

The Effects of COVID-19 Pandemic on Small and Medium Enterprises



¹Elocel M. Delgado & ²Russel G. Moreno

Abstract

The research aimed to delineate the effects of COVID-19 on the operations of Small and Medium Enterprises (SMEs) in Candelaria, Quezon specifically on key business drivers, HR and business functions such as operations, finance and marketing. Using descriptive research method, the 133 randomly chosen business owners were surveyed using researcher-made questionnaire distributed via Google Forms. The study showed that key business drivers highly affected by the pandemic were products and services offered and business location. The businesses were unlikely affected in terms of HR but likely consider to stop hiring new employees and reduce working hours. The overall effect on the major business functions was rated 'high' with emphasis on the installation of health protective measures and strictly following the protocols. In addition, most of the business owners anticipate loss than profits. The emergence of different platforms to market and sell the products and services enable the SMEs to transcend from the losing end to the new normal of work. However, to sustain the operations of the SMEs in the long run, the local government intervention is necessary.

Keywords:

Small and Medium Enterprises, SMEs, Sustainability, COVID-19

Suggested Citation: Delgado, E.M. & Moreno, R.G. (2021). The Effects of COVID-19 Pandemic on Small and Medium Enterprises. *International Journal of Academic and Industry Research*, Volume 2 Issue 4, pp. 57- 78.

About the authors:

¹Corresponding author. Program Head, Department of Business Administration, Manuel S. Enverga University Foundation Candelaria, Inc., Philippines

²Research Coordinator, Manuel S. Enverga University Foundation Candelaria, Inc., Philippines

1. Introduction

The world faced a global health crisis which is growing rapidly since it has begun. The emergence of the new strain of virus has created a chain of global issues that the world has been facing. The unprecedented growth of coronavirus disease in each country has sustained incapacitated problems in economy and businesses of the world. Philippines has no exemption to the latter scenario. After the first case of coronavirus disease was recorded in December 2019, the number of cases grew bigger and bigger until the situation urged the government to initiate strict lockdowns. Little by little, establishments were forced to close and the effect of the disease has devoured the economy. Total lockdowns were raised that businesses have stopped their operations. The stop meant additional burden to the government since the foundation of the Philippine economy comes from agriculture and industry and the lockdown operations of business had shut down affecting the production.

In the report of the ADB Philippine Enterprise Survey on COVID-19 Impact (Asian Development Bank, 2020), it was relatively clear that the pandemic had a large-scale impact on the operations of the businesses. Of the 13,878 firms surveyed from November 26 to December 10, 2020, only 63% reopened following the easing of protocols on November 2020. However, only 9% operated at full capacity. Furthermore, 21% opted for voluntary closures despite government provisions for reopening and 7% permanently closed due to business losses. In terms of operations, 67% declared reduction in sales between July and November 2020 due to limited operations and limited walk-in customers. Several companies reduced the working hours (19%) as well as wages (16%). The major concern of the businesses is the insufficiency of cash (66%). The micro and small enterprises were disproportionately affected where two-thirds totally changed to online business model whereas only 14% received support from the national or local government units.

From one of the fastest growing economy to being a 'sick man of Asia' in 2019, the Philippines has been hardly hit by the pandemic due to its vulnerable economic model (Mendoza, 2021). The series of lockdowns severely affected tourism industry which crippled several other industries such as retail, food, communication and leisure among others (Statista, 2020). However, the sudden shift to online commerce gave advantage to the IT industry.

There are diverse effects of pandemic lockdowns on businesses by region. The survey conducted by the World Bank (2020) from July 7 – 14, 2021 showed that 70% of firms in Cebu and 57% of firms in the National Capital Region, CALABARZON and Central Luzon experienced the highest levels of closures. This resulted to a permanent closure of one in every five companies in arts, entertainment and recreation, tourism and food service business. Numerous studies show a relatively negative impact of pandemic lockdowns, closures and health protocols to all the businesses. However, studies and surveys conducted failed to determine its impact on the small and medium enterprises (SMEs) in the various regions. This study contests that the impact of the pandemic varies by industry and region. As such, businesses in the other regions have been severely disadvantaged while other industries in the other regions have experienced mild to moderate impact. In this context, the current study aims to determine the impact of COVID-19 pandemic to SMEs in Candelaria, Quezons. Specifically, the study assessed the effects on the key business drivers, HR and business functions such as operation, marketing and finance.

2. Literature review

2.1. Status of SMEs during COVID-19

SMEs have a very significant role in the Philippine Economy with its vital importance in the job creation that reduces poverty indices. It is seen as contributing factor to the economic development of the rural and far-flung areas (The MSME Sector at a Glance, 2012). According to the data cited by UP-ISSI Diliman (2020), Philippines has 99.62% SMEs establishments which provided 62.9% workforce in 2017. Being recognized by the government as one of the primary contributors in the economy, the government through the initiative of the Department of Trade and Industry (DTI) has designed programs in maximizing the resources to develop highly skilled and competitive entrepreneurs that could develop the society and elevated its standard of living.

The global health crisis severely affected the SME sectors worldwide. The small and micro business had to shut down because of the strict health protocols in order to contain the spread of the virus. As cited by Rivas (2020), the Asian Development Bank posited 70.6% of

the SMEs had forced temporary closure of the business due to the outbreak. Moreover, Teo (2020) also cited the Philippine Statistics Authority report of the 17.7% unemployment rate which is over 7.3 million job losses. This was summed up by de Vera (2020) to a total economic losses that of 2.2 trillion pesos and millions of jobless workers.

