



A STUDY OF IMPACT OF COVID-19 ON SMALL BUSINESSES

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Abstract:

Small and Medium Enterprises SMEs are the core of economic growth and development in every country. They constitute a dominant player in the industrial landscape of most countries including India. The current study uses secondary data to assess the depth of impact of the two biggest crises of the 21st century – the Global Financial Crisis (2008-09) and the Covid-19 pandemic (2020-21). Secondary data reveals that Covid-19 has had a far stronger and deeper impact on Indian MSMEs relative to the GFC mainly due to the synchronicity of impact across the globe and across sectors due to the Covid-19 onslaught. While GFC was an exogenous shock to India limited to the financial sector, the Covid-19 had an exogenous trigger which imploded within. The twin demand and supply shock nature of the Covid-19 crisis exacerbated the woes of the real sector. The prevailing economic landscape at the time of Covid-19 was grim which reduced the shock absorption capability of the world economy in general and Indian economy in particular. Re-skilling MSMEs, periodic business monitoring using scenario analysis and conduct of stress tests are submissions made in this study to overcome the sitting duck syndrome in future.

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Introduction:

Small Businesses:

Micro, small, and medium enterprises (MSMEs) are playing a critical role in the economic development as well as acting as an important source of livelihood for millions of Indians.

They are a vital source of gainful non-farm employment for people, particularly those living in rural areas. According to the Ministry of MSME, the sector absorbs around 111 million workforce and is the second largest job creator after agriculture.

Being a highly unorganized sector consisting of a large number of micro-sized units, the sector is highly prone to economic crisis. In the Present study, business units where investment is less than 1,00,000 rupees and people

employed are less than 100 are considered as small businesses. The lockdown, which was declared in the last week of March 2020 owing to the spread of COVID-19 and continued till 3 May 2020, considerably impacted the economic activities of SMEs. Some initial assessments show that the sector faced an acute cash crunch, shutdown of businesses, and large-scale job loss across all types of units irrespective of their size.

Problem Statement:

The COVID-19, pandemic, hit the Indian economy hard and affected almost all sectors. While nearly all businesses have been negatively affected, especially small businesses in India, which are the backbone of the economy, have suffered even more as they operate on low profit margins and low liquidity. The lockdown due



to COVID-19 took a toll on their revenues, throwing them in the face of an existential crisis.

Objectives:

- To study the problem faced by small business during Covid 19
- To develop understanding about the challenges faced by entrepreneurs of small business during Covid 19
- To find out the financial issues faced by small business during Covid 19

Review of Literature:

COVID-19, which was declared a global pandemic by the World Health Organization (WHO, 2019), has now infected more than 45 million persons and caused more than 1 million deaths as of the end of October 2020 (ECDC, 2020).

The frantic effort to curtail the human-to-human transmission of COVID-19 led to a lockdown of communities and business closures (Akpan, 2020). Harel 3 In the wake of this global health crisis and to avoid shutdown of economic activities, the use of some technologies that were not considered essential by small businesses became crucial to avoid a complete shutdown of the global economy (Ting, 2020).

Businesses in certain sectors that were defined by the authorities as essential for continuing economic conduct were allowed to continue their activities under restrictions like maintaining distance between employees. Yet, it is unimaginable how things would have gone had the technologies currently in use by businesses during this global health pandemic not been as pervasive (Akpan, 2020b).

Many small businesses have also been able to utilize new techniques to adapt and improvise their business models (Puddister & Small, 2020; Vaccaro, 2020). Notable examples include personal training, tutoring and client consulting, using virtual video platforms like Zoom (Puddister & Small, 2020) and restaurants that have

turned to take away and delivery options backed by online meal ordering (Pantelidis, 2010).

Research Methodology:

The present study is descriptive research as it analyses the impact of COVID 19 on small business in India. Descriptive research aims to accurately and systematically describe a population, situation or phenomenon.

It can answer *what, where, when* and *how* questions, but not *why* questions. A descriptive research design can use a wide variety of research methods to investigate one or more variables.

