

POST-COVID ECONOMIC RESILIENCE: EXPLORING THE ROLE OF INFLATION TARGETING AND SMALL-SCALE ENTERPRISES (SME) VULNERABILITY

Farrah Fadhilah binti Md Arif ¹
Nurulhamizah Izzati binti Zahurin ¹
Nor Raihana Asmar Mohd Noor^{2*}
Suraya Husin ³
Syed Azlan Aljaffree Syed Khadzil ⁴
Norhayati Yaacob ⁵

¹Faculty of Administrative Science & Policy Studies, Universiti Teknologi MARA (UiTM), Negeri Sembilan Campus, Malaysia

²Faculty of Administrative Science & Policy Studies, Universiti Teknologi MARA (UiTM), Kelantan Campus, Malaysia (E-mail: raihana6791@uitm.edu.my)

³Faculty of Business Management, Universiti Teknologi MARA Kelantan Branch, 18500 Machang, Kelantan, Malaysia (Email: surayahusin@uitm.edu.my)

⁴Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Pengkalan Chepa, 16100 Kota Bharu, Kelantan, Malaysia (E-mail: aljaffree.sk@umk.edu.my)

⁵ Faculty of Administrative Science & Policy Studies, Universiti Teknologi MARA (UiTM), Kelantan Campus, Malaysia

*Corresponding author: raihana6791@uitm.edu.my

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Abstract: *This study investigates the interplay between inflation targeting, economic stability, and the delayed recovery of micro and Small-Scale Enterprises (SMEs) in the context of a highly uncertain global financial environment, with a specific focus on the impact of the COVID-19 pandemic. The research surveyed SMEs in Malacca, Malaysia, using a stratified sampling technique. Findings reveal that SMEs were significantly affected by the pandemic, particularly in areas of financial capacity and human resource availability. Furthermore, a strong and positive correlation was found between limited access to financial sources, labor shortages, and delays in SME recovery. These micro-level disruptions are examined in relation to broader macroeconomic challenges, including inflation, volatility, and monetary policy responses. The study argues that while inflation targeting remains a vital tool for macroeconomic stability, its effectiveness in supporting SME recovery depends on complementary fiscal and structural measures that address ground-level economic vulnerabilities. The findings highlight the need for integrated policy frameworks that align inflation control with inclusive recovery strategies in post-crisis environments.*

Keywords: *COVID-19 Impact, SMEs Recovery, Financial Constraints, Human Resource Challenges*

Introduction

SMEs are one of the major contributors to Malaysia's economy. In addition, this sector provides and generates many employment opportunities, including the chance for micro and small-scale enterprises (SMEs) to develop and grow over time. SMEs play an important part in ensuring the growth of the economy. Hence, during the COVID-19 pandemic, the paralysis of the economy had a significant effect and posed a challenge for SMEs to survive.

Various studies have been conducted to measure the impact of the COVID-19 pandemic on SMEs from different countries and perspectives. Some studies are focused on how the government or policy has been responding to the impact on the SMEs specifically in Indonesia (Negara & Nugroho, 2020). Hence, this study intends to determine the effect of COVID-19 on micro and small-scale enterprises (SMEs) and why SMEs delay in recovery.

In 2020, the economy ran vigorously before it was disrupted by the outbreak of the COVID-19 pandemic. The outbreak of COVID-19 has continuously affected the Malaysian economy, particularly SMEs. In Malaysia, the tourism industry is one of the important income contributors that can bring up the national income. The spread of COVID-19 has caused unexpected travel restrictions and border closures, putting people's jobs at risk and also affecting businesses. On 18 March 2020, the government of Malaysia issued the first movement control order (MCO), which disrupted SMEs and put the future of the Malaysian economy in crisis. Besides, the previous Prime Minister also stated that COVID-19 affected small and medium enterprises, leading to job losses in the hospitality and transportation sectors. The COVID-19 pandemic's impact on micro and small-scale enterprises (SMEs) directly affects businesses, leading to a loss in profit and morale. The SME Corps. Estimated that 50,000 SMEs will close their operations due to this pandemic (Nazry & Mapjabil, 2021). In addition, SMEs are also facing cash flow and capital turnover problems, and if the pandemic lasts longer, their businesses may become bankrupt or run out of money. Due to the COVID-19 pandemic, the business's liabilities have increased mainly in rent, loan payments, employee salaries, and others.