The SME global status is even worse than the Philippines. According to Fairlie (2020), there was a loss of 3.3 million active business owners (22%) from February to April 2020 due to mandates and health and economic-driven demand shifts in the United States. It was further disclosed that the large drops in the number of active business owners majority include the construction, restaurants, hotels, transportation, and personal/laundry services with the exception of agriculture. These data clearly established the fact that no business was immune to the negative impacts of the strict protocols imposed by the governments. In the Southeast Asia, the statistics prove a critical impact on the various industries. The data gathered from the study of Awad and Konn (2020) showed that agribusiness and tourism had been hardly hit in the countries of Laos, Vietnam, Cambodia, the Philippines and Myanmar. The study identified that the food supply chain was not able to sustain livelihoods caused by the travel restrictions delaying the transport of produce from farms to markets. Similarly, there has been significant losses in the tourism sector as recorded by 99.6% decrease in tourists' arrivals in Angkor Wat, Cambodia during April 2020.

In the Philippines, the MSMEs have been negatively affected. According to Awad and Konn (2020), the manufacturing and agriculture sectors had been negatively hit by the pandemic affecting more than one third of the Philippine economy. The lockdowns and travel restrictions imposed in the Philippines affected the transport of produce from farms to markets; the supply of agricultural labor; and demand, both locally and for exports. Accordingly, the survey conducted by PricewaterhouseCoopers on the impact of COVID-19 on businesses in quarantine revealed that 44% of MSMEs required better working capital management and 39% of MSMEs felt that access to financing was one of the more critical needs. As a result of lockdown, MSMEs were pressured on the working capitals and were forced to absorb losses.

According to Turner and Akinremi (2020), the effects of the pandemic are disproportionate as some industries suffer huge losses while others are benefited financially.

For instance, tourism-related businesses are negatively affected. The businesses suffered with negative impacts of the pandemic include automotive and smartphone industries (Woetzel et al., 2019), hotel/tourism, hospitality, entertainment, and the financial industry (Han et al., 2020) and oil gas and coal business (Fernandes, 2020). Accordingly, TESDA (2020) and Business World (2020) summarized the estimated losses of the various industries in the Philippines as PHP 93.2 to 724.8 billion (wholesale and retail trade, repair of motor vehicles and motorcycles, PHP 82.1 to 855.2 billion (manufacturing), and PHP 10.7 to 79.7 billion (real estate, renting and business activities) and P110.3 billion (agriculture). With these, Jandoc et al. (2020) found that SMEs do not have the capabilities to withstand the COVID-19 shock.

2.2. Impact of COVID-19 pandemic on business

Human Resource. According to the ILO (2020), the massive losses in working hours which are equivalent to 305 million full-time jobs are predicted for the 2nd quarter 2020, while 38% of the workforce is employed in high-risk sectors. In the context of the SMEs, there were major issues on employment of women and persons with disabilities (United Nations, 2020). Accordingly, the ILO (2019) lockdowns and other restrictions decreased the working hours by 10.7% while it increased the unemployment dramatically. Meanwhile, the United Nation (2020) projected that around 38% of the global workforce is employed in high-risk sectors which is equivalent to 1.25 billion workers around the world. These are most often the low-paid, low-skilled workers. Drastic effects on workers were recorded in food and accommodation (144 million workers), retail and wholesale (482 million); business services and administration (157 million); and manufacturing (463 million).

In the Philippines, a drastic decline of employment levels with estimated ten million people losing their jobs (DOLE, 2020) which surged the unemployment rate to a record of 17.7 in April 2020. The government provided some measures through the resumption of business operations in the country. As stated in the Labor Advisory No. 17, Series of 2020, the employers may resume their business operations at the same time preserve the employment of their workers. Certain guidelines are continuously being implemented including the Work from Home (WFH) or Telecommuting Work Arrangement and

Alternative Work Schemes (Lopez, 2020). This paved the way to ease the jobless rate to 10% in July 2020 with estimated 4.6 million unemployed Filipinos as reported by the Philippine Statistics Authority (Rivas, 2020). According to Karl Chua, acting secretary of the socioeconomic planning agency, the unemployment rate is expected to recede further to 6%-8% next year with continuous resumption of the economy (Reuters, 2020). Nonetheless, the government should be proactive in containing the spread of the virus and reaching out to the “affected workers and firms to revive the economy”, as claimed by the National Economic and Development Authority (NEDA).

As a result of the lockdown, the data gathered by DOLE (202) showed that household incomes went down, mainly due to suspension and closure of non-essential work. Accordingly, 285,650 displaced workers from 17,300 establishments nationwide since January 2020 were recorded. Of these establishments, 15,549 or 89.8% have reduced their workforce while the remaining 1,751 or 10.2% have reported permanent closure. Most affected are workers from the National Capital Region (53.5%), CALABARZON (15.6%), Central Luzon (9.7%), and Central Visayas (9.3%). Among the sectors, workers in the administrative and support service activities (20.3%), manufacturing (14.0%), other service activities (12.6%), construction (10.3%), and accommodation and food service activities (9.2%) are mostly affected. In addition to these, a total of 86,954 establishments, majority of which were microenterprises (57.8%), covering 2,094,036 workers reported to have temporarily closed. Meanwhile, 36,851 establishments, most of which are micro (40.4%) and small enterprises (45.9%), covering 1,484,285 workers reported to have adopted flexible working arrangements (DOLE, 2020).

Operations. Business operation is defined as everything within a company as a whole in order to keep it running and earning money. The business impact of coronavirus disease to business operations can be clearly seen because companies have been knocked off balance and this pandemic prompted the business owners to adopt ways of working to beat the uncertainty brought about by this situation. With the COVID-19 crisis, there are significant changes in the routes to market, consumer behavior and supply chains which will mean that resiliency must be achieved by means of accelerating the execution of the strategies and techniques to meet the chain transformation in the business. One of the

important aspects that must be considered in business operation amidst the pandemic is the shift from top-down decision making thus empowering teams which will be guided by purpose and empowered by technology to enable faster speed to market. So now more than ever the different companies must develop the rapid response in order to address the current disruptions to reshape the future of their business.