Survey Method:

A survey method is a process, tool, or technique that you can use to gather information in research by asking questions to a predefined group of people. Typically, it facilitates the exchange of information between the research participants and the person or organization carrying out the research. Data collection was done by using a structured questionnaire that was divided into two parts, allowing business managers to expand and explain their answers to each question. Also face-to-face interviews were conducted to gather qualitative data from focus groups. Dombivli district from Maharashtra state was the geographical area as it is hub of various small businesses in and around the locality.

Sample Design:

Random sampling technique was used to gather the primary data. A questionnaire was prepared and 52 business owners were interviewed to analyse the impact of COVID-19 on their business. Secondary data, from reliable sources, is also used to add the information and support the study.

Data Analysis:

Descriptive analysis was done by showing the various diagrams. data is presented to give an easy understanding of the problem under study.



- Type of business

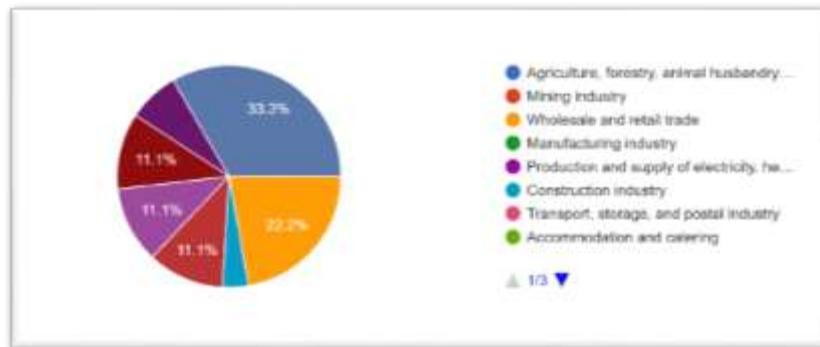


Fig. No. 1

Source: Primary data

Majority of small businesses under the study were agriculture, retailing, transport etc. Very few respondents were engaged in production, construction etc.

- Positive effect

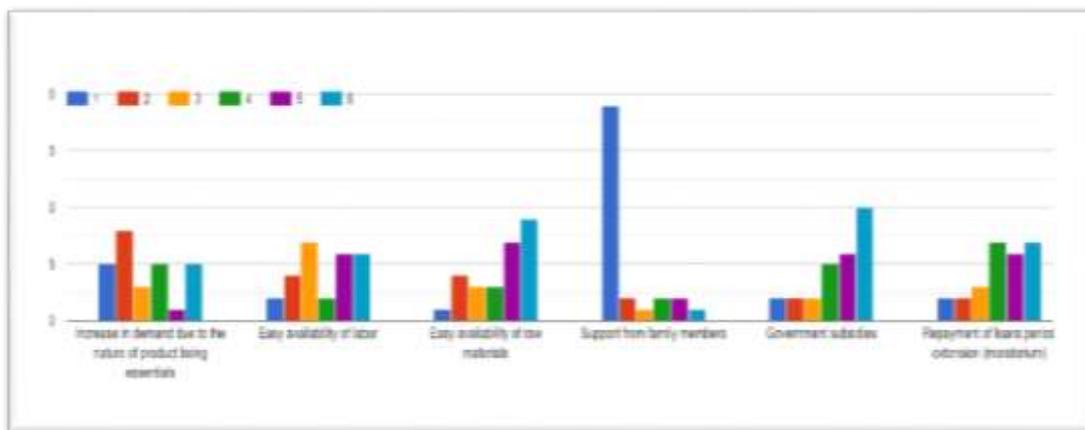


Fig no. 2

Source: Primary Data

The majority of respondents has expressed that their family support, extension of bank loan tenure etc were few positive things occurred during the covid era.