From this, entrepreneurs and the government took various initiatives to ensure that SMEs continue to survive. The initiatives taken by the government include the introduction of the Prihatin SME package to assist micro, small, and medium enterprises with the allocation of RM147.1 billion (Bernama, 2021). The additional Prihatin SME Economic Stimulus Package 2020 (ESP3) valued at RM10 billion is to help in the wage subsidy program and for the special Prihatin Grant for all eligible SME and micro businesses. The given economic package provided SMEs with an opportunity to restart their businesses, even if it is not a complete recovery. Also, the borders were open, and people received a loose movement control order. Despite initiatives by the government having been implemented, it does not seem very easy for SMEs to conduct their operations. Hence, consider several questions: Has the lack of income sources affected the financial stability of the business? Secondly, are the initiatives taken by the government not sufficient in order to help all SMEs survive? Thirdly, does the lack of human labor during business operations affect the activities? Notably, this study focuses on the impact of the COVID-19 pandemic on the factors that adversely affect SMEs.

The specific objectives of the study are as follows:

- i. To identify how far the causes (financial sources, government initiative and human labor) can give impact to the delayed recovery of SMEs.

- ii. To investigate the leading causes between financial sources, government initiatives, and human labor that influence the delay in recovery.

Literature Review

Micro and Small-Scale Enterprises (SMEs)

The SMEs in the tourism industry experienced an extravagant market crash due to the decreasing number of tourists visiting Malaysia (Abhari et al., 2020). The declining number of tourists has affected the SMEs in huge losses because the tourists are their sources of income. The outbreak of the pandemic makes SMEs unable to predict how to handle the crisis and ensure their business operations can resume. According to Nazry and Mapjabil (2021), the issues that are faced by the SMEs are the financial problems that involve cash flow and capital turnover. The COVID-19 pandemic had caused them an increase in liability to operate its business capital for salaries, loan, rent, maintenance, and others (Nazry & Mapjabil, 2021). The lack of financial sources delays their business operations because the cost of operating is higher, profits are declining, yet they still have liabilities and monthly commitments. Furthermore, McCann, F. et al. (2021) stated that Irish SMEs will face financial distress because, in 2022, the end of government financial support will force them to borrow from external sources. As a business affected by COVID-19, they remain unstable and in the recovery process, and borrowing from external sources will increase their liability.

The Factor the Factor on The Delayed of COVID-19 Pandemic on Micro and Small-Scale Enterprises (SMEs)

Financial Sources

During the COVID-19 pandemic, there were many studies on the impact of COVID-19 on business growth, particularly regarding financial aspects. According to one of the studies by Suryani (2021) stated that in Indonesia, the impact of COVID-19 has slowed down the economics of South Kalimantan, Indonesia. They are experiencing the slowdown of the economy due to drop in export-import performance, unstable growth in investment, and the increasing of household consumption. From the research, the researchers have found that during COVID-19, a comparison of financial conditions before and after the outbreaks shows that SMEs experienced a significant loss in additional income, with a decrease of 50.4% (Suryani et al., 2021). Based on Abeyrathna and Chamara (2021), the SMEs businesses in Sri Lanka are contributing 52% of the gross domestic product (GDP). Due to the outbreaks of COVID-19 that badly affected Sri Lanka, the government had to impose lockdown, curfew, and travel restrictions that influenced the SMEs' business operation and the growth of small businesses. The income of the SMEs in Sri Lanka shows the decreasing amount by Rs. 106,957 million from 2019 to 2020 in May (Abeyrathna & Chamara, 2021). During the COVID-19 outbreaks, the income received by SMEs was low, and they often had to stop their businesses due to a decline in support and bankruptcy.