The various operations of business are drastically affected by the various government restrictions. For instance, restaurant owners around the world had to develop another business model because their operations contribute largely to the spread of virus (Maze & Heather, 2020). Due to the decline in in-store purchases, employees find it difficult to execute their diversity, equity, and inclusion strategies (Woetzel et al., 2019). In the Philippines, some restaurants were forced to shut down permanently in order not to incur huge losses. In a study conducted by Vigilia, et al. (2021) on the restaurants in Cabanatuan in the Philippines, 36% in the restaurant sector closed except for the major players (64%) in the industry that included fast-food chains and known home-grown restaurants. Since these were affected by the restrictions, there were no dine-in customers, the online food delivery, ready-to-cook raw materials and pick-up or delivery via food couriers were implemented. According to Bingham and Hariharan (2020), the business operational continuity is the greatest concern of all industries.

Finance. Finance includes all the activities relevant to the management of the company's money such as investing, borrowing, lending, budgeting, saving and forecasting. This also represents the process of acquiring the needed funds. According to Deloitte (2020), global responses to the coronavirus disease 2019 (COVID-19) outbreak continues to rapidly evolve. COVID-19 has already had a significant impact on global financial markets, and it may have accounting implications for many entities. Some of the key impacts include, but are not limited to: interruptions of production, supply chain disruptions, unavailability of personnel, reductions in sales, earnings, or productivity, closure of facilities and stores, delays in planned business expansions, inability to raise financing, increased volatility in the value of financial instruments, reduced tourism, disruptions in nonessential travel and sports, cultural and other leisure activities.

The report of the Asian Development Bank (2020) reflected that the impact on MSME revenue was similar to the results for MSME sales in the Philippines. Accordingly, there were 61.7% of microenterprises with no revenue in March 2020 due to business closures, followed by small firms (49.1%) and medium-sized firms (35.8%). MSMEs that operated during the lockdown had a sharp drop in revenue, with 26.5% of micro, 40.8% of small, and 41.0% of medium-sized firms having more than a 30% revenue decrease in March from February. All three industrial sectors also had no revenue after the lockdown (more than 60% of MSMEs in services and manufacturing, respectively). By sector, the estimates indicated that education, construction, and accommodation and food services were more likely to have no revenue in March 2020 than agriculture due to temporary business closures. By region, MSMEs in Caraga (Region XIII), Cagayan Valley (Region II), and Northern Mindanao (Region X) were less likely to have no revenue in March 2020 or no closure of business than NCR-based firms. By operating period, longer-established MSMEs were more likely to have decreased revenue in March 2020. The number of revenue-declined MSMEs that had operated for more than 31 years was 2.8 percentage points higher than the number that had operated for up to 5 years at the 10% significance level (Shinozaki & Rao, 2021).

Marketing. Marketing comprises activities of a company to attract customers and maintain relationships with them. This also includes the process of creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. According to Holland & Knight (2020), the global pandemic has resulted in changes to advertising, marketing, promotional and media spends, forcing businesses and brands to re-evaluate their thinking about current and future advertising and marketing campaigns to maintain a steady stream of income. While brands currently seek to strike the right tone during a global health emergency, the future portends market alteration, increased competition and a demand for creative and aggressive marketing practices. As brands adapt and figure out how to promote products and services in the midst of the COVID-19 crisis, governmental agencies are closely monitoring potential unfair and deceptive business practices to protect vulnerable consumers, monitor aggressive marketing campaigns and terminate COVID-19 scams.

According to Murphy (2019), the household consumption demand, the value of goods and services that households are available and willing to buy, developed a new pattern during the pandemic. The implementation of lockdown further creates a higher price for goods due to increasing demand for it. However, as issues on the employment crisis and shortage of income exist. Claessens (2016) explains that the intensity or level of market competition in an industry is directly affected by rate market growth. However, Rose (2020) projected a weaker market competition in the United States brought about by mass closures of small to midsize firms. Due to the changing patterns of marketing and consumptions, the various industries find ways to market their products and services. For instance, the health industry actively moved toward telemedicine telehealth solution (Shihui Xiang, et al., 2021).

3. Methodology

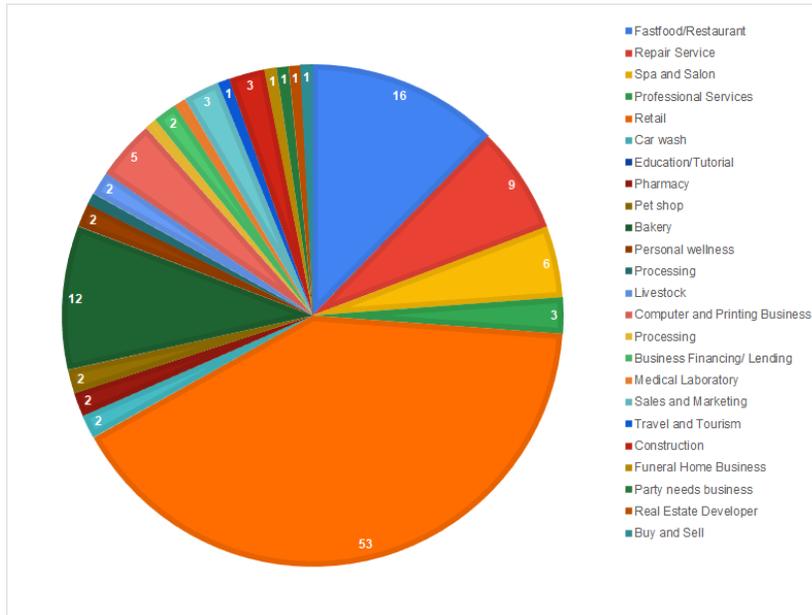
This study used descriptive research design. Descriptive research aims to describe the current status of the variables under study. The purpose of descriptive research is to give a clear understanding of a particular observation and to deepen one's knowledge of a certain phenomenon. As such, the results of the study provide the general picture of the current situation that SMEs in the study locale experienced during the pandemic.

