

ASSESSING THE IMPACT OF COVID-19 PANDEMIC CRISIS ON MICRO ENTERPRISES IN MANUFACTURING SECTOR IN KLANG VALLEY, MALAYSIA

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Abstract

Purpose: This paper aims to investigate the impact of the pandemic on micro-enterprises in the manufacturing sector in terms of business operations and production in Klang Valley. **Design/Methodology:** An online self-administered questionnaire was distributed randomly to 121 micro-enterprises focusing on Klang Valley's manufacturing sectors. The questionnaire is developed based on previous research conducted on the impact of Covid-19 on business. The qualitative content analysis approach was adopted to analyze the results. **Findings:** Based on the results, the female contributes 57% in the micro-enterprises compared to male. The study focuses on the food manufacturing microenterprises, which comprises about 43%, followed by textile, about 13%. During the pandemic period, 44.3% of the micro-enterprises faced minor difficulties in managing their production and their business operations, in which the majority of them agreed there is a significant increase in the consumer demand for specific products. Although movement control order being enforced, there was an adequate supply of the raw materials to the essential based micro-enterprises. However, about 59% of the micro-enterprises verified no planning on the new recruitment, and they look forward to increasing their engagement in the e-commerce platforms. Micro enterprises are also expecting special government grants to help them to boost their business operations and production during the pandemic period. **Research Limitation:** The study has small sample size, and therefore it can be extended by increasing the number of respondents in other sectors in micro-enterprises and geographical areas. **Practical Implications:** This research provided the policymakers with the appropriate policies to aid the difficulties faced by the micro-enterprises in their business operation and production. The policymakers should consider providing benefits in digital platforms to stimulate consumption among the consumers instead of targeting the other perspectives.

Keywords: Covid-19, Manufacturing Sector, Micro Entrepreneurs, E-commerce, Pandemic

Introduction

Coronavirus disease (Covid-19) is an infectious disease that originated from Wuhan, China, in late December 2019. Covid-19 was categorized as a pandemic situation by the World Health Organization (WHO, 2019) as it increases the number of infections from human to human, with total deaths recorded about 3.86m people in the world (BBC, 2021). One of the best ways to control the Outbreak is by imposing a movement control approach (Chinazzi et al., 2020; Smith & Freedman, 2020). In Malaysia, the movement control order brings various impacts to the economic sectors such as retails, agriculture, tourism, construction, and manufacturing sectors in terms of product delivery and the closure of the premises (Fabeil et al., 2020;

Department of Statistics Malaysia, 2020). In 2020, most small-medium businesses, including micro-enterprises, are badly affected due to the movement control order and the Covid-19 pandemic. Some economists suggest that the economic activity momentum has started to slow down and that no specific date is given for recovery from the pandemic. (Segal & Gerstel, 2020).

In Malaysia, the number of micro-entrepreneurs focusing on manufacturing sectors such as home bakery, tailoring, crafts, handmade pieces of jewelry, handmade soaps, and toys increased during the movement control order period. (The Malaysia Reserve, 2020). There is an increasing trend in the manufacturing sector, whereby it was recorded about 32,924 micro-entrepreneurs in total registered for 2020 compared to 31,654 micro-entrepreneurs registered in 2018 (Department of Statistics Malaysia, 2021). Even though it shows an increasing trend, in a special survey conducted by the Department of Statistics Malaysia (DOSM) during the crisis, most respondents reported no revenue earned and minimal entrepreneurs generated their sales through the online platform. It was also noted that micro-entrepreneurs are concerned about vulnerability to supply chain shocks (SME Insights, 2020).

Even though many studies were conducted on small, medium enterprises, there was a lack of research conducted on micro-entrepreneurs, specifically in the manufacturing sector. Therefore, this study is timely important to investigate the impact of the pandemic on micro-entrepreneurs in the manufacturing sector in the Klang Valley region.

