussion and Conclusion

The global economic impact of the COVID-19 epidemic has been felt in every country, including Malaysia. Efforts are being made by the Malaysian government to stop the disease from spreading. As per this research, it aims to identify the COVID-19 effect on small and medium-sized enterprises' financial and market activities, as well as digitalisation. As we are aware off, the COVID-19 has a negative impact on SMEs, as highlighted in the findings, which includes decreasing the economic activity and a rise in unemployment. Because this study focused on businesses, the results reflect the full scope of the COVID-19 pandemic's impact on small and medium-sized enterprises (SMEs). Since this study investigated the firms, the findings comprehensively reflect the impacts of the COVID-19 pandemic on SMEs business activities. First, for operation management, the findings conclude that the strict preventive measures by the government (MCO/CMCO/EMCO) have resulted in a significant increase in firm closures, but these closures might be considered temporary.

Notably, SMEs contribute to 35% of Malaysian GDP (Gross Domestic Product) and 70% of the jobs in the entire market. With the movement control order and lockdown, SMEs face financial struggles (Craven, Liu, Mysore, & Wilson, 2020). This statement is supported by the findings presented in this study, where SMEs from the service, construction, manufacturing, and agriculture sectors expect their revenues to be affected by more than 50% (59.4%) by the end of 2021.

Lastly, on SMEs digitalisation, COVID-19 and digitalisation should act as catalysts for SMEs to develop suitable structures, use digital technologies, improve the competency and skills of their staff, and particularly increase sales by promoting their business through digital marketing. Even though COVID-19 has increased digitalisation in general, small and medium-sized businesses (SMEs) remain at risk of falling behind. The usage of digital technology by small and medium-sized enterprises (SMEs) is expanding. To recover from the COVID-19 pandemic issue, it's predicted digitalised small and medium-sized businesses would be essential.

Theoretical Implications

This research will provide a better understanding for scholar on SMEs business activities during this pandemic. In addition, this study proposes a framework that is relevant in assessing the effectiveness of the Additional PRIHATIN SME Economic Stimulus Package (PRIHATIN SME+) in facilitating the financial burden for SMEs and subsequently ensuring the SMEs to remain resilient in the face of economic pressures that associated with COVID-19. The new framework proposed in this study will help other researcher understand the use of PRIHATIN SME+ in helping firms coping with COVID-19 pandemic. Scholars have long studied the role of Resource-Based View (RBV) in organisation. The RBV argues that an organisation's resources can be physical, human, or organisational and valuable, rare, inimitable, and non-substitutable (Barney, 1991). The application of the RBV may be helpful in letting the participants understand how obtaining financial and non-financial resources may contribute to the SMEs success and achieve SMEs financial sustainability.

Practical and Social Implications

Since this research investigated the business owner (firms), this study is essential as it could help SMEs identify survival strategies and assist the regulators in governing the policies regarding SMEs. Apart from that, the outcome of this study can be utilised by SME Corporation Malaysia to propose the appropriate remedial actions in helping SMEs. To sum up, SMEs have contributed significantly to job creation, social stability, and economic well-being in developing countries. Multiple studies show that SMEs are important for stimulating economic growth, creating jobs, and alleviating poverty (Aziz et al., 2014). In the meantime, the COVID-19 pandemic epidemic has had a significant impact on the current performance and total business activities of SMEs. In other words, our research could serve as a starting point for resolution planning to assist these SMEs in their fight against the pandemic and recovery from it.

Limitations and Suggestions for Future Research

This study, like any research, has certain limitations, which highlight avenues for future research. This study was interested only in SMEs' business activities. Thus, future research should consider other related variables that can be considered to extend the findings in this study, such as an analysis of SMEs' business performance. The outcomes represent a snapshot at a particular time, but the business activities of SMEs are volatile over the time. Therefore, future research may identify the future upcoming business activities of SMEs. In addition, the sample size and reach may be considered a limitation since this study only cover SMEs in Pahang area. Future research may extend this study to entire state of Malaysia.

Acknowledgement

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