

## **Humanistic Management as a Driver of MSME Well-Being and Resilience during COVID-19: Multiple Case Study Research**

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### **Abstract**

The Philippine economy is driven primarily by micro, small, and medium enterprises (MSMEs), which were devastated in the few years of the global pandemic. An exploratory inductive holistic multiple case study anchored on stakeholder theory and thematic analysis was used in order to understand the decisions and actions that entrepreneurs make during times of extraordinary crisis that is also an existential threat to the business. The results suggest that MSMEs that survived were those whose core values were rooted in the humanistic management paradigm that employees are ends in themselves, not merely instruments to mainstream business ends.

**Keywords:** COVID-19, MSMEs, Stakeholder theory, humanistic management

## **Introduction**

The novel coronavirus disease (COVID-19) has disrupted the world economy, business, and the way people live their lives globally. Developing economies took the brunt of the pandemic, which face major consequences relative to the global GDP (Georgieva & Kaag, 2020). According to the ILO (2020), global job losses were around 25 million, costing companies over \$3.4 trillion in wages. Moreover, developing economies were the worst hit because of their deeply embedded foreign exchange constraints. As a result, the effectiveness of economic stimulus may be diminished (UNCTAD, 2020). Southeast Asian countries who are struggling with healthcare, volatile debt ratios, and are trade and tourism dependent are forecast to enter their worst economic performance in 4 decades (World Bank, 2020).

The Philippine government responded swiftly by implementing varying degrees of community quarantines to prevent the spread of COVID-19. In addition, it used massive public spending to deploy critical response subsidy programs to support households and businesses. In March 2020, lockdowns were imposed, which started in the capital and expanded to perceived high risk provinces. The local economy suffered a sharp decrease in demand, both foreign and domestic, local production, trade, and consumer confidence also suffered, and funding complexities led to huge economic losses (ADB, 2020a; 2020c). The Philippines' COVID-19 Adjustment Measures Program (CAMP) provided affected workers a one-off financial reward if they are employed in businesses that are adopting flexible work or are under temporary closure, and cash transfers were given out to informal, displaced, and self-employed workers.

While the government provided support and relief quickly, it has to bear this cost by expanding the national budget. There is also greater pressure on the finance sector, as this creates a massive disruption in their balance sheets over time. It is uncertain as to when the pandemic will end. The government is prioritizing budget allocations on business sectors that are at risk of failure, particularly MSMEs, which are the foundation of the Philippine economy. MSMEs are most vulnerable to fortuitous events such as disasters, conflicts, and crises whether financial or otherwise. They play a critical role in the economy as they are primary source of job creation for the local workforce, especially in the areas beyond the cities. Moreover, they are key partners for

local corporations by providing services, support, and as suppliers (Senate Economic Planning Office, 2012).

According to research by the ADB (2020b), MSMEs accounted for 99 percent of all businesses in the Philippines and employed over 63 percent of the total labor force as of 2018. MSMEs contribute greatly to economic growth and can absorb most of the active workforce in the provinces. (Camposano, 2014; Roxas & Chadee, 2016). MSMEs are responsible for the creation of over 3.8 million jobs compared to the large corporations who have created 2.4 million jobs. Ironically, even though MSMEs are the primary drivers of the Philippine economy and employment, they are constrained by their inability to access financing from banks. In 2018, only 6.1 percent of total financing was allocated for MSMEs, which represents only 3.2 percent of the total GDP (Gonzales, 2018).

### **Research Problem and Objectives**

The COVID-19 pandemic has enabled the great reset against historical wrongs and ensured that organizations recognize the importance of the triple bottom line (people, society, and planet) (Pocock, 2020). This has created a shift in parametric organizational effectiveness, with businesses paying more attention to their employees. Considering human dignity, mental well-being, and employee involvement in management decision making for the common good is more relevant now more than ever.

The objective of this paper is to determine themes revolving around the application of humanistic management in MSMEs during the COVID-19 pandemic. Specifically, it explores the decision-making processes and factors that managers consider when their business is faced with existential risk. The most common solution at hand, seemingly, is to downsize their workforce as it is, for the most part, viewed as one of the highest expense items in the profit and loss statement. In addition, this paper aims to explore the outcomes of MSMEs who decided to cut their workforce and those who did not. Therefore, this paper strives to answer the following research questions:

1. How do businesses, governments and technology interact to improve the quality of life of employees and lead to business resilience?

2. How does the operationalization of protecting human dignity and employee well-being lead to business survival and resilience in times of crisis?