The participants of the study were the owners of the small and micro enterprises in Candelaria, Quezon in the Philippines. The businesses were classified based on the number of employees and their income. Through the assistance of the Candelaria Municipal Business Permit and Licensing Office (CMBPO), the potential respondents were identified. From the list given by the CMBPO, the random sampling technique was utilized. The businesses were chosen based on proximity and availability of social media page. Due to the government restrictions during the conduct of the survey, there were limited responses from the businesses listed in the CMBPO. To gather as much samples for the study, the snowball approach was also used. The business owners recommended and introduced other business owners who are willing to participate in the survey. Due to the sensitivity of the topic related to finance and taxation, some business owners were hesitant to participate. At the end of the data gathering, a total of 133 business owners were survey.

Figure 1 shows the type of business surveyed.

Figure 1

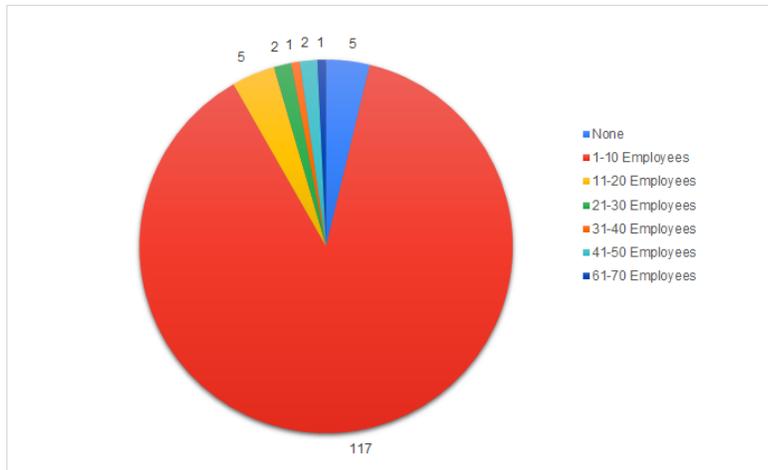
SMEs according to type of business



The 5 common types of SMEs surveyed include: retail business (53, 39.33%), fast food/ restaurant (16, 13.53%), bakery (12, 9.02%), repair services (10, 7.52%) and spa and salon (6, 4.51%).

Figure 2

SMEs according to number of employees



The data distribution of the number of employees showed that the majority of the enterprises were micro businesses comprising 117 or 87.97%. On the other hand, the remainder were Small businesses comprising 16 or 12.03%. The number of employees for micro businesses were no more than 9 and those of the small businesses range from 10 - 99 (The MSMEs Sector at Glance, 2020).

The study used a researcher-made questionnaire which aims to delineate the impact of Covid-19 to the enterprises of Candelaria in terms of the key business drivers, HR and business functions such as operation, marketing and finance. The research instrument was divided into three sections namely: demographic survey, HR aspects and business functions. The first section focuses on the nature of business and number of employees. Meanwhile, the second section focuses on the evaluation of the impact of Covid-19 in terms of major HR decisions and number of terminated employees. The last section highlights the assessments on the business functions. The statements were rated using 4-point Likert Scale. The university research validated the contents of the questionnaire. It was modified and improved according to the feedback given by the committee.

The survey was created using Google forms and distributed through online platforms such as Gmail, Yahoo mail and Facebook due to the ongoing restrictions during the data gathering. The survey was conducted from May – December 2020. A formal letter with consent form was prepared according to the Data Privacy Act.

Descriptive statistical tools were utilized for data analysis. For the demographic survey, frequency count and percentage were used to describe the characteristics of the observations. Meanwhile, weighted means were used to measure the perception of the respondents regarding the impact of Covid-19 to the enterprise.

4. Findings and Discussion

The entrepreneurs assessed the level of effects of the COVID-19 pandemic on the key business drivers such as products, customers, location and marketing strategies. The results of the assessment are shown in table 1.

Table 1*Level of Effect on the Key Business Drivers*

	Indicators	Mean	Level of Impact
1	Price of the Product/Services	2.56	High
2	Number of Current Customers	2.68	High
3	Business Location	2.83	High
4	Products and Services Offered	2.93	High
5	Marketing Strategies	2.50	High

Legend: 1.0 – 1.5 = Very Low; 1.51 – 2.5 = Low; 2.51 – 3.5 = High; 3.51 – 4.0 = Very High

At a glance, the indicators assessed were highly affected by the pandemic which highly influenced the business operations and profitability. The products and services offered ($M = 2.93$) and business location ($M=2.83$) were evaluated the highly affected drivers. Although all the key business drivers were assessed as highly affected, the marketing strategies were rated the least.

The results reflect the varying degrees of effect of the pandemic depending on the type of industry and location of business as highlighted in various statistics. For instance, the report of the Asian Development Bank (2020) provides a clear variance on the levels of effects based on the type of industry where tourism, service and manufacturing with highest impact and location of business with Region XIII, Region II and Region X with the least profitability. Accordingly, the businesses with negative impacts include automotive and smartphone industries (Woetzel et al., 2019), hotel/tourism, hospitality, entertainment, and the financial industry (Han et al., 2020) and oil gas and coal business (Fernandes, 2020). Similarly, the situation in Candelaria, Quezon provide a similar pattern based on the type of business or the products and services offered and the location of the business. Accordingly, the businesses within the town proper are highly affected due to strict compliance with the government procedures whereas establishments outside the main industrial site enjoy the privilege of less restrictions. However, businesses outside the busy locations have lower market reach and lesser number of customers. In addition, the type of products and services dictate the demand and supply. During the pandemic, the basic necessities such as food,

medicine and hygiene products have constant to increasing demand. However, products classified as luxurious and not necessity suffered decreasing demand trends.