Literature Review

Micro enterprises had been viewed as the simple way to generate income resources due to low startup costs, flexible time and place, and low requirements regardless of the entrepreneur's level of education. (Paoloni and Dumay, 2015; Musa et al., 2016). The Covid-19 pandemic has a severe impact on business operations where many small businesses worldwide had similar interruptions in their daily business operations (Lim, 2020 & Omar et al., 2020). In many cases, small and medium-sized enterprises (SMEs), mainly in tourism, travel industries, mining, agriculture, manufacturing, and construction industries, were layoff or lead to business closure whereby the employees were retrenched or involuntary to take on unpaid leaves during the movement control order period (Bartik et al., 2020 & Abugu et al., 2020). Besides, due to the worsening of the pandemic crisis, the demand for certain products diminishes, and some entrepreneurs faced withdrawal of their existing consumer's orders (Lasuin & Omar, 2020). Entrepreneurs also expressed their difficulties in assessing the raw materials for their products, specifically from China, due to limited supply (Che Omar et al., 2020). Therefore, the government needs to troubleshoot the issues small business faces since small businesses contribute the utmost to the nation's economic development in the post-pandemic phase (Kamruzzaman, 2020). It was also noted that many countries execute various policies to mitigate the impact of Covid-19 on the micro-enterprises in the current pandemic situation (Wang et al., 2020). This will support the micro-enterprises to sustain their businesses (Fabeil et al., 2020). In the case of Malaysia, the government has been continuously assisting in terms of financial aid, place, consultation, and training thru its agencies such as MEDEC, MARA,

FAMA, AgroBank, etc. to support the development of micro-enterprises, especially during the movement control order that begins in 18th March 2020. In May 2021, under the PERMAI initiative, the government announces a special additional grant (GKP) to micro-entrepreneurs by adding RM 1,000 to the previous grant given (PERMAI, 2021). The main purpose of this initiative is to encourage the micro-entrepreneurs to sustain the market during the movement control order period. Besides that, the government also provides Indian Community Entrepreneur Development Scheme (SPUMI) under the TEKUN initiative to help the Indian micro-entrepreneurs obtain a small financing scheme to run their existing business. Besides the financial assistance, the government with MDEC in collaboration with e-commerce platforms such as Boost, Fave, Lazada, Food Panda, and more also provides opportunities for micro-entrepreneurs to establish e-commerce by providing onboarding training, seller subsidy, and sales support (PENJANA, 2020).

Methodology

This study employed a qualitative method using a comprehensive questionnaire to gather detailed information regarding the micro entrepreneurs' impact in Klang Valley. The targeted micro-entrepreneurs under the manufacturing sector in Klang Valley are estimated at 3,000 (i-MSBR, 2020). Due to limitations, the questionnaires were distributed randomly to 121 respondents, mainly concentrating in the manufacturing sector in the Klang Valley region. Google Form application was used as a tool to collect the data. The Google Form application creates a personalized questionnaire to collect respondents' information (Google, 2021). The questionnaire is developed based on previous research conducted on the impact of Covid-19 on business (Zou, 2020; UNDP, 2020). The questionnaire was modified slightly in order to meet the objective of this study. The questionnaire was designed into three sections: demographic characteristics, the impact of the Covid-19 pandemic crisis on business and entrepreneurs' action, and future business perception.

Results and Discussion

There were 121 micro-entrepreneurs who responded to the questionnaire in the Google Form. More female entrepreneurs (57%) than male entrepreneurs (43%) in the micro-enterprises are based on the demographic results. The majority of the respondents were involved in the food industry (43%), followed by the textile industry (13.2%) and the beverage industry (8.3%). The food industry was one of the most demanded products among consumers during the pandemic period. Meanwhile, gardening products (0.8%), home appliances (1.7%) and toys industry (1.7%) were the least industry involved by the respondents.

Based on the impact of the Covid-19 pandemic, the micro-enterprises, 44% of the respondents agreed on the minor difficulties in managing their business operations and production, but in general, there were constancy in handling the challenges. It was also shown that 21% of the respondents disputed that their production was scarcely sustained during the pandemic, while another 21% of the respondents declared they had no significant impact on their production and business operation (See Chart 1). Based on the results, the impact of Covid-19, 26% of

respondents agreed that their sales increase for certain types of their products. Meanwhile, 20% of the respondents experienced a decrease in their sales revenue, with 13% of them experienced canceled orders from the consumers while about 12.3% of respondents claimed their business supply chain was interrupted during the pandemic period. In addition, due to the uncertainty of the pandemic period, 9.7% of respondents started to restrict their total spending for their business, with 6.7% of respondents claimed that the market is causing them to draw on their line of credit and adjust their business operation hours. The pandemic caused 5.7% of the respondents to completely shut down their physical business place and move towards online business platforms (See Chart 2).