The SMEs take the opportunity to redesign the business operating initiatives to start their business again. Due to the current situation, all SMEs businesses need to recheck their aspects of business and ensure that they follow the new strategies to continue operating in future. The initiatives taken are formulated based on standard operating procedures (SOP) to assure the impact of COVID -19 is not of significance towards SMEs (Nazry & Mapjabil, 2021).

Government Initiatives

Government initiatives are among the strategies or actions taken to resolve or reduce issues faced by the public, including SMEs. Based on the study of Ahmad et al. (2020), the government of Malaysia has done the best they could by implementing PRIHATIN SME Economic Stimulus Package. The Malaysian government has pointed out some packages and discount for businesses in tourism industry which included 15% discount on monthly electricity bills, fund an addition to 40,000 workers and up to RM100 million on matching grant to Human Resource Development (HRDF), and employer are allowed to reschedule the Employee Provident Fund (EPF) (Abhari et al., 2020).

Compared to other countries, Suryani et al. (2021) stated that the Indonesian government has a difference in handling the issue and problems that arise depending on the capability and capacity of the government itself in handling the present crisis. In addition, the government of Sri Lanka has formulated policies, made funds, and prepared actions to make a recovery phase of the pandemic for the SME entities (Abeyrathna & Chamara, 2021). Every country has come out with their own initiatives on handling the post COVID-19 and recovering the economics of the country. The initiatives taken by the government are important in helping people primarily for SMEs to breathe again and operate their business as usual.

A study undertaken from Calabrese et al. (2022) shows their main finding was on government supported loan offers, one of the methods used by the SMEs in the United Kingdom on seeking financial assistance. The perspective from the United Kingdom shows that 90.5% are seeking help from the government initiative. The United Kingdom government has faced €70 billion of contingent liability (Calabrese et al., 2022). This shows that the United Kingdom contributed a lot in helping their SMEs to recover their business.

Human Labor

In the study of Nazry and Mapjabil (2021), the workers in SMEs sectors including restaurants and entertainment in the tourism industry had be laid off as at first when the announcement of the closure of all entertainment businesses that contribute public gathering such as the cinemas, karaoke, cafes, and bars due to stop the spreading of the COVID-19 until the following announcement of the controlled outbreaks. The laid off issues happened due to the struggling situation that arose when the closure of borders and businesses were ordered by the government. Not only that, the hotel and all related businesses in the tourism industry also need to survive their operation by cut wages and unpaid holiday, yet the method is not suitable with the smaller hotels and businesses (Abhari et al., 2020). The small and micro businesses will run out the cash reverse as they are having limited financial support.

The prediction of the loss of 50 million jobs worldwide has been done by the World Tourism and Travel Council (WTTC) to warn about the COVID-19 pandemic causes towards the global (Nazry & Mapjabil, 2021). The amount of the prediction shows the massive effect being caused by the pandemic outbreaks and this will take plenty of time to recover from the suffering of the loss. In Sri Lanka, the SMEs were unable to pay the wages of the workers and they were unable to go for work because of the implementation of the travel restrictions made by the government of Sri Lanka to curb the spreading of the COVID-19 (Abeyrathna & Chamara, 2021).