Table 2

Level of Likelihood on the Major HR Decisions

	Indicators	Mean	Level of Likelihood
1	Plans reducing the current employees due to Covid-19	2.23	Unlikely
2	Terminates employees because of Covid-19	1.74	Unlikely
3	Reduces the number of employees' working hours	2.51	Likely
4	Reduces the employees' salary due to Covid-19	1.74	Unlikely
5	Stops hiring employees during the pandemic	2.69	Likely
General Weighted Mean		2.18	Unlikely

Legend: 1.0 – 1.5 = Extremely Unlikely; 1.51 – 2.5 = Unlikely; 2.51 – 3.5 = Likely; 3.51 – 4.0 = Extremely Likely

Table 2 shows the level of likelihood on the major HR decisions. It assessed the likelihood of the occurrence of the various indicators. Accordingly, the business owners mostly likely stop hiring new employees ($M = 2.69$) and reduce working hours ($M=2.51$). However, the businesses most unlikely terminate employees ($M=1.74$) and reduce salary ($M=1.74$). Overall, the respondents were unlikely affected in terms of HR ($M=2.18$).

The results showed differing HR decisions. While majority are unlikely to terminate employees and reduce salary, the others consider these as preventive measures for long-term losses. One factor considered for the assessment results is the type of business surveyed which are mostly offering basic products and necessities that households need. However, the survey clearly reflects the fact that businesses consider not to hire any employees and reduce the operating hours. The situation creates underemployment as a product of some humanitarian acts.

The situation in Candelaria, Quezon seem less drastic than the other parts of the world and the Philippines. The depressing situation with the estimated million decline in the employment (DOLE, 2020) and the decreased working hours (ILO, 2019) were least likely to occur in Candelaria. While most surveys conducted showed majority suspended jobs,

reduced hours and reduced salary (de Vera, 2020; United Nations, 2020; Lopez, 2020; Rivas, 2020; Reuters, 2020), the SMEs in Candelaria continue to operate normally despite the restrictions.

Figure 3

Number of Terminated Employees

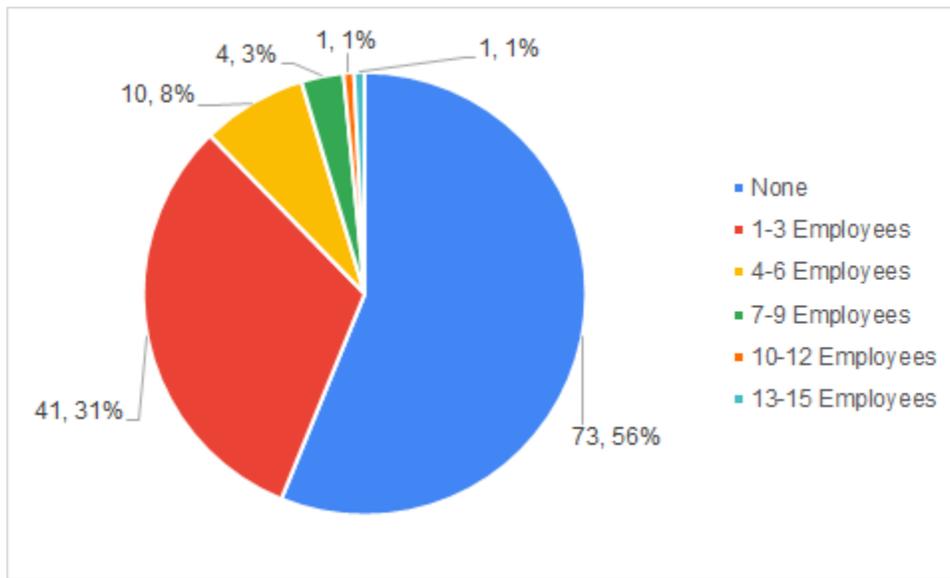


Figure 3 shows the number of terminated employees from 2019 – 2020 brought about by the pandemic. While the majority of the business owners have no intention to terminate their employees amidst pandemic (56%), the 31% of the businesses already terminated 1 – 3 employees. The results are contrary to the overall unemployment rate (DOLE, 2020; ILO, 2019; ADB, 2020). The results showed a minimal termination of employees from the SMEs in Candelaria, Quezon.

The percentage of terminated employees support and verify the likelihood of major HR decisions (Table 2). While majority considers not to terminate employees, many of them opted for reduction in the number of hours. Accordingly, the SMEs average number of employees range from 1 – 99. With the range of production, most of the micro businesses with 9 or less employees cannot afford to hamper operations brought by the pandemic.

Table 3

Level of Effect on Major Business Functions

Operations		Mean	Description
1	Shutdown of business operations because of lockdowns	2.64	High
2	Reduction of operation hours	2.82	High
3	Employees' work schedule	2.67	High
4	Suspension of operations for Covid-19 confirmed cases	3.20	High
5	Installation of health protective measures and protocols	3.50	High
Weighted Mean		3.05	High
Finances			
1	Amount of sales collection to cover expenses	2.89	High
2	Amount of income to pay for business obligations	2.91	High
3	Additional budget for the Personal Protective Equipment	2.92	High
4	On-time onsite payment of taxes/expenses	2.94	High
5	Income generating activities	2.63	High
Weighted Mean		2.86	High
Marketing			
1	Current number of customers	2.80	High
2	Supply of products and services	2.69	High
3	Product distribution during lockdowns	3.03	High
4	Supply of materials and other resources	2.92	High
5	Promotions and other activities	2.91	High
Weighted Mean		2.87	High

Legend: 1.0 – 1.5 = Very Low; 1.51 – 2.5 = Low; 2.51 – 3.5 = High; 3.51 – 4.0 = Very High

Table 3 shows the pandemic's level of effect on major business functions such as operations, finance and marketing. The overall effect on the indicators was high as manifested by weighted means of 3.05 (operations), 2.86 (finance) and 2.87 (marketing) interpreted as 'high'. All the indicators were rated 'high' indicating drastic effects on the various aspects of the business. The highest effect was recorded on operations where businesses were required to install health protective measures and strictly follow the protocols (M=3.50). Similarly, the operations were also affected by

suspension of employees positive with COVID-19 (M=3.20) and the product distribution affected the marketing aspect (M=3.03). All other ratings were compact showing similarity of responses.