### **Literature Review**

A majority of traditional MSMEs in the Philippines are retail and wholesale entrepreneurs engaged in business to business (B2B), business to consumer (B2C), and business to government (B2G), manufacturing, and food services among others. Some local startups are engaged in technology services, outsourcing, other ICT service functions and financial services. The highest concentration of MSMEs is located in the National Capital Region (NCR) and central Luzon. Ironically, while MSMEs are the primary drivers of the Philippine economy and employment, they are constrained by their inability to access financing from banks. In 2018, only 6.1 percent of the total financing was allocated for MSMEs, which represents only 3.2 percent of total GDP (Gonzales, 2018). Consequently, the ongoing pandemic has aggravated the predicament of MSMEs in mobilizing capital, in order to endure until the global economy has completely adapted to the new normal. This suggests that the economic recovery of the Philippines will have to endure further into the future.

MSMEs are businesses that are the result of entrepreneurial interest and are commonly registered as single proprietorship, partnerships, limited partnerships, corporation, or a cooperative within a capital limit of around P100 million with less than 200 employees (Senate Economic Planning Office, 2012). The NCR has been the hub of MSMEs and entrepreneurs. It is home to the majority of the MSMEs in the country, including registered and unregistered enterprises, while Muslim Mindanao and the Cordillera region have the least.

The MSME Development Plan was created by the DTI in 2017 with the purpose of promoting and reinforcing entrepreneurship and to help them succeed, thereby contributing towards improving the economy as they are the primary generators of employment for millions of people. Therefore, DTI has been committed to creating an environment that supports local businesses as MSMEs to increase their productivity and create strategies that reduce the barriers to capital and creation of new markets. In addition, the government has enacted laws that support the DTI in creating more MSMEs (DTI, 2017).

### **Impact of COVID-19 on MSME Sales**

The Philippines, just like the other countries, is still adapting to the effects of the pandemic. According to a study by Shinozaki and Rao (2021), around 60 percent of micro businesses, 45 percent of small firms, and 36 percent of medium firms respectively were unable to generate any sales because of the temporary closure. MSMEs that continued operations, on the other hand, suffered a decrease in sales, which was expected. For instance, micro businesses lost 28 percent, small businesses lost 44 percent, and medium businesses lost 41 percent of their sales. Business sectors such as manufacturing, agriculture, and the service industry watched their sales reduced to zero as the lockdowns were imposed during the months of March and April 2020. On the other hand, retail trade, food, and goods saw a spike in sales as demand rose to astonishing levels when people were unable to leave their homes. Startups that have only been in business for less than 5 years suffered the most while MSMEs that were around longer than 5 years were unlikely to shut down immediately during the lockdown that started in March 2020.

### **Employment during the COVID-19 Pandemic**

Employment is one of the central issues surrounding the pandemic. A good number of MSMEs had to contend with this challenge depending on their circumstances. By and large, turnover is a function of the financial health of an enterprise. During the early months of the nationwide lockdowns, some 65 percent of micro, 51 percent of small, and 67 percent of medium sized businesses did not experience negative employee turnover. However, startups that were in operation for less than five years were downsizing in order to survive; 68 percent of micro enterprises, 60 percent of small, and 79 percent of medium sized businesses, respectively. The biggest losses were in the manufacturing and service industries, which amounted to 70 percent and 67 percent respectively. In the large companies, employee rotations and reclassification options were available, therefore, employee turnover was not as bad as in the MSMEs. The popular work from home (WFH) arrangement was unfortunately not an option for most MSME operations. Only 25 percent of medium sized firms, 20 percent of small firms, and finally 11 percent of microenterprises allowed employees to WFH. On the other hand, 41 percent of medium-sized companies reduced employee work hours, as did 35 percent of small, and 27 percent of microenterprises.

### **Financial Condition of Businesses during the COVID-19 Pandemic**

In every business, finance becomes the first concern whenever issues crop up. This is because the concept of sustainability is generally believed to be grounded on finance alone. MSMEs are extremely susceptible in times of crisis, as their balance sheets are not as strong as those of the larger organizations. Advantages such as access to capital markets and preferred interest rates are unavailable to the majority of MSMEs. Working capital is, perhaps, one of the best indicators of the long term survival of MSMEs. Hence, the pandemic has created a volatility that most MSMEs may not be able to recover from.

