

**LESSONS LEARNED FROM COVID-19 PANDEMIC A CASE OF
MANAGING FINANCE OF SMALL AND MEDIUM ENTITIES****Pathirana, H.P.M.K.J.¹, Perera, D.A.M.²**

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ABSTRACT

Today the entire world is facing a significant impact due to the COVID-19 pandemic which greatly influences a country's economic, social and cultural progress. To be exact, the influence of this pandemic has greatly hit the economic development of developing countries that are on the edge of reaching development. Sri Lanka, also a developing country is facing a huge blow due to COVID-19 on various business sectors in the economy. Whether the organizations are large-scale or not, the impact remains the same. Hence the researcher concentrates on evaluating and analyzing the lessons learned from the COVID-19 pandemic by the small and medium enterprises in Sri Lanka. Here the author tries to identify how various SMEs have faced the pandemic situation, how they have managed their finance within the organization, and the impact created on the financial performance of SMEs as a result of the COVID-19 pandemic. The main idea behind conducting this research was to provide the other SME owners as well as the relevant authorities with taking necessary actions to improve the financial management of an organization during a pandemic situation in the country. To achieve the research objectives, qualitative research was conducted where five small and medium enterprises were interviewed and questioned on their personal experience regarding COVID-19. Interviews were conducted mainly through telephone calls, and the analysis of the research was conducted by applying personal experience narrative analysis. The analysis was conducted under six major factors and elaborated to provide the reader with a better understanding of the situation. The story of five different SME owners was evaluated and a summarized overview was provided regarding the SMEs. By conducting a detailed analysis, it was identified that certain SMEs experienced a positive impact on the financial performance during the COVID-19 pandemic, while some SMEs had a quite negative impact on the financial management within the organization. However, it was also identified that some organizations have a moderate impact on financial management. Therefore, it can be concluded that the financial management of SMEs depends on the organization itself during the pandemic.

Keywords: COVID-19, SMEs, Financial Management, Financial Performance, Qualitative Research

1. INTRODUCTION

Coronavirus ailment (COVID-19) is an irresistible illness brought about by a newfound virus. A great many people tainted with the COVID-19 infection will encounter mellow to direct respiratory disease and recoup without requiring exceptional treatment. More established individuals and those with basic clinical issues like cardiovascular sickness, diabetes, ceaseless respiratory ailment, and malignancy are bound to create genuine disease. The most ideal approach to forestall and hinder transmission is being all around educated about the COVID-19 infection, the illness it causes, and how it spreads. (World Health Organization,2020) The European Union (EU) offers clearer definitions, characterizing a small-sized enterprise as a company with fewer than 50 employees and a medium-sized enterprise as one with less than 250 employees. In addition to small and mid-size companies, there are micro-companies, which employ up to 10 employees. Small and mid-size enterprises (SMEs) are often considered to be the heartbeat of both emerging and developed economies. They are responsible for providing many jobs and contributing to 45% of domestic employment and 52% of Sri Lanka's gross domestic product (GDP), the role SMEs play in the Sri Lankan economy should not be underestimated. (The European Union,2020) Financial Management means planning, organizing, directing, and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to the financial resources of the enterprise. According to the Managing Finance of Short and Medium size enterprise, there are three elements. Namely, Investment decisions include investment in fixed assets (called capital budgeting). According to the Cowles Foundation status that small business owners had already been severely impacted by COVID-19related disruptions and had laid off many employees. In addition to that, according to the National Bureau of Economic Research, (2020) results suggest that the pandemic has already caused massive dislocation among small businesses. While businesses' beliefs about the duration of the crisis vary widely, the median business owner expects the dislocation to last well into mid-summer (Cowles Foundation,2020)

2. LITERATURE REVIEW

Definitions of Small and Medium Enterprises (SMEs)

SMEs have been described from various perspectives by different countries, authors, and institutions around the globe. Therefore, when going through various research articles and journals, many definitions can be found regarding SMEs. There is no universally accepted definition of SME. This study uses the current World Bank Group definition of a small business. It includes businesses with up to 100 employees. SMEs are defined differently in different nations depending on their level of development. The total number of employees, annual turnover, and total investment are some of the most widely utilized metrics. The SME policy framework in Sri Lanka identifies SMEs based on the number of employees and yearly turnover (Ministry of industry and commerce, 2015). In the manufacturing sector, medium-

scale organizations are defined as those with more than 50 employees but less than 300 and an annual turnover of Rs.251-750 million. Micro and small-scale organizations, on the other hand, are defined as those with 1 to 50 employees and an annual turnover of less than Rs.250 million (National Policy Framework, 2011). Several other countries across the world have their definitions of what constitutes a small business. For example, in Malaysia, SMEs are defined as enterprises with less than 200 full-time employees in the manufacturing sector and a sales turnover of less than RM 20 million or enterprises in the service and other sectors that employ fewer than 75 persons (Whah and Shiang, 2018). SMEs are defined as firms with a paid-up capital of less than Rs 25 million that employ up to 250 people, according to Pakistan's SME policy from 2007 (Khandker, 2014). In India, SMEs are defined as organizations with an investment in plant and machinery of less than Rs.10 crores, whereas medium companies have an investment in plant and machinery of less than Rs.50 crores, according to the Micro, Small and Medium Enterprise Act of 2006 (Ministry of micro, small and medium enterprises, 2020).

