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The impact of the COVID-19 pandemic on financial report MSMEs business practices: A phenomenological analysis

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ABSTRACT

This study delved into the repercussions of the COVID-19 pandemic on the Financial Statements and Business Practices of Micro, Small, and Medium Enterprises (MSMEs) in Palopo City. Utilizing a qualitative phenomenological approach within an interpretive paradigm, the study involved 3 business owners, 1 consumer, and 1 government representative as informants. Data collection methods included interviews, observation, and documentation. The interactive data analysis method, encompassing data reduction, presentation, conclusion, and verification, was employed. The findings indicated a profound impact of the COVID-19 pandemic on the financial reports and business practices of MSMEs. There was a substantial reduction in turnover across various MSME sectors, particularly affecting wholesale and retail traders, food and beverage, and tourism. According to LIPI's P2E data, micro food and beverage businesses experienced a 27% impact, small businesses at 1.77%, and medium-sized businesses at 0.07%. The study highlighted the pandemic's effects on MSMEs, including decreased sales, income reduction, employee cuts, weakened purchasing power, and increased expenditures.

Keywords: COVID-19 pandemic, business practices, and Micro, Small, and Medium Enterprises (MSMEs)

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INTRODUCTION

At the end of 2019, precisely in December, the world was shocked by an incident that was suspected to be a case of pneumonia of unknown etiology, the case originating from Wuhan City, China (Nair et al., 2021). China identified the pneumonia on January 7, 2020, as a new type of coronavirus. The statement "urgent notice on the treatment of pneumonia of unknown cause" has been issued by the Wuhan Municipal Health Committee (Yamali & Putri, 2020). This virus can spread to humans and animals, usually attacking the respiratory tract in humans

with early flu symptoms and can cause severe acute respiratory syndrome (SARS). This disease is spread through respiratory droplets from coughing or sneezing (Ladimo & Irwan, 2020).

This virus has shown a very significant rapid spread, causing many deaths in China and other countries (Fuadi and Irdalisa, 2020). Therefore, on January 30, 2020, WHO designated this coronavirus as a "public health emergency". Until March 11, 2020, the number of cases continued to increase rapidly every day, and WHO declared that the current outbreak was a global pandemic (Dong et al., 2020). The spread and increase in the number of COVID-19 cases occurred very quickly and has spread between countries, including Indonesia. As of August 2020, a total of 17,660,523 confirmed cases were reported with 680,894 deaths, where cases were reported in 216 countries (WHO, 2020). Meanwhile, in Indonesia, there were 165,887 confirmed cases with 7,169 deaths in 34 provinces (RI Ministry of Health, 2020).

The Indonesian government has taken various policies to respond to the COVID-19 pandemic. One of the policies is that starting in March 2020, social distancing and physical distancing have been implemented by Indonesian society (Hadiwardoyo, 2020). After the policy came into effect, what happened was that due to a lack of public awareness in handling these cases, the public was unable to comply with it properly, so the policy was deemed invalid. Even though this policy has been in effect since March 2020, it turns out that there are still many offices and even malls operating involving many people. Apart from that, people are still not worried about doing outdoor activities (Restikadewi, 2021). The implementation of the PSBB policy prohibits offices and most industries from running businesses for a relatively long period (Mahadiansar et al., 2020). The impact of this policy can cause economic losses and the supply chain will also be affected, including disrupting the production of goods and services (Misno, 2020).

COVID-19 is a group of viruses capable of infecting the human respiratory system (Gandhi et al., 2022). Initially, it primarily caused mild respiratory tract infections, but it can also lead to severe respiratory tract issues, including lung infections. Typical initial symptoms resemble those of the flu, such as fever, runny nose, dry cough, sore throat, and headache. This coronavirus has been described as a formidable foe, causing significant societal alarm (Sparke and Williams, 2023). As COVID-19 cases surged in Indonesia, the government declared the pandemic a national disaster on March 1, 2020, distinguishing it from a natural disaster (Caraka, 2020). Following this declaration, the government urged self-isolation and advised minimizing gatherings and activities outside the home.

Apart from that, schools and several universities implement online teaching systems or what is usually called online during COVID-19 (Saputra et al., 2021). Some companies also force their workers to work from home, which is called Work from Home (WFH). All these preventive measures make the Indonesian economy and the world economy move negatively (Suhariadi, 2023). The COVID-19 pandemic spread in Indonesia around February-March 2020, which was the time when many companies in Indonesia published their 2019 audited financial reports. The COVID-19 pandemic can have a significant impact on financial reports in 2020, especially in various aspects, such as a decrease in people's purchasing power due to inflation, a decrease in company income, changes in exchange rates in financial reports, and measurement of company reserves (Devi et al., 2020). Measuring employee benefits and company profits can be decreased due to the COVID-19 pandemic in 2020.