Chart 1: The Overall Effect of Pandemic on Business Operation and Production

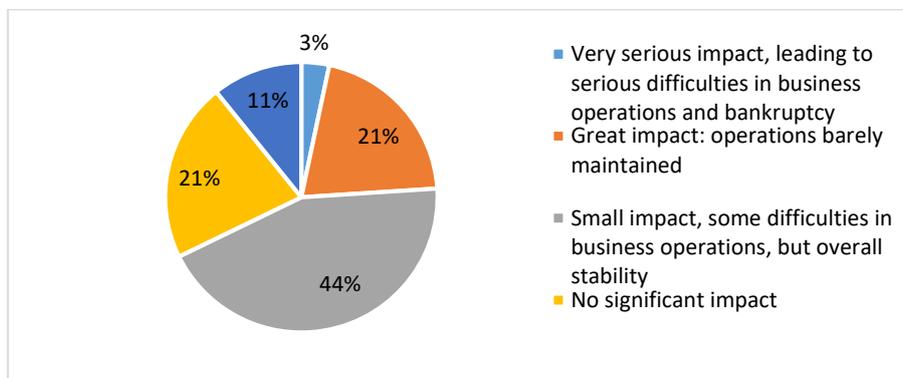
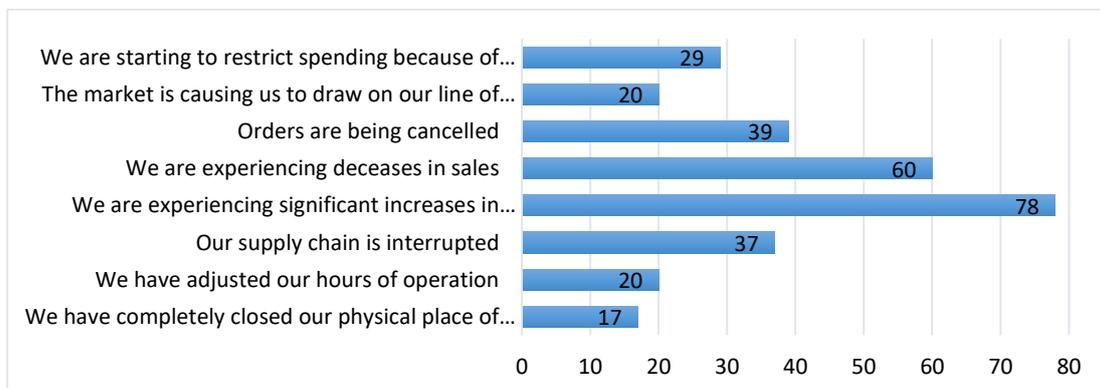
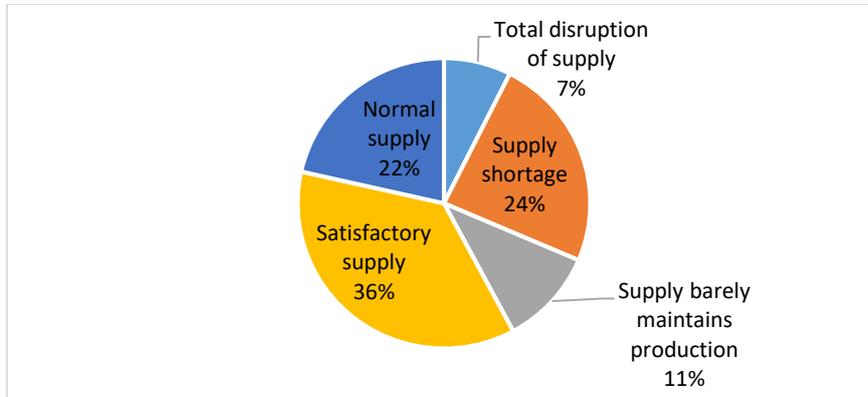


Chart 2: The Detailed Impact of Pandemic on Business Operation and Production



Even though 36.4% of the respondents had an adequate supply of raw material, spare parts, and other production and operation materials, 24% of them confronted a shortage of supply while 21.5% had normal supply as usual. However, 10.7% of respondents claimed that supply barely meets the production requirements, while 7.4% of them had a total disruption in the supply of raw material, spare parts, and other production and operation materials during the pandemic period (See Chart 3).