In terms of business operations, other indicators showed that businesses reduce the operation hours (M=2.82), changed the employees' work schedule (M=2.67) and shutdown business during lockdowns (M=2.64). The assessment is similar to all the business around the world. For instance, Bartik, et al. (2020) reported that 41.3% of the businesses in the United States had to temporarily close due to the health crisis and Gonzales (2020) cited the 1.9 million job losses for a temporary closure of business in the Philippines.

In terms of finance, indicators showed that businesses have difficulties on on-site payment of taxes/expenses (M=2.94), additional budget for PPE (M=2.92), income to pay for obligations (M=2.91), amount of sales to pay expenses (M=2.89) and income generating activities (M=2.63). All the indicators were rated 'high' signifying drastic effect on the business finances. These are similar to the findings of JPMorgan Chase & Corp. (2020) and Asian Development Bank (2020) on the adverse impact on the financial management of SMEs. All the difficulties experience by the SMEs root from the inability to generate a higher rate of revenue and profit (Asian Development Bank, 2020) resulting to profit losses accounted for a low economic performance (de Vera, 2020).

In terms of marketing, aside from product distribution (M=3.03), business experience challenges on supply of materials and other resources (M=2.92), promotions and other activities (2.91), current number of customers (M=2.80) and supply of products and services (M=2.69). The results showed that the biggest challenge to the business owners pertain to the mobility of the products and services due to the travel bans and restrictions. Accordingly, the travel bans and restrictions created log on distribution of finished products, delivery of raw materials and supply of finished goods. As Musiak (2020) claimed that sales were adversely affected by the Covid-19 but food and Telco enterprises were not greatly affected. Since the distribution of the products was the number one challenge faced by the business owners, Winarsih, et al. (2020) posited that the transition of SMEs to digitalization would greatly affect its sustainability. In addition, Arriola (2020) supports the engagement to online businesses due to the current restrictions.

The COVID-19 generally has high negative effects on the major business functions of SMEs in Candelaria, Quezon. Due to the travel bans and restrictions, the mobility of products, materials and supply was severely affected. This slows the logistics leading to much slower cycle of production to sales. Although there are less concerns on the productions capabilities, the delivery of materials and availability of labor affect the operations.

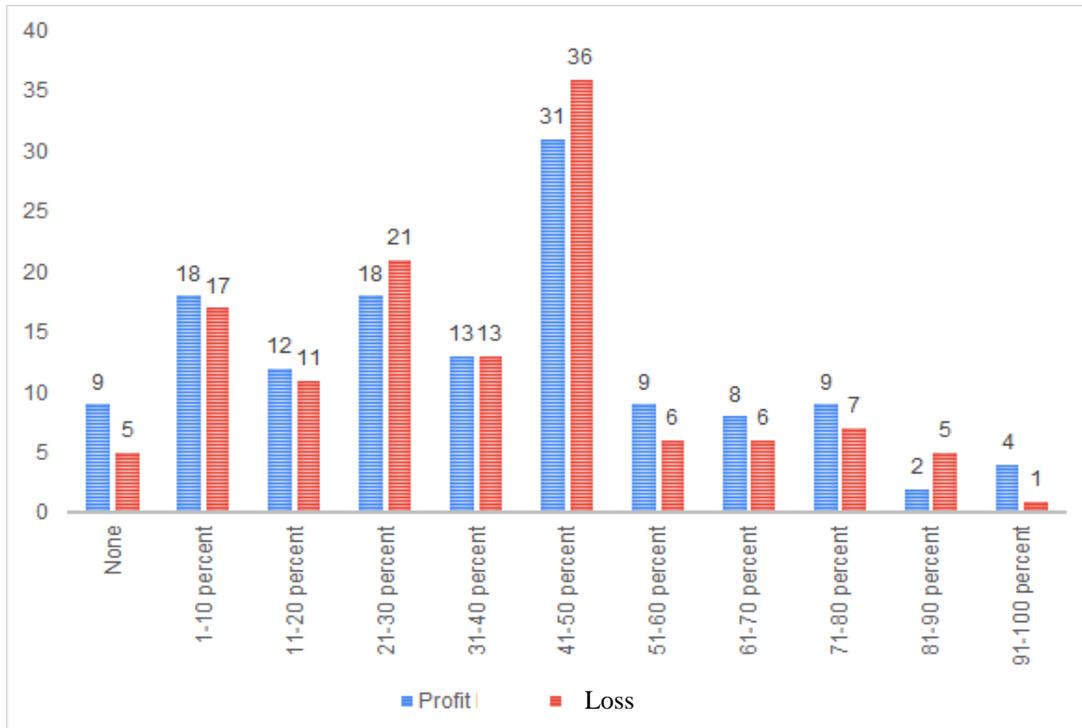
Figure 4*Estimates on Profit and Losses*

Figure 4 shows the estimates of the business owners on the percentage of profit and losses experienced amidst pandemic. Most of the business owners anticipate 41%-50% profit and loss with high number of respondents (36) anticipating loss than profits (31). This indicates both optimistic and pessimistic attitude of the business owners. While many are certain on the possibility of losses, still most of them anticipate to at least get profits from the limited operations.

The diverse responses provide an inclination on the severity of impact to the SMEs. While the business owners are looking at the brighter side of the situation, taking advantage of any available opportunity, there are other measures taken to avert the risks caused by the pandemic. The results relatively indicate that despite the government restrictions and strict

protocols, business owners definitely find ways to carry on with limited operations to sustain the business.

5. Conclusion

The research aimed to delineate the effects of COVID-19 on the operations of SMEs in Candelaria, Quezon. Through descriptive research, 133 randomly chosen business owners were surveyed using researcher-made questionnaire distributed online via Google Forms. The 5 common types of SMEs surveyed include retail business, fast food/ restaurant, bakery, repair services and spa and salon. The research instrument was divided into three sections namely: demographic survey, HR aspects and business functions. Descriptive statistical tools were utilized for data analysis.