Independent Variables (IVs)

Dependent Variables (DV)

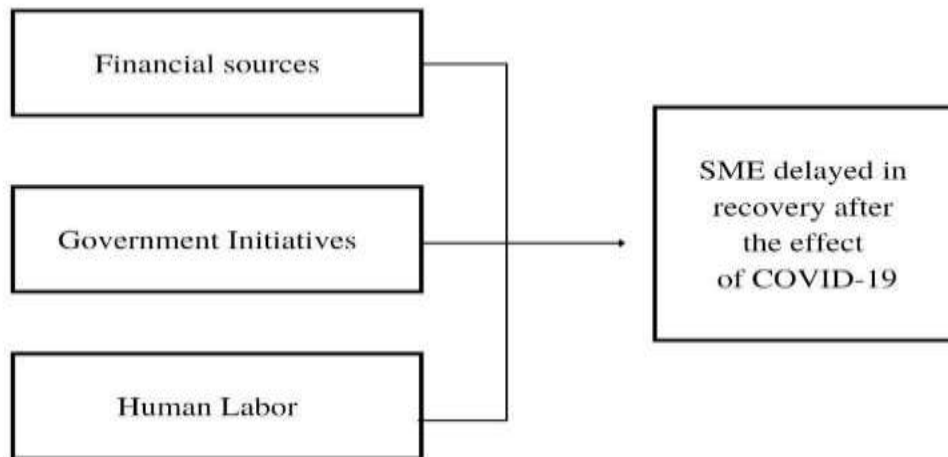


Figure 1: Conceptual model

Based on the literature review, the conceptual framework is developed. The conceptual framework proposes a direct relationship between the causes which are financial sources, government initiatives, and human labor and SME delayed in recovery after the effect of COVID-19.

Figure 1 presents the conceptual framework which states that SME delayed in recovery after the effect of COVID-19 has a connection with three independent variables which are financial sources, government initiatives, and human labor.

Research Methodology

In order to achieve the objective of this study, a cross-sectional design by using quantitative methods will be used in this study. Cross-sectional surveys will be used because the data collection will be collected at a particular time to answer all of the research objectives (Sekaran & Bougie, 2009). In this study, a quantitative research method will be used which will be collected from the primary data of questionnaires involving SMEs owners in Malacca. In this study, the total population of the SMEs in Malacca is 31,361 (Statistics, 2016). According to SME Bank Group, in their research on Malaysian States' Analysis 2020 GDP & SME Profile men

tioned that the numbers of SME based on these categories: Agriculture (452), Mining & Quarrying (17), Manufacturing (1,479), Construction (1,437), Services (27,976). Hence, the ideal sample size for this study is 380 respondents that come from SMEs. The researcher got the approval ethic letter to conduct this research which the reference number of letter is 600-FSPPP(PT.5/1/1). In this study, the data will be collected through the distribution of questionnaires. The distribution of questionnaires will be attached with a cover letter that stated about the objective and purpose of the study conducted, the set of questionnaires need to be completed by the respondent and to return the set of questionnaires to the researcher as soon as possible.

Demographics Profile

Table 1 summarizes the results of the questionnaire that was given out to the entrepreneur at Melaka. The researchers have distributed the questionnaires to 380 SMEs in Melaka and in return, the researcher received 380 responses. The response rate of the research study is 100 percent, and the researchers were able to do future analysis for this study.

Table 1: Demographic Profile

No	Profile	Frequency (n)	Percentage (%)
1	Age		
	18-30 years old	165	53.6
	31-45 years old	69	18.2
	46-60 years ols	72	19
	61 years old and above	74	19.5
2	Business operation		
	6 months and below	89	23.5
	1-5 years	116	30.6
	6 years and above	175	46.1
3	Number of employees		
	0-5 employees	170	44.8
	6-10 employees	129	33.9
	11-20 employees	50	13.2
	21 employees and above	31	8.2
4	Nature of business		
	Service	213	56.1
	Manufacturing	94	24.7
	Merchandising	73	19.2

Based on Table 1 above, according to the study, the majority of the respondents or SME owner's age are between 18 to 30 years old with (43.6%), which is then followed by those whose age 61 years and above with (19.5%). In addition, it is also followed by another two groups of age which are between 46 to 60 years old with (19%) and lastly (18.2%) of respondents are 31 to 45 years old.