Chart 3: Total Supply of Raw Materials, Spare Parts, and Other Production Materials



In terms of the recruitment and the number of existing staff, 57.9% of respondents remain their workers. According to the research, 28.9% of the respondents reduced their workforce size in average to 10% to 30% while 6.6% of the respondents reduce greatly by more than 30% from their workforce size. Even though most of the respondents either maintain their workforce or reduce their workforce size, 6.6% of the respondents initially increase their workforce size by not more than 30% due to an increase in the production in line with higher demand for their products (See Chart 4). In support of maintaining the size of workforce affirmation, 36.4% and 21.2% of the respondents confirmed no new recruitment, and some of them postpone the recruitment plan, respectively. Meanwhile, 23.7% of the respondents are looking for an online recruitment approach instead of a physical workforce approach since they are looking for a digital marketing specialist. Meanwhile, 9.6% of the respondents claimed its challenging to find a suitable recruitment platform during the pandemic period, and 9.1% of them cited an increase in the labor cost as one of the reasons for retrenchment or retaining the current workforce size (See Chart 5).

Chart 4: The Impact of Pandemic on the Size of Workforce

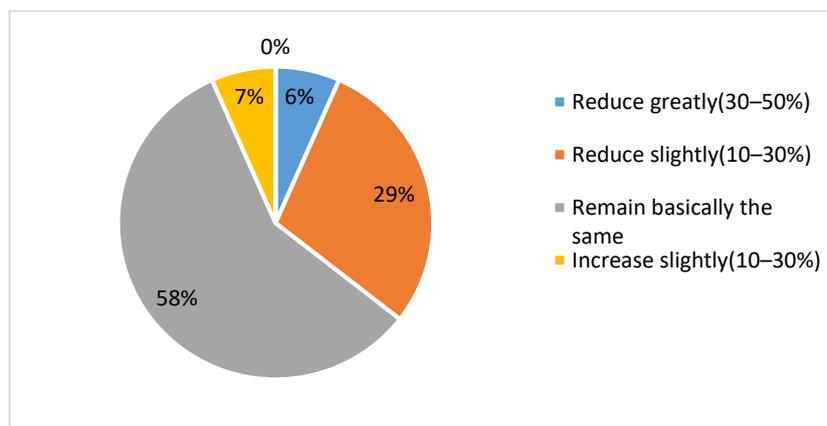
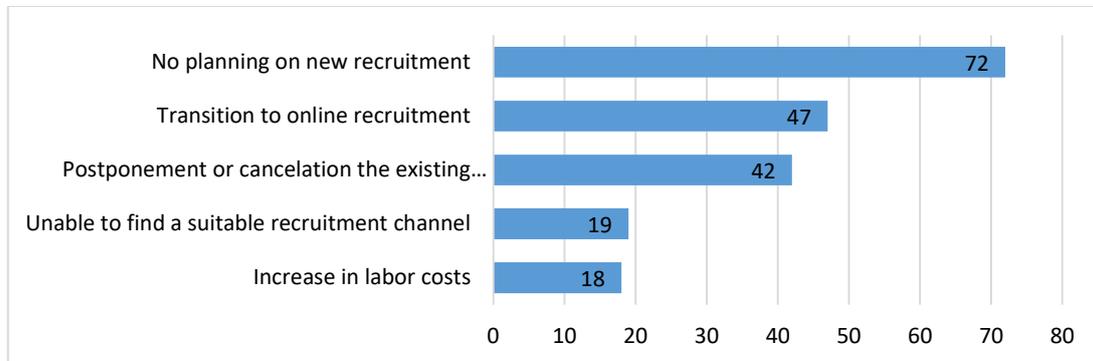
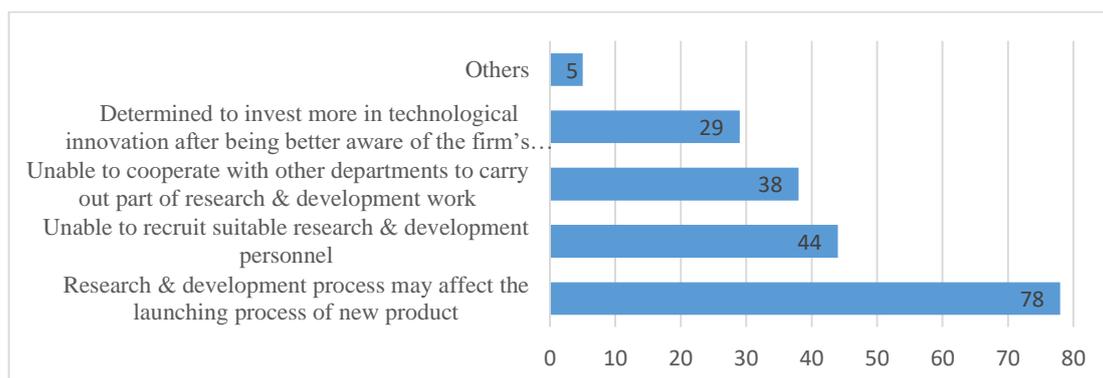