Financial Management of SMEs

According to Irena Jindrichovska (2013), in order to focus more attention on the important aspects of SMEs' financial management, he has developed three major concepts accordingly: Financial management has three main components; (1) the issue of cash flow management and liquidity management. The most valuable nonhuman asset of a firm is cash. (2) The issue of long-term asset acquisition guides the company's long-term strategy. 3) Financial considerations, capital structure and funding costs are the most pressing issue of liquidity management. If a company cannot plan a suitable policy to efficiently manage its working capital, it will never be successful in the long run. In general, bad financial management by owner-managers is the primary source of issues for SMEs. SMEs play an important socioeconomic role in developing and emerging economies. However, both emerging and developed countries have recently become increasingly worried about the degree of financial literacy of entrepreneurs. This is due to a combination of deteriorating governmental and private support networks and broad changes in the financial marketplace. Lacking the necessary knowledge or knowledge regarding financial decision-making, and these decisions may have far-reaching and unintended implications. As a result, financial literacy is now widely regarded as a critical component of economic and financial stability, as well as the growth and development of SMEs. Many promising small businesses have failed due to poor cash flow management (Raveendran, 2017).

Covid-19 on financial management of SMEs

In addition to that, according to the Sunday Ogbeide (2021), from cradle to tomb, finance is essential to human existence. It is necessary for the establishment, management, performance, growth and survival of a firm. It occupies a central position in business, government and human affairs. Any government's ability to

address the basic needs of its citizens depends heavily on its financial resources, which include, among other things, the provision of hospitals, schools, and roads, as well as societal development. It is an important aspect of everyone's life, whether workers, investors, entrepreneurs, homemakers, husbands, newlywed couples, job seekers, beggars on the street, or politicians such as governors, senators, presidents, and local government chairmen. Finance is crucial to an individual's or a nation's survival and the greater economy. Finance encompasses all commercial entities as well as human existence on the planet. In addition to that, the SARS-CoV-2 coronavirus, which causes COVID-19 disease, caused the most significant change in the world order in the last century, destabilizing the global economy and financial stock markets, as well as the global economy, social development, business, risk, financial management, and financial markets. COVID-19 has wreaked havoc on tourism, travel, hospitality, supply chains, consumption, production, operations, valuations, security, financial stress, and the costs of all goods, including fossil fuel and renewable energy sources. This Editorial introduces the “Risk and Financial Management of COVID-19 in Business, Economics, and Finance” special issue of the *Journal of Risk and Financial Management (JRFM)*. This special issue will feature cutting-edge, practical applications of mathematics. On the topic, probability and statistical techniques are discussed, as well as empirical applications. This article looks into significant topics such as tourism, global health security, risk management in business, and the social and medical sciences (Chang et al., 2020). In addition to that, according to Wilfred Mukora (2020), the coronavirus's rapid geographic spread, and hence the high infection rates of over 4 million illnesses in over 110 countries by May, generated alarm around the world and interrupted worldwide economic activity. Travellers cancelled flights, businesses requested employees to stay at home, and stock prices plummeted, bringing most businesses to a halt. According to Achim et al. (2021), the COVID-19 pandemic has wreaked havoc on people's lives worldwide. The financial crisis has been felt most severely in business and commerce. This study intends to evaluate the level of business performance in reaction to the COVID-19 pandemic by analyzing numerous major changes in entities' activities. According to Randa and Atiku (2021), the general reduction in labour supply, supply chain disruptions, and unexpected loss of demand and revenue caused by the COVID-19 epidemic has had a detrimental impact on SMEs, forcing them to be unable to operate properly, resulting in cash issues. Financial systems that decrease information asymmetry, transaction costs, external financial restraints, market frictions, and structural obstacles that limit entrepreneurs and economic agents are likely to be important.

3. METHODOLOGY

The author has chosen to conduct the study using the qualitative method. According to a study of SMEs in Pakistan, a distinguishing feature of qualitative research from quantitative research is that it implies that there are multiple realities in the universe

for a single phenomenon, which each person distinguishes, clarifies, and acknowledges differently depending on his or her knowledge and expertise (Ahmad et al., 2021). In addition, the author might choose the research strategy after deciding on the research approach. As per Saunders, Lewis, and Thornhill, 2016 as cited by Kakar (2020), the term "research strategy" refers to "having a plan." The author's research strategy will determine whether the research study is quantitative or qualitative. According to Yin (2009), as quoted by Hashemiolya and Nourabi (2015), the data analysis technique in this study is Narrative Analysis. Within the qualitative research community, story analysis research is a popular tool for better understanding a person's or a group's experiences. Narratives have been used sparingly in Extension.