At the same time, based on the table, most SME business operations in Malacca is about 6 years and above with (46.1%). While the second most is the operation between 1 to 5 years with (30.6%) which most of these businesses were starting during the crucial and critical situation since the presence of the pandemic Covid-19 in 2019 until today. While the least number of operations is between 6 months and below, which is only with (23.5%).

According to the study, most of the respondents which also known as the owner SME have the number of employees between 0 to 5 only with (44.8%) which has proven that most SME in Malacca does not use much workforce. Then, it is followed by 6 to 10 employees (33.9%) and also (13.2%) of respondents are having 11 to 20 employees (13.2%) in their SME. The smallest data from the study on the number of employees is 21 employees and above with only (8.2%). The majority of respondents (56.1%) conduct services as their business, such as running a stall or restaurant. Meanwhile the second largest nature business is manufacturing with (24.7%) and being followed by merchandising with (19.2%).

Table 2: Reliability Test

Variable	Cronbach's Alpha	No. of Items
Effects of COVID-19 to SMEs	0.735	4
Financial sources of SMEs	0.792	4
Government initiatives to SMEs	0.584	5
Human labor in SMEs	0.787	5

Based on Table 2, Reliability test is to identify whether the indicators that have been used in the research study were reliable or not. It is to see if the method can generate consistency in the results. It used the Cronbach's alpha coefficient. The alpha value for the dependent variable for the Effects of COVID-19 on SMEs is 0.735. The alpha value for independent variable financial sources of SMEs (0.792), Government initiatives to SMEs (0.584), and Human labor in SMEs (0.787). For the independent variables of financial sources and Human labor in SMEs, the researcher decided to withdraw the item related to question number three for each variable. It is to improve the reliability coefficient (L., 2018). As a result, it shows that the assumption regarding the reliability of the effects of COVID-19 on SMEs is acceptable.

Table 3: Normality Test

Variable	Mean	Std. Deviation	Skewness	Kurtosis
Financial sources of SMEs	4.4572	0.56647	-1.320	2.347
Government initiatives to SMEs	2.9563	0.60716	-0.242	1.501
Human labor in SMEs	3.7724	0.71947	-1.066	1.841
Effects of COVID-19 to SMEs	4.5579	0.64919	-1.859	3.451

Descriptive analysis being used to examine the variable to get the mean and standard deviation. Kurtosis and skewness measurements, according to Kline (2005), are utilized to determine if an indication fits the assumption of normality (Memon. M. A., 2020). Descriptive statistics used both kurtosis and skewness. Skewness should be between -3 and +3, while kurtosis should be between -10 and +10.

Based on the table above, the value of skewness for the financial sources of SMEs is -1.320 while the kurtosis is 2.347. Then, government initiatives to SMEs show the skewness value of -0.242 and the value of the kurtosis is 1.501. Meanwhile, the human labor in SMEs shows the reading of skewness of -1.066 and the reading of kurtosis is 1.841. Lastly, the effects of COVID-19 to SMEs show the value of skewness at -1.859 and the value of kurtosis is 3.451. All variables appear to score between -3.0 and +0.3 for skewness and -10.0 and +10.0 for kurtosis. As a result, the data distribution is described as usual.

Findings and Discussion

Table 4: The relationship between financial sources and effect of COVID-19 pandemic on micro and small-scale enterprises (SMEs)

Independent variable	Pearson Correlation (r)	Sig.
Financial sources	0.360	0.000

The initial findings of this study explore the extent to which financial sources can impact the delayed recovery of SMEs, particularly from the perspective of Malacca. The researcher used SPSS to identify the Pearson correlation and the significant value in the correlation test for this objective. It was found that the Pearson correlation value was 0.360 while for the significant

value was 0.000 ($r=0.360$, $p=0.000$). Therefore, the study shows that there is a significant and positive relationship between financial sources and the delay in SMEs' recovery.