The results of the study showed that the key business drivers highly affected by the pandemic include the products and services offered ($M = 2.93$) and business location ($M=2.83$). The businesses were unlikely affected in terms of HR but likely consider to stop hiring new employees ($M = 2.69$) and reduce working hours ($M=2.51$). Although businesses most unlikely terminate employees ($M=1.74$) and reduce salary ($M=1.74$), the 31% of the businesses already terminated 1 – 3 employees. On the other hand, the overall effect on the major business functions was manifested by weighted means of 3.05 (operations), 2.86 (finance) and 2.87 (marketing) interpreted as 'high'. The highest effect was recorded on operations where businesses were required to install health protective measures and strictly follow the protocols ($M=3.50$). Similarly, the operations were also affected by suspension of employees positive with COVID-19 ($M=3.20$) and the product distribution affected the marketing aspect ($M=3.03$). In addition, most of the business owners anticipate 41%-50% profit and loss with high number of respondents (36) anticipating loss than profits (31).

There were number of limitations to be considered in this study. The sample was too small as a percentage of the total population which might affected the overall skewness of the assessment data. In addition, the participants were majority from the micro enterprises which most of the times are homebased and backyard industries. Due to the restrictions and non-participation of the majority of the medium enterprises in the survey, the response rate was very low. Similarly, the absence of secondary data in the municipality during the conduct of

the study makes no bases for comparison. However, the skewness of the assessment indicates similar experience among the respondents.

With focus on the variables assessed, it was obvious that business may thrive through digitalization in order to recover the business losses during the pandemic. The emergence of different platforms to market and sell the products and services enable the SMEs to transcend from the losing end to the new normal of work. However, to sustain the operations of the SMEs in the long run, the local government intervention is necessary. It is indeed a must to formulate program to support, assist and help SMEs development from the drastic effects of the pandemic. These programs should bridge business owners and the whole community. The results of the current study can be inputs to formulate programs necessary for the SMEs development. Moreover, further research can be conducted to further assess the other factors and variables in the SME performance during the pandemic.

References

- Arreola, R.H. (2020). *The “New Normal” of Increased Online Business Transactions, and Revisiting Revenue Memorandum Circular No. 55-2013*. KPMG. <https://home.kpmg/ph/en/home/insights/2020/07/the-new-normal-of-increased-online-business-transactions.html>
- Awad, S. & Konn, A. (2020). *Socioeconomic impacts of COVID-19*. Global Affairs Canada CESO
- Bolido, L. (2020). *Small businesses, big economic impact*. Inquirer.net. <https://business.inquirer.net/287195/small-businesses-big-economic-impact>
- Business World (2020a). *3 Impact of COVID-19 on key Philippine economic sectors*. <https://www.bworldonline.com/impact-of-covid-19-on-key-philippine-economic-sectors/>
- Business World (2020b). *Coronavirus may cost PHL up to P2.5 trillion in economic output*. <https://www.bworldonline.com/coronavirus-may-cost-phl-up-to-p2-5-trillion-in-economic-output/>
- Claessens, M. (2016). *Factors Influencing Intensity of Competition in an industry*. Marketing Insider. <https://marketing-insider.eu/factors-influencing-intensity-of-competition/>
- de Vera, B. (2020a). *P2.2 trillion in losses: Cost of COVID-19 impact on PH economy*. Inquirer.net. <https://business.inquirer.net/298536/p2-2-trillion-in-losses-cost-of-covid-19-impact-on-ph-economy>
- de Vera, B. (2020b). *Philippines: ADB projects massive job loss across 5 sectors due to Covid-19 outbreak*. Business and Human Resource Center. <https://www.business->

- [humanrights.org/en/latest-news/philippines-adb-projects-massive-job-loss-across-5-sectors-due-to-covid-19-outbreak/](https://www.humanrights.org/en/latest-news/philippines-adb-projects-massive-job-loss-across-5-sectors-due-to-covid-19-outbreak/)
- Deloitte (2020). *Accounting Considerations Related to Coronavirus Disease 2019*. Deloitte. <https://www.iasplus.com/en/news/2020/03/deloitte-coronavirus>
- Department of Labor and Employment (2020). *Guidelines of Employment Preservation upon the Resumption of Business Operations*. Memo. https://bwc.dole.gov.ph/images/Issuances/LaborAdvisory/2020/Labor_Advisory_No1_7_20.pdf
- Department of Labor and Employment (2020). *Regular Job Displacement Monitoring Report*.
- Diresta, A., Williford, K.T., Cohen, D., and Genn, B. (2020, April 20). *The Impact of COVID-19 on Your Advertising and Marketing Campaigns*. Holland & Knight. <https://www.hklaw.com/en/insights/publications/2020/04/the-impact-of-covid19-on-your-advertising-and-marketing-campaigns>
- Fairlie, R. (2020). The impact of COVID-19 on small business owners: Evidence from the first three months after widespread social-distancing restrictions. *J Econ Manage Strat.* 2020; 29:727–740.
- Fernandes, N. (2020). *Economic effects of coronavirus outbreak (COVID-19) on the world economy*. IESE Business School Working Paper No. WP-1240-E
- Han, W., Harris, K. & Luedi, T. (2020). *How much will Coronavirus hurt China's Economy?* Bain & Company. <https://www.bain.com/insights/coronavirus-impact-china-gdp-snap-chart/>
- ILO (2020a). International Labour Organization (ILO) COVID-19 Monitor, 4th Edition, 27 May 2020
- ILO (2020b). International Labour Organization (ILO) COVID-19 Monitor, 2nd Edition, 7 April 2020
- ILO (2020c). The COVID-19 response: Getting gender equality right for a better future for women at work.
- Investing in Women (2020). *Impact of COVID-19 on employees in the Philippines*. Australian Aid. <https://investinginwomen.asia/knowledge/impact-covid-19-employees-philippines-may-2020/>
- Jandoc, K., Mendoza, A. and Luz Quimboet, S. (2020). *Vulnerable to the virus: Globally oriented manufacturing firms at risk from the spread of COVID-19*. UP School of Economics Discussion Papers. No. 2020-01
- JPMorgan Chase & Corp. (2020). *Small Business Financial Outcomes during the COVID-19 Pandemic*. <https://www.jpmorganchase.com/institute/research/small-business/report-small-business-financial-outcomes-during-the-covid-19-pandemic>
- Lopez, M. L. (2020). *4.6M Filipinos jobless in July as unemployment worsens in Metro Manila* – PSA. CNN Philippines. <https://www.cnnphilippines.com/business/2020/9/3/PSA-July-unemployment-figures.html>