Chart 5: The Impact of Pandemic on New Recruitment



Regarding the research and development for the enterprises' technological innovation and new strategies, 40.2% of respondents stated that research and development in launching new products during the pandemic might be affected due to uncertainty in the consumers' demand. Besides, 22.7% of the respondents were unable to recruit suitable research and development workers due to higher labor costs than the enterprises' sales revenue. Besides, due to movement control order in the country as one of the barriers, 19.6% of the respondents agreed on being unable to cooperate with other enterprises or firms to carry out part of their research and development in terms of technology innovation and new business strategies. However, after evaluating and being aware of their enterprise self-development complications during the pandemic, 14.9% of the respondents are determined to invest in more technological innovation that supports their business's production growth. A small percentage of the respondents are unreliable about their technological innovation and new business strategies developed during the pandemic period (See Chart 6).

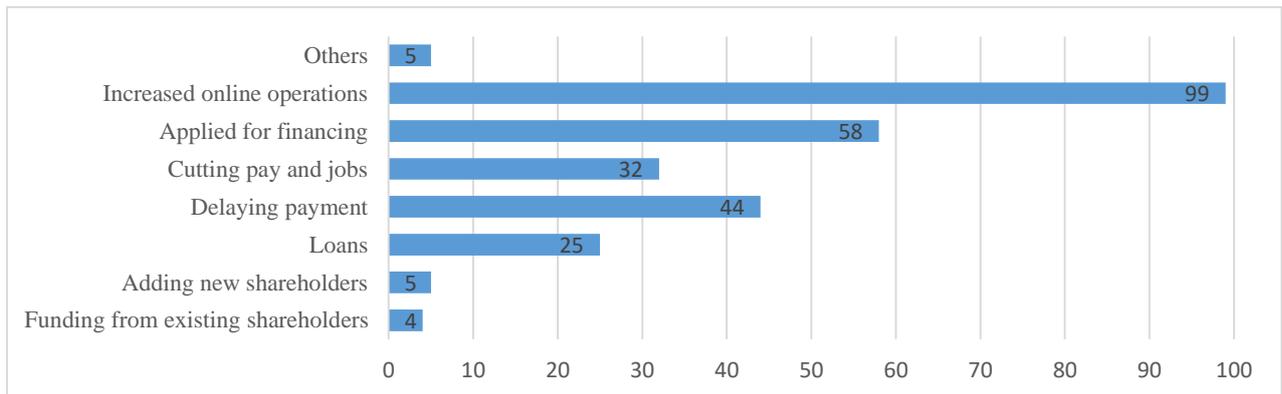
Chart 6: The Impact of Pandemic on Research and Development



Even though there are various strategies available to manage their business cash flow during the pandemic period, 36.4% of the respondents promote their products through online platforms such as Lazada and Shopee to increase sales revenue. However, 21.3% of respondents applied for financing from various financial institutions and organizations to manage their cash flow during the period. Delaying the invoice payment to the suppliers is