The COVID-19 pandemic has also affected most business practices or MSMEs in the city of Palopo, both internally and externally to the company. Below are several MSMEs that have had positive and negative impacts during this pandemic. There are several examples of MSMEs that have been negatively and positively impacted by this pandemic (Prayitno et al., 2022). These include Kios Oval, Adi Romeo (Flower Shop), and Gilang Printing are the MSMEs that were negatively impacted. These three shops are included in Micro Businesses and are classified as Livelihood Activities. Meanwhile, the Mama Dea fruit seller is an MSME that has been positively impacted and is included in the Micro Enterprises classified under Livelihood Activities. Livelihood Activities are MSMEs that are used as work opportunities to earn a living, which is more commonly called the informal sector. Apart from the Oval Kiosk, Adi Romeo, and Gilang Printers in the health sector, this pandemic also has an impact, for example, Tuo Pharmacy, which is an MSME, has been positively impacted, and is included in Small Business and is classified in Small Dynamic Enterprise, namely MSMEs that have an entrepreneurial spirit and able to accept subcontract and export work.

LITERATURE REVIEWS

Financial Reports

In the complex realm of Micro, Small, and Medium Enterprises (MSMEs), the significance of financial reporting emerges as paramount for their survival and advancement. Drawing from a rich tapestry of literature, various insights elucidate the multifaceted challenges, advancements, and crucial practices within this domain. Smith et al. (2019) highlight the persistent hurdles faced by MSMEs, such as resource constraints and accounting complexities, leading to reporting inaccuracies and delays. However, Jones and Smith (2020) and Liang et al., (2018) offer a beacon of hope by advocating for technological integration, which streamlines processes and enhances accuracy. Meanwhile, Pal et al., (2023) delve into the impact of regulatory frameworks, emphasizing

the importance of compliance and transparency. Vitolla et al., (2019) underscore the correlation between transparent reporting and investor confidence, showcasing its pivotal role in attracting funding and bolstering credibility. Smith and Johnson (2020) stress the significance of capacity-building initiatives to enhance reporting proficiency among MSMEs. Finally, Green et al. (2023) advocate for the integration of sustainability reporting, aligning with global trends and fostering responsible business practices. Ultimately, while challenges persist, embracing technology, navigating regulations, and prioritizing transparency alongside sustainability reporting can fortify the resilience and success of MSMEs in the ever-evolving landscape of financial reporting.

Covid-19 Pandemic

Plague, as defined in the Big Indonesian Dictionary (KBBI), denotes "an infectious disease that spreads quickly and occurs easily." Meanwhile, the World Health Organization (WHO) characterizes a pandemic as "a situation in which a specific disease, such as viral infections, rapidly spreads, affecting numerous individuals across multiple regions worldwide." The coronavirus, specifically severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), targets the respiratory system, leading to respiratory disorders, acute pneumonia, and, in severe cases, fatalities. According to the Indonesian Ministry of Health, COVID-19 belongs to a broad family of coronaviruses known to cause illnesses in both humans and animals. In humans, these infections range from mild respiratory issues, resembling the common cold, to severe ailments like Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). COVID-19, a novel coronavirus strain first identified during an outbreak in Wuhan, China, in 2019, has since evolved into a global health crisis, leading to the Coronavirus Disease-2019 (COVID-19) pandemic (Louis-Jean and Aime, 2020).

Business Practices

Business can be defined as a series of activities undertaken by individuals or groups to offer goods and services to generate profit (Ali, 2020). Alternatively, it can be seen as providing goods or services essential for the smooth functioning of the economic system. While financial capital is crucial for business operations, other factors such as reputation, expertise, knowledge, and social connections also play pivotal roles (Kusumawati et al., 2024). On the other hand, behavior encompasses the actions individuals take in their daily lives (Roy and Datta, 2022). Therefore, business involves the actions of individuals and groups aimed at creating value through the production of goods and services to fulfill societal needs and achieve profitability through transactions (Hitt et al., 2011).

METHODS

The researchers employed a qualitative phenomenological approach to elucidate the impact of the COVID-19 pandemic on financial reports and business practices in various MSMEs in Palopo City. Interviews and observations were conducted using a structured guide designed specifically to explore this impact. Subsequently, the gathered data underwent interpretive qualitative analysis. The study encompassed Toko A3, situated centrally, Toko At-Tahrir in Binturu, and the Panggangayya food stall on Jl. Ahmad Razak. Data collection spanned from June to September 2021 and involved multiple techniques, including interviews, observations, and documentation, to comprehensively capture pertinent information pertaining to the research subject.

RESULTS AND DISCUSSION

Before the coronavirus, all daily activities and activities were carried out outside the home, such as school, worship, sports, traveling, and work. But in this outbreak, everything must be done at home to reduce the spread of the coronavirus. Covid-19 not only causes high mortality but also causes the economy to decline. The sector most affected is MSMEs. There are many MSME sectors affected by the COVID-19 pandemic, especially in Palopo City. Researchers found that the impact of COVID-19 on MSMEs in Palopo City was a decrease in sales and income, a reduction in employees, a decrease in purchasing power an increase in expenses, and a reduction in employees.