- Negative Effect:

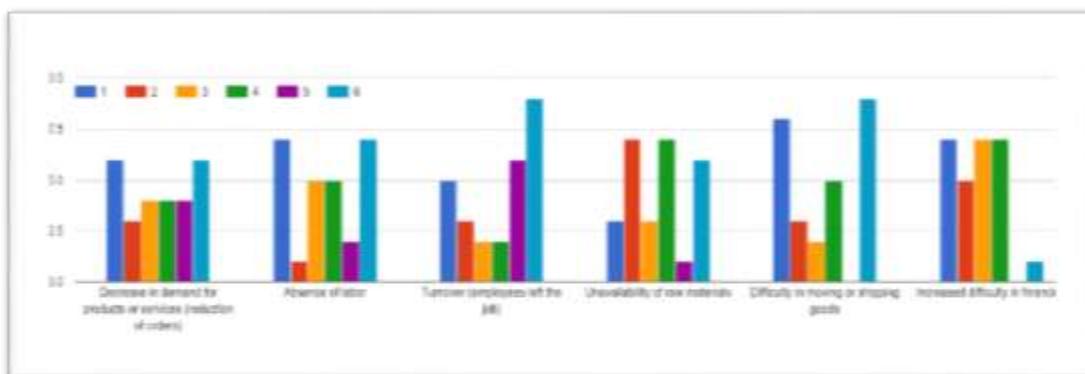


Fig no. 3

Source: Primary Data

The negative impact was very harsh on small business firms, especially in terms of scarcity of funds, low demand, shortage of labour force etc.

- **Employees' salaries:**

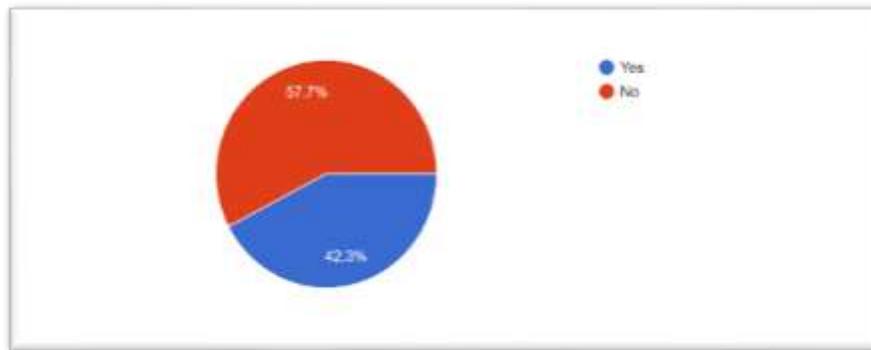


Fig no. 4

Source: Primary Data

On enquiry about whether businesses were able to pay salaries on time during the pandemic, 57.7 % responded that they were unable to pay salaries to employees due to liquidity problems.

- **Financial Aid:**

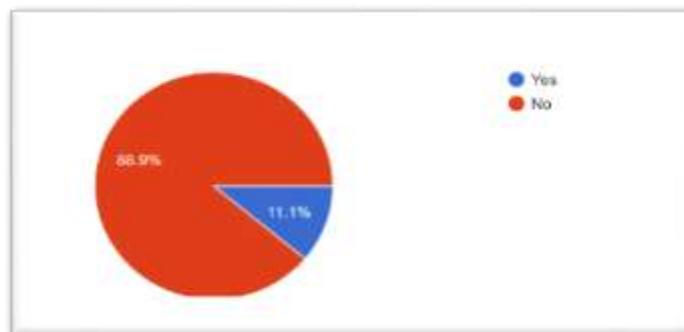


Fig no. 5

Source: Primary Data

Majority i.e. 88.9 % of business owners, agreed that they didn't receive any financial assistance from the government to cope up with the critical situation. only 11 % responded positively.

- **Time to revive:**

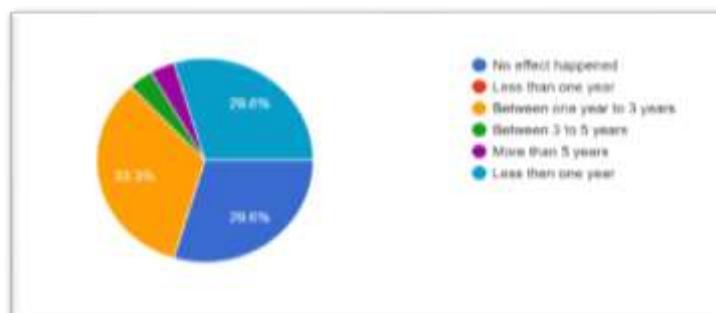


Fig no. 6

Source: Primary Data

33.3 % of respondents believed that for complete revival of their business it may take a time of one year to three years.