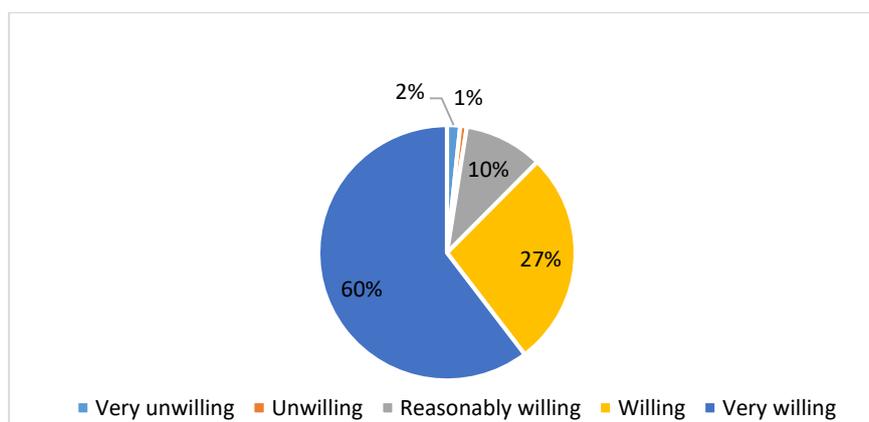
another method used by 16.2% of the respondents in managing their business cash flow. Around 11.8% of the respondents decreased the number of workers and their salary to manage their business cash flow. Some 9.2% of the respondents applied for loans in the local banks, which offer lower interest rate business packages to manage their business cash flow, while less than 2% of the respondents utilise the funds from their existing shareholders and bring in more new shareholders (See Chart 7).

Chart 7: The Management of Cash Flow Shortages during the Pandemic Period



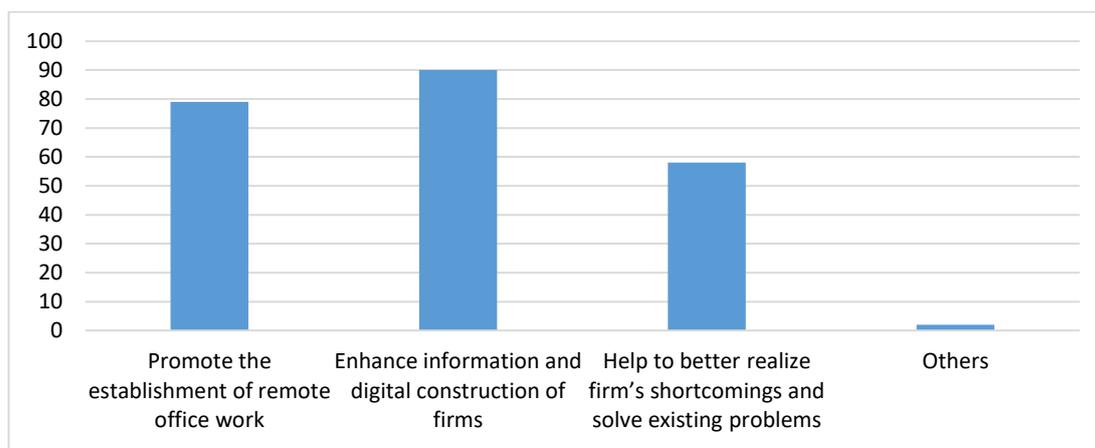
During the pandemic period, due to the movement control order, 87.6% of respondents were very willing and willing to engage in the e-commerce platform as part of their strategies to improve the business sales. However, 9.9% of the respondents agreed to consider e-commerce as part of their strategies. Even though a majority of the respondents were interested in engaging their business in the e-commerce platforms such as Lazada, Shopee, GoShop, Lelong, Zalora, and more about 2.5% of the respondents were not keen to expand their business in the e-commerce platforms since they prefer physical demonstration of their products (See Chart 8).