- Madarang, C. R. (2020). *Despite pandemic, poll says small businesses in the Philippines bullish of growth*. Interaksyon. <https://interaksyon.philstar.com/politics-issues/2020/09/16/177029/despite-pandemic-poll-says-small-businesses-in-the-philippines-bullish-of-growth/>
- Murphy, J. (2019). *Principles of Microeconomics*. Clanrye International. New York USA
- Murray, J. (2020). *What is a Microbusiness?* thebalancesmallbusiness. <https://www.thebalancesmb.com/differences-between-micro-business-and-small-business-4159188>
- Musiak, E. (2020, June 6). *Impact of Coronavirus on Sales*. MIA. <https://marketinginasia.com/2020/06/06/impact-of-coronavirus-on-sales/>
- Phoenix Nap (2020). *Business Continuity Management Framework*. <https://phoenixnap.com/blog/what-is-business-continuity-management#:~:text=Business%20continuity%20management%20is%20a,mitigate%20damages%20from%20theoretical%20events>.
- PwC Philippines (2020). *Impact of COVID-19 on the Philippine Tourism Industry*. <https://www.pwc.com/ph/en/publications/tourism-pwc-philippines/tourism-covid-19.html>
- Reuters (2020). *Philippines' jobless rate eases as economy reopens from lockdown*.
- Reuters (2020). *Philippines' Jobless Rate Eases as the Economy Reopens from Lockdown*. <https://in.reuters.com/article/philippines-economy-unemployment/philippines-jobless-rate-eases%20-as-economy-reopens-from-lockdown-idUSL4N2G00Z6>
- Rivas, R. (2020a). *PH with most business closures, lay-offs vs. peers during pandemic-ADB*. Rappler. <https://www.rappler.com/business/adb-study-philippines-closures-layoffs-peers-coronavirus-pandemic>
- Rivas, R. (2020b). *Unemployment down to 10% in July 2020, says Philippine gov't*. Rappler. <https://www.rappler.com/business/unemployment-rate-philippines-july-2020>
- Rose, N. (2020). *Will Competition Be Another COVID-19 Casualty?* https://www.brookings.edu/wp-content/uploads/2020/07/Rose_LO_FINAL.pdf
- Senate of the Philippines (2012). *The MSME Sector At the Glance*. <http://legacy.senate.gov.ph/publications/AG%202012-03%20-%20MSME.pdf>
- Shinozaki, S. and L. N. Rao. (2021). *COVID-19 Impact on Micro, Small, and Medium-Sized Enterprises under the Lockdown: Evidence from a Rapid Survey in the Philippines*. ADBI Working Paper 1216. Tokyo: Asian Development Bank Institute. Available: <https://www.adb.org/publications/covid-19-impact-msme-under-lockdown-evidence-rapid-survey-philippines>
- Teo, D. (2020). *Over 7.3 million jobs lost in the Philippines due to COVID-19*. HRM Asia. <https://hrmasia.com/over-7-3-million-jobs-lost-in-the-philippines-due-to-covid-19/>
- TESDA (2020). *How can TVET Contribute to the effect of COVID-19 to the Philippine Economic Sectors?*
- Turner, J. & Akinremi, T. (2020). *The Business Effects of Pandemics – A Rapid Literature Review*. Enterprise Research Center.
- United Nation (2020). *Policy Brief: The World of Work and COVID-19*.

- UP-ISSI Diliman (2020). *Uplifting Micro, Small, and Medium Enterprises (MSMEs) in the Philippines thru DTI's 7Ms: Suggested Policies for Implementation*. Entrepreneurship. <http://beta.entrepreneurship.org.ph/2020/02/21/uplifting-micro-small-and-medium-enterprises-msmes-in-the-philippines-thru-dtis-7ms-suggested-policies-forimplementation/>
- Vigilia, A.Y., Portana, H.V., Santos, S.B., Salamanca, R.L. & dela Cruz, K.P. (2021). Impact and Coping Mechanism of Restaurant Business Amidst Covid-19 Global Pandemic. *International Journal of Advanced Engineering, Management and Science*, Vol-7, Issue-1; Jan, 2021, DOI: <https://dx.doi.org/10.22161/ijaems.71.6>
- Winarsih, Indriastuti M., Fuad K. (2021) Impact of Covid-19 on Digital Transformation and Sustainability in Small and Medium Enterprises (SMEs): A Conceptual Framework. In: Barolli L., Poniszewska-Maranda A., Enokido T. (eds) *Complex, Intelligent and Software Intensive Systems*. CISIS 2020. *Advances in Intelligent Systems and Computing*, vol 1194. Springer, Cham. https://doi.org/10.1007/978-3-030-50454-0_48
- Woetzel, J., Seong, J., Leung, N., Ngai, J., Manyika, J., Madgavkar, A., Lund, S. & Mironenko, A. (2019). *China and the world: Inside the dynamics of a changing relationship*. McKinsey Global Institute.
- World Bank (2020). *Global Economic Prospects*. <https://www.worldbank.org/en/publication/global-economic-prospects>
- Xiang, S., Rasool, S., Hang, Y., Javid, K., Javed, T. and Artene, A.E. (2021). The Effect of COVID-19 Pandemic on Service Sector Sustainability and Growth. *Front. Psychol.* 12:633597. doi: 10.3389/fpsyg.2021.633597