• Financial problems:

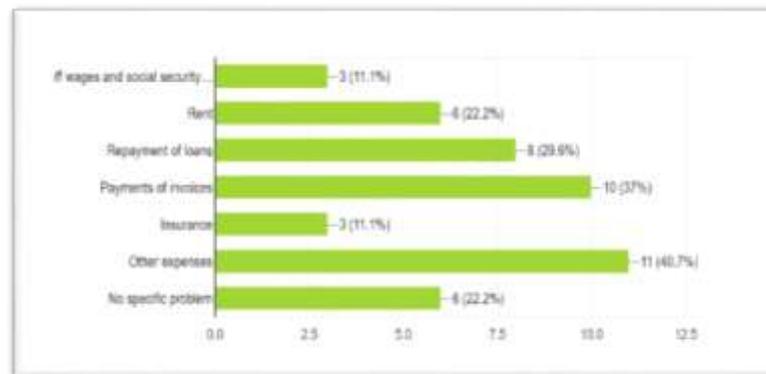


Fig. no. 7

Source: Primary Data

Various financial problems faced by small business owners during the pandemic were payment of rent, salaries, repayment of loans etc.

Findings:

- Most of the small business owners have suffered during Covid-19 drastically. They were unable to pay salaries and even they didn't have any savings. Their savings were not enough to pay the salaries to the workers.
- Turnover was less, raw material was not available, demand and supply was less except a few industries. The salaries were reduced and people lost their jobs.
- The expected time for recovery of people took between 1 to 3 years. Total avenues were increased by only 10 percent in one year. Companies which
- have an online presence grew more than 10% in Covid-19 unlike the tourism, restaurants, manufacturing or wholesale industry.
- The varied problem faced includes, difficulty in shipping the goods, scarcity of labour supply and availability of raw materials.
- The most significant financial problem for any business during the outbreak is the repayment of loans.
- According to our survey, businesses did not receive a Coronavirus-related loan or grant for re-hiring or maintaining employees on the payroll.

Conclusion:

Small businesses have suffered loss more during Covid-19 except the ones that operated digitally. Employees in small business lost their job and they were not paid salaries also. Recovery time after pandemic was more than year. Some businesses were left with only option to close their business operations. People's mental status was affected. It also looked at the extent to which businesses made adjustments or changes to their business activity in order to cope with the new challenges posed by the pandemic. The relationship between a business' rate of revenue from subcontracting work/export sales and its change in revenue/the extent of business activity changes or adjustments that the business had to make during the COVID-19 period has also changed. Innovative business operations which were necessary for business survival were implemented like digital payments, contact less delivery etc.

The study findings showed that the revenues of over half of the businesses were not harmed during the pandemic as compared to the same period the year before, and even 8% of the businesses actually saw a revenue increase during the pandemic. The explanations given for these findings focused on the sectors in which the businesses operated, for example communications, defence,



medical equipment, plastic components for special uses—sectors that were not adversely affected by the pandemic.

While the Government of India has come up with relief measures for Small and Medium Enterprises (SMEs) suffering the brunt of the pandemic, there's still a long way to go, for things to normalise. To scale businesses, SMEs need better market access and finance at their disposal. This is where getting a customisable business loan after COVID-19 can be helpful in expanding operations.

Future Research Scope:

Future study should also include a larger sample of businesses as well as small businesses in other industries, such as commercial, service and financial companies and small businesses in the periphery. The study can be extended further to assess the longitudinal impact of the

Covid-19 on Indian MSMEs. This would make it possible to determine whether differences exist between the various sectors, and whether geography has an impact. In addition, it would be interesting to compare the effects and consequences of the COVID-19 pandemic to other economic crises and recession events that have occurred in the past.

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