Decline in Sales and Income

In this section, we will discuss the impact of the COVID-19 pandemic on MSMEs, namely the decline in sales due to the pandemic. Reveal statements regarding the decline in sales due to this pandemic by investigating the informants' experiences as MSME owners. Researchers started a search for one of the MSME owners, who was the informant in this research. The informant revealed how this pandemic affected his shop.

"The Covid-19 pandemic has had a big impact on my business, since there have been very few visitors to my shop, as a result, sales have been quiet, and sales have decreased."

From the results of the informant above, it can be concluded that there was a decline in sales for one of the business

owners, so his sales experienced a decline. However, the phenomenon that occurred did not dampen their existence in developing their business. According to one business owner who was an informant in this research:

"Many items were not sold, resulting in a decline in sales turnover"

It can be concluded that many MSMEs are experiencing a decline in income because their main income comes from the sale of goods and the decline in sales is due to increasingly expensive materials. According to him, this pandemic has caused a decrease in income and sales because consumers in the area rarely make purchases. Due to fewer sales and increasingly expensive materials, most MSEs do not sell online, which has resulted in a decline in income and sales of around 75%. Apart from that, there was a decrease in income and a decrease in sales due to restrictions and lockdowns. Because during the pandemic it is forbidden to create crowds and some areas have even been closed. Therefore, this all causes a decrease in income and sales. At the beginning of the pandemic, people experienced panic buying or in other words buying because of panic. They made large purchases to anticipate this pandemic.

Reduction of Employees

This section will discuss another impact of the COVID-19 pandemic, namely employee reductions (PHK) reduction of employees (layoffs) for the sake of balance in finances. According to a statement from an informant:

"Because of the lack of income, the shop is experiencing losses, we are reducing employees"

Termination of Employment Relations (PHK) is the termination of an employment relationship due to certain reasons which result in the end of the rights and obligations between the worker and the company or employer. This can occur due to resignation, dismissal by the company, or expiration of the contract. The statement above explains the meaning of wholesale, namely the sale of goods to retailers, industrial, commercial business users, or in other words the sale of goods to anyone other than ordinary consumers. The reduction in employees was carried out because they were aware of weak market demand, including because of the Large-Scale Social Restrictions (PSBB) policy. Due to weak market demand, many goods did not sell and even expired, while the PSBB resulted in fewer customers coming. Therefore, reducing employees is one way to maintain business, and the final decision is to reduce costs.

Decreasing Purchasing Power and Increasing Expenditures

The next finding in this research is a decrease in purchasing power and an increase in spending due to this pandemic. Purchasing power is the ability of consumers to buy many goods demanded in a certain market at a certain price level, at a certain income level, and in a certain period. From the definition above, there is an understanding that purchasing power is related to consumption levels, prices, and income. Consumers with low purchasing power or relatively small incomes will consume products at relatively cheap prices in relatively small quantities to meet their needs. According to one informant's statement:

"Since the pandemic, I have prioritized purchasing important items such as necessities and my income has decreased because of my work as a worker in a factory where working hours used to be 8 hours, now I have 4-5 hours left"

Furthermore, the informant also said about:

"Since COVID-19, schools have been closed and I have 3 people who are still at school. "And schools are also implementing online schools, therefore expenses are increasing."

This shows that since the pandemic the informant has only purchased necessities and reduced non-essential needs because during the pandemic the informant experienced a reduction in working hours which automatically affected his income. In the second statement, the informant said he experienced increased expenses due to online schooling. Online learning means learning that is carried out online, using learning applications or social networks. The statement above explains the increase in expenses due to online schools which require the informant to prepare another cellphone for his child as well as the additional expenses that must be incurred to buy quotas to support his child's online learning. With additional expenses, this increasingly makes informants limit their purchasing power. As previously explained, consumers with low purchasing power or relatively small incomes will consume products at relatively cheap prices in relatively small quantities to meet their needs.

CONCLUSIONS

The COVID-19 pandemic has profoundly impacted Micro, Small, and Medium Enterprises (MSMEs), triggering

a cascade of challenges across financial reporting and business practices. From plummeting sales and income to the necessity of employee reductions and increased expenses, MSMEs faced an uphill battle for survival amidst unprecedented market conditions. However, amidst these challenges, the pandemic catalyzed a paradigm shift, pushing MSMEs to embrace technology, transparency, and innovation to navigate the turbulent waters. By leveraging digital tools, enhancing reporting accuracy, and adapting to evolving consumer behaviors, MSMEs have the opportunity to emerge stronger and more resilient in a post-pandemic landscape.

In this journey towards resilience, capacity-building initiatives and a holistic approach to financial reporting play a pivotal role. By bridging the gap in financial reporting knowledge and integrating sustainability reporting into business practices, MSMEs can enhance investor confidence, foster transparency, and capitalize on emerging opportunities. While the road ahead may be fraught with uncertainty, the lessons learned from the pandemic underscore the resilience and adaptability of MSMEs, positioning them to thrive in a rapidly changing economic landscape.

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