Extension practitioners have traditionally utilized narratives to communicate the value of Extension programs or, more recently, as part of a larger program evaluation effort (Cowger, 2021). In addition, the author has described the research questions as follows, *what is the importance of the financial performance of small and medium enterprises during the covid 19 pandemic in the Sri-Lanka?* According to the author, when ensuring social distancing and every other health and safety conditions, SMEs have to help and increase people's health because people can move to the nearest shop and buy goods and services which they want when SMEs perform well in the entire economy. *What are the lessons/percepts learned by Covid-19 for conducting the daily financial activities of small and medium enterprises?* Most of the time, they have to move to obtaining bank loans and borrowing from other parties who are willing to provide some funds to the entity. In addition, most of the time, entities have moved to keep fixed deposits to ensure safety and survival when another pandemic or disease directly affects the entities' management and control, like the Covid-19 pandemic. *What are the impacts of each lesson learned through Covid-19 on the financial management of small and medium enterprises?* When continuing the payments related to the employee expenses, entities have used their own fund to keep the employee's trust in the entity. In addition to that already have to keep the possible and required number of stocks in the warehouses of manufacturing firms by using the collected funds

4. FINDINGS AND DISCUSSION

The sample was obtained from random sampling, and the researcher added the personal experienced narrative analysis method. And addition to that, according to Labov and Waletzky (1997), an analytical framework for analyzing oral versions of personal experiences in English is presented. The material is based on tape-recorded narratives from two different social contexts. A face-to-face interview is one in which the narrator only speaks to the interviewer. Therefore, according to the author, this analysis is conducted using the Transcript made from already-taken oral interview records.

Table 1: A Summarized Overview of Analysis

Factors	SME 01	SME 02	SME 03	SME 04	SME 05
Abstract	Negative impact as a result of Covid-19	Positive and negative impact as a result of Covid-19	More towards the negative impact rather than the positive impact as a result of Covid-19	Negative impact as a result of Covid-19	Negative impact as a result of Covid-19
Orientation	Mostly affected by the inflationary situation during the pandemic period, which was one and a half years.	Mostly affect the inflationary situation and fluctuating trend of sales revenue in the case of a lockdown period	Mostly affect the uncertainty of the future of the business and the lack of growth of the business during the pandemic period	Mostly affected by the decreasing situation of sales during the pandemic period and which lasted for one-and-a-half year	Most of the time face a lack of generating revenues during the one and half years in the case of the Covid-19 Pandemic
Complicating action	There was a considerable impact on liquidity management during the pandemic. In addition, there were difficulties related to working capital management and inventory management.	There was a border impact on inventory management in the case of the main business was selling fast-moving items, and there was a difficult situation when paying for the creditors of the Business, especially recognising the many expenses which are not recognized previously	There was a situation related to the expense covering and generating cash inflows rather than the outflow	There were some difficulties when managing finance related to working capital management and especially faced the reduction of revenues in case of government limitations.	There was a struggle when managing their inventories and day-to-day expenses. In addition, some problems related to debt collection and creditor payment.

Resolution	Used the pre-collected money for the purpose of finance, used different alternative raw materials.	Exercised bank overdraft and Covid loans from financial institutions, online sales	Obtained loans from other parties; for example, a friend started the Online sales	Used the cheque payments and purchased sufficient food and beverages for one or two weeks.	Extend the credit period, reduce the credit period and deliver pressure to the customer, obtain the bank loan
Evaluation	There was a decreasing situation of profit, and drop-down situation of trust of the existing customer, and raised the raw material prices	Must have a keep fill in the stocks due to the travelling restrictions, there were big challenges the management of the health safety	There was a big struggle with the management of daily financial expenses	There should be the freedom from restrictions of travelling to generate income and should consider every people who come to the hotel to ensure the safety	There was a decrease in the desired profit and revenue, have to face difficulties when doing some construction on the premises. Chess the own selling vehicle as an alternative finance method
Conclusion	It's better to have an obtained bank loan, and have pre-created fixed deposits, and flexible quotation protectable from quotation which the customer agreed	Better to have a fixed deposit	Better to manage and evaluate the day-to-day financial status of the company	Better to have a proper inventory control system and estimation which specified to the pandemic	Better to have some pre-collected money

5. CONCLUSION

According to the study, researchers have found data from SMEs related to different industries. In addition, in a developing country, the stability of the small and medium entity's financial side is a major component of the economy. Therefore according to the study, there are so many effects on small and medium entities during this pandemic. In addition, there is a trouble that arises in the case of the shortage of financial management literacy of each and all business owners and managers. Therefore author recommends continuing the programs which enhance financial management literacy. In addition to that, when going through the study, findings can be used to understand SMEs' cash management, liquidity management, and inventory management. There are a few drawbacks to this study. Since the research study was conducted during the Covid-19 breakdown, the authors data collection process was very limited. Meanwhile, due to the prevailing scenario in the country, it was difficult to gain contact with the individual who, in pandemic conditions, interviews are performed on online platforms

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