Chart 8: The Willingness of Entrepreneurs to Engage in the E-Commerce Platforms



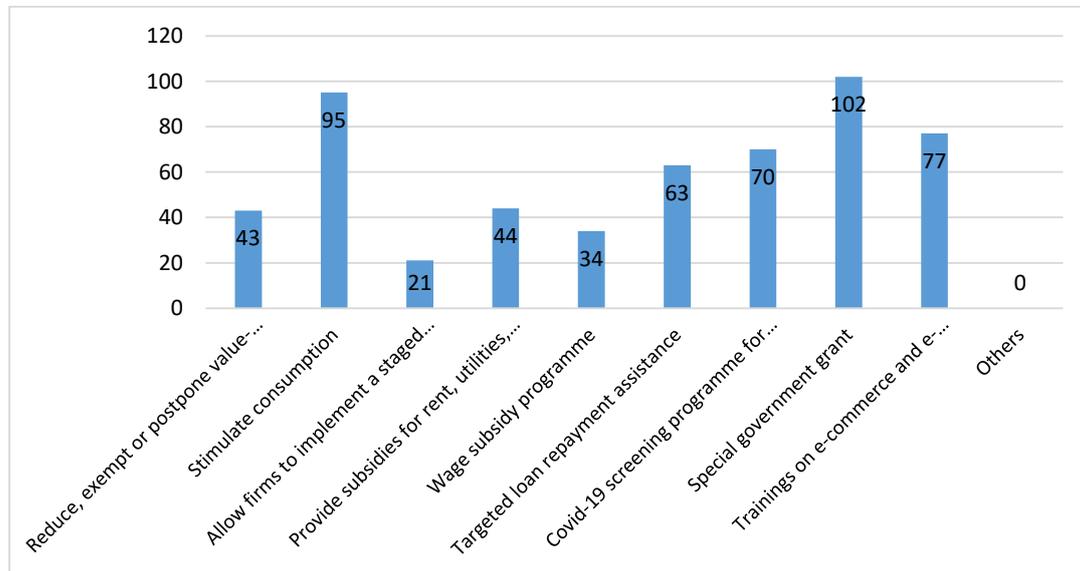
Despite many challenges faced by the micro-entrepreneurs during the pandemic period, there was a positive impact on the micro-entrepreneurs. The enhancement of information and digital construction of the firm were agreed upon by 39.3% of the respondents. It is relatively easier to increase sales thru online platforms in the new norm. Meanwhile, 34.5% of the respondents willing to promote the establishment of remote office work. Despite all this, 25.3% of the respondents view this pandemic positively where they can diagnose the firm's limitations and solve the existing problems using new techniques (See Chart 9).

Chart 9: The Potential Impact of Pandemic



In terms of government intervention in mitigating the impact faced by the micro-entrepreneurs, 18.6% of respondents are looking forward to more aid in special government grants such as Special Prihatin Grant (GKP 4.0). This grants payout helps the micro-entrepreneurs to cover their business closure cost during the movement control order. However, despite the demand for the grants, 17.3% of respondents demand consumption stimulation packages as an essential tool to increase their sales revenue. About 14.0% of respondents are keen to attend free training on e-commerce such as HRDF training to gain additional knowledge in expanding their business using online platforms. Meanwhile, 12.8% of respondents prefer the massive Covid-19 screening programme such as PIKAS to reduce Covid-19 workplace clusters. Besides, 11.5% of the respondents prefer the targeted loan repayment assistance since they earn a meager profit, making them unable to repay their mortgages. Government policies such as providing subsidies for essential utilities, exemptions of business and income taxes, wage subsidy programme, and staged flexible salary methods were minor policies expected by the micro-entrepreneurs from the government to mitigate the impact in the pandemic period (See Chart 10).

Chart 10: The Type of Government Policies Projected to Overcome the Difficulties during the Pandemic Period



Conclusion and Recommendations

This paper was conducted to investigate the impact of the pandemic on micro-entrepreneurs in the manufacturing sector in the Klang Valley region. The impact of pandemic mainly affected seven areas of the micro business in terms of business operation, supply of raw material, employee recruitment, e-commerce, future business prospects, technological innovation, and cash flow management. Overall, the Covid-19 pandemic crisis has an average impact on micro enterprises, mainly decreasing consumer demand for specific products. Due to a decrease in the production sales, the majority of the entrepreneurs decided to either reduce or maintain the size of the workforce. Besides, the entrepreneurs are intense to increase their engagement in the online platforms as a new norm. Therefore, the policymakers should consider the factors such as business operation, future prospects, e-commerce and cash flow management to assist the micro-entrepreneurs during the pandemic period.

Acknowledgements

The author would like to thank all the participants for their voluntary contribution to this study.

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