This finding was supported by several other researchers, one of it is according to Adam et al. (2021), cash flow or in other words the financial of the business vital for the survival of SMEs. This is because, during the pandemic, SMEs need to have a proper plan on their cash flow management due to the risk from COVID-19. It is because, after the MCO implementation the operating costs are increasing, and they need to maintain their business in the wake of COVID-19 (Ahmad, 2020). From inefficient cash flow management, SMEs owners will have a critical situation in repaying loans, payment disbursements, paying suppliers, and employees (Adam. A., 2021). According to Tan (2020), the most significant and main challenge for Malaysia SMEs during this Covid-19 pandemic is a tight cash flow due to the implementation of MCO and economic downturn. The SMEs were expected to only survive for 3 months by using and utilizing whatever remains of their finance in order to pay for salary, rental, and some statutory expenses. Hence, the recovery activities for SMEs require cash flow and finance the most in ensuring that their business could recoup their operation and profit.

H1: There is a relationship between financial sources and effect of COVID-19 pandemic on micro and small-scale enterprises (SMEs)

Table 5: The relationship between government initiative and effect of COVID-19 pandemic on micro and small-scale enterprises (SMEs)

Independent variable	Pearson Correlation (r)	Sig.
Government initiative	0.029	0.575

The second findings in this study are regarding the relationship between government initiative and SMEs delayed in recovery. From the research findings, the Pearson correlation was 0.029 while the significance was 0.575 ($r=0.029$, $p=0.575$). Hence, there is no relationship between government initiative and the effect of COVID-19 pandemic on SMEs.

Many respondents stated that they have explored the numerous financial mechanisms made accessible, with 63% utilizing the governments' financial help programs. When asked if the financial measures were sufficient, the majority (46.7%) were doubtful, while 35.6% said they were not (Hanafiah. M. H., 2021). In summary, while government help to companies is widely received, it may be inadequate. Some people have expressed worry about the lack of transparency in these help programs. Furthermore, the majority of them expressed worry about the absence of industry-specific guidance on whether they should remain open or closed, as well as the difficulties in requesting for financial help. In addition, the government's economic stimulus program is one of the factors that enable this small firm to operate during and after MCO. Despite the fact that some respondents reported obtaining an extra loan from Amanah Ikhtiar Malaysia (AIM) due to insufficient funds that they receive from the government (Hamdan. N. H., 2021). From the research finding, it shows that the respondents agreed on the lack and insufficient of government effort and initiative towards SMEs.

H2: There is no relationship between government initiative and effect of COVID-19 pandemic on micro and small-scale enterprises (SMEs)

Table 6: The relationship between government initiative and effect of COVID-19 pandemic on micro and small-scale enterprises (SMEs)

Independent variable	Pearson Correlation (r)	Sig.
Human labor	0.497	0.000

The following findings in this study were how far human labor can give impact to the delayed in recovery SMEs especially in Malacca. Again, the researcher was using the SPSS while identified for Pearson correlation and significant value in correlation test. It was found that the Pearson correlation value was 0.497 while for the significant value was 0.000 ($r=0.497$, $p=0.000$). Hence, the study shows that there is a significant and positive relationship between financial sources and the delay of SMEs in recovery.

On a more human level, the pandemic has spawned a new economic model centered on unstable and small-scale occupations. This crisis has impacted enterprises at all levels of employment, causing the jobless rate to skyrocket. One approach business used to keep their operating expenses low was to downsize and outsource their production lines to other firms, especially when demand was low, or manufacturing costs were high. The production line unit is critical to the firm's success. The enterprises downsize for a variety of reasons, not only financial difficulties. They propose that corporations should reduce and outsource such business divisions to other enterprises in order to improve competitiveness and maintain operational expenses (Shwedeh, 2022).