In 2021, 44 percent of micro, 23 percent of small, 4 percent of medium sized MSMEs were identified to have been unable to cover their working capital requirements. Moreover, 61 percent of medium, 53 percent of small, and 38 percent of micro MSMEs do not have enough cash to keep them afloat for a month, which leads to the fact that only 29 percent of medium, 19 percent of small, and 15 percent of micro MSMEs had enough cash to sustain operations for a month.. Further, sectoral comparison shows that 48 percent of manufacturing, 37 percent of service, and 35 percent of agriculture MSMEs would have to discontinue operations after a month, because of the lack of working capital. MSMEs in the country were at the risk of bankruptcy as they had no working capital to draw from (Shinozaki & Rao, 2021).

Disruptions in supply chains are the second most critical issue concerning MSMEs (61 percent of both small and medium engaged in manufacturing and agriculture). Declining domestic demand and grueling payment schedules are factors that exacerbated the issue. Startups too, stood very little chance in the face of the upheaval caused by the pandemic while some MSMEs, who have been in operations for over 15 - 30 years and over, were able to stave off impending closure, but not all did so. Those who did have some working capital used a combination of wage cuts to extend their operations. Most startups who had less than a year of working capital, however, were wiped out.

## **Theoretical Background**

### **Stakeholder Theory**

Stakeholder theory (ST) states that a firm exists to create value for all stakeholders of an organization, and not only for shareholders. Stakeholders are treated as ends in themselves, and not as a means to an end. Stakeholders are individuals or groups that affect or are affected by the accomplishment of an organization's purpose. Stakeholder management needs a clear understanding of stakeholders and their stakes in an organization. Great organizations develop strategies that align the interests of stakeholders in the same direction, and in doing so that there are no trade-offs (some degree of receiving negative value from a course of action undertaken) (Freeman & McVea, 2001). According to Parmar et al. (2010), profitable organizations accomplish a purpose and possess values other than profit maximization. Hence, firm success should not only be recognized through financial metrics, such as profitability measures and stock performance, but also through value creation for stakeholders.

Stakeholders play a vital role in an organization; they have economic, technological, managerial, and social effects which might sometimes lead to some degree of political outcome. Consequently, Freeman and McVea (2001) argue that it is important to understand and manage stakeholders. They also emphasize on creating sustainable stakeholder relationships, which ultimately create competitive advantage. For example, applying this principle to internal stakeholders allows the organization to improve its responsiveness to external forces, for example, a pandemic such as COVID-19. The authors also suggest that managers frame internal stakeholders as a channel through which the firm can reach external stakeholders.

### **Resource-Based View (RBV)**

Modern business scholars have integrated constructs of stakeholder theory in the RBV, such as in accounting in rent appropriation (Barney, 2018) and creating competitive advantage with the stakeholders as a fundamental resource (Harrison, Bosse, & Phillips, 2010). While these concepts were a groundbreaking novelty, the lack of converging integration between RBV, and stakeholder theory is also clear. Freeman, Dmytriiev, and Phillips (2021) support the convergence between these theoretical frameworks. While they are parallel, their paths diverge.

For instance, RBV according to Wernerfelt (1984), underscores profit maximization, and sustainable competitive advantage, according to Barney (2018). Both offer modern theories about strategy. Wernerfelt (1984) posits that the RBV explores competitive advantage that emerges from rare and valuable endowments of strategic assets.

### **Stakeholder Theory and RBV**

In an attempt to reconcile stakeholder theory and RBV, Coase (1937) mentions that a firm exists because of the combinations of resources and relationships that it possesses and that stakeholder relationships are held with utmost importance since they define its *raison d'être*. Freeman (1984) supports this by saying that apart from stakeholders being critical to a firm's success, it is simply the desirable course of action from an ethical standpoint. People are at the centre of these stakeholder relationships, hence, managing the deployment of resources to address the well-being of people creates these inimitable relationships. RBV then is the framework deployed to create sustainable stakeholder relationships. This new paradigm of RBV and stakeholder theory is robustly human in which people are the end and are not as means. Finally, people are largely responsible for bringing resources that create sustainable advantage (Barney, 1991).

### **Sustainability and RBV**

Freeman et al. (2021) suggest that stakeholder theory defines “sustainable” as a product of creating and maintaining sustainable stakeholder relationships, and is determined by the extent to which it considers the stakeholder communities and their interests (Litz, 1996). Therefore, from the perspective of stakeholder theory, sustainability is accomplished only if it is innately good and accounts for the well-being of the stakeholders involved. RBV and stakeholder theory differ far more than semantics. Sustained stakeholder relationships are, in fact, a source of competitive advantage. When viewed as a valuable resource, these relationships are developed through conscious nurturing and trust, and are extremely difficult or even impossible to imitate.