H3: There is a relationship between human labor and effect of COVID-19 pandemic on micro and small-scale enterprises (SMEs)

Table 7: The relationship between financial sources, government initiative and human labor

Variable	Beta	Sig.	Tolerance	VIF
Financial Sources	0.267	0.000	0.937	1.068
Government Initiative	0.047	0.273	0.986	1.014
Human Labor	0.435	0.000	0.947	1.056
R ²	0.314			
Adjusted R ²	0.308			
F Change	57.294			
Sig.	0.000			

The last objective of this study is to investigate the leading causes between financial sources, government initiative and human labor that influence the delay in recovery. However, based on the results from the second objective using Pearson correlation, the last objective cannot be made. One of the factors which is government initiatives shows there is no significant and negative relationship between government initiative and effect of COVID-19 pandemic on micro and small-scale enterprises (SMEs). This is because the result shows Pearson Correlation value is 0.029 which is below 0.05 while the significant value is 0.575.

According to Tajudin et al. (2021), the SMEs did not receive the government initiative due to the location and nature of their organizational operations, not all enterprises obtained or are eligible to claim the government stimulus package. Furthermore, the delivery of the cash stimulus was frequently delayed owing to bureaucratic processes, prompting entrepreneurs and company owners to be hesitant to rely on the aid offered (Yi, 2020). Based on the finding it has

shown that the government initiative has no relationship with the delays in recovery of SMEs due to the result from Pearson Correlation which is below than 0.05. Furthermore, the result of Multiple Regression also shows that the value of beta for government initiative is $\beta = 0.047$. It verifies that the government initiative is least important among the other two independent variables.

Hence, the leading causes that influence the most delay of the recovery is human labor with beta value $\beta = 0.435$ which is the highest value compared to other two independent variables. Many enterprises were forced to reduce their workforce by half. With the commercial interruption caused by branch closures, the employment had to be reduced by 20-50% (Al-Fadly, 2020). The workforce decrease was required to remedy the problem. Only important employees were maintained. Because of the cash revenue shortage, wages had to be reduced. Some employees planned to resign since there was no work and compensation reductions were not an option.

Conclusion

In conclusion, from the research the SMEs were affected with the pandemic COVID-19 which majority of respondents agreed with the impact they received in terms of finance and human resources. Second, the majority of the respondents agreed there is a significant and positive relationship between the financial sources and human labor with the delay in SMEs recovery. From the findings, it shows that the government initiative is less effective or unrelated with the recovery process of SMEs. This result may be happening due to many factors and reasons which one of them is because of ineffective program communication. In Malaysia, the government has implemented several stimulus programs as the government's effort on helping and giving aid to SMEs. As list here are the initiative program under PRIHATIN from government which are additional tax deduction equal to the rental discount will be given to landlords of private business premises who give rental discounts to SMEs, the enhancement of wage subsidy program to subsidize affected employers between RM600 and RM1,200 per month for each employee earning less than RM4,000 for a period of three (3) months, special Prihatin Grant of Rm3,00 for all eligible micro-SMEs, and other incentives.

The government should blast and publish their incentives or stimulus packages for SMEs through utilizing media platforms. For instance, the government needs to use social platforms such as Tiktok, Instagram, Facebook, and Twitter. This is because from the finding, the respondent was not aware of the existence of the stimulus package which resulted in these government initiatives not essential for their recovery. Besides, the government can take other ways to promote the stimulus package. For example, the government should make collaboration with artists or influencers to promote the stimulus package. For the research limitation and recommendation, The researchers had a year to complete the research with a limited number of respondents. The researchers only had a few months to get respondents to fill out the survey. The researcher has a limited time to go to Malacca to gain respondents from the SMEs itself as the researchers were students. The researcher also needs to follow the guidelines from the organization before conducting their survey which the guidelines give several weeks to fulfill the survey as required. As a result, the time needed for the response was delayed, but everything happened as expected. As a result, the following proposal is to enhance time management. Creating a comprehensive strategy helps to guarantee that the study is completed on time. It will also help the respondents because it would give them more time to complete the survey

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