### **People as Resources**

McVea and Freeman (2005) argue that according to stakeholder theory, people are rarely called human resources or human capital because stakeholder theorists view people as stakeholders with names and faces. References to people as resources is not merely nomenclature and



semantics, these terms represent varying attitudes. While stakeholder theory does not discount the fact that firms require the presence of financial, technological, and technological resources, however, it underpins these resources with the people who enable them.

Evan and Freeman (1983) argue that the stakeholder theory is humanistic in its direction, in that firms should treat employees as ends in themselves and not the means. Therefore, stakeholder theory puts people at the centre of the narrative (Freeman et al., 2021). Stakeholder theory is not without its challenges, as the concepts of putting stakeholders first and making ethically sound managerial decisions are perceived to be at odds with economic profitability, according to the instrumental stakeholder theory (Parmar et al., 2010).

Parmar et al. (2010) suggest that firms should reconsider the accepted mainstream paradigm of capitalism. According to him, stakeholder theory can help us “understand and remedy three interconnected business problems—the problem of understanding how value is created and traded, the problem of connecting ethics and capitalism, and the problem of helping managers think about management such that the first two problems are addressed” (p. 404) and “ultimately suggest a revision of how we should think about capitalism” (p. 404).

However, studies on stakeholder management agree that when an organization takes the needs of its stakeholders into priority, organizational performance improves (Agle et al., 1999; Berman, Wicks, Kotha, & Jones, 1999; Choi & Wang, 2009; Ogden & Watson, 1999; Ruf, Muralidhar, Brown, Janney, & Paul, 2001). This confirms that organizations can achieve sustainable economic performance over time in conjunction with the ethical treatment of stakeholders. Hence, when firms genuinely take care of their employees, they in turn take care of customers, suppliers, and other stakeholders, leading to greater success for the organization (Weitzner & Deutsch, 2019).

## **Methodology**

### **Research Design**

The research design employed in this paper is an inductive, holistic, multiple case study that is adopted from the Yin (2018) case study model, which suggests that empirical data extracted from several organizations be analyzed with reference to the phenomenon being investigated. The study explores the impact of COVID-19 on MSMEs in the Philippines. The pandemic is, of course, on a global scale, however, this study is specific to only to the Philippine MSMEs.

### **Selection of Participants**

The unit of analysis will be the data extracted from the interviews with the managers of MSMEs. Participants were selected using purposive sampling as the objective of the case is centred on company-wide decision making. Hence, the top level management or more particularly, business owners were selected to acquire a unique perspective of the crisis. The parameters for selection were, firstly, the participant must be top level management or owner of the business and the participants must be able to make decisions that can affect current and future employees, such as hiring and dismissal. Five managers agreed to participate in the study. As such, the insights gathered are expected to be sufficient and within the limits of the study. Constraints such as their availability are also valuable. The participants were labeled manager A – E and company A – E to protect their privacy and that of their companies, especially during a crisis situation. The participants’ profiles are shown in the following figure.

**Figure 1:** Respondent profile

Interview Code	Position	Nature of Business
A	General Manager	Digital Marketing
B	CEO and Co-founder	Advertising
C	Owner	Retail
D	CEO	Agriculture
E	Managing Director	Renewable Energy

**Source:** Author’s own

### **Research Context and Organization Profiles**

Company A is an outsourced digital marketing and manpower startup with offices in California and a local office in Mandaluyong City. The Philippines is a leading outsourcing destination for

global labor cost arbitrage, and it offers a predominantly educated workforce. Statistically, 84 percent have graduated from college or are attending one (Santos, 2019). Filipinos are, by and large, English speakers with some degree of familiarity with US culture, and most of the current workforce are millennials (Ong & Cabañes, 2018; Soriano & Cabañes, 2020).

Company B is an advertising company whose core business is the fabrication of advertising collaterals. They also have stake in a chain of fitness centres, which is also one of their biggest customers. It is a three-year-old startup with around 50 employees and is headquartered in Makati City. The business model is traditional, in-house manufacturing and installation of advertising and marketing collaterals including signages, menu boards for fast food chains, standees for malls among other things. It is primarily business to business (B2B) and sometimes business to customer (B2C). Clients are big name international brands and publicly listed companies both onshore and offshore.

Company C is a micro enterprise whose core business is the distribution of small perishable goods on ecommerce platforms such as Lazada and Shopee. In addition, they have a couple of brick-and-mortar stores primarily located within their immediate area. Their business model is straightforward retail and direct sales.

Company D is a family business dealing in agricultural products (processed bananas), which are exported to China and Western Europe. It was started in 2000 and employs around 140 full time employees (FTE), and between 30 to 40 seasonal workers provided by an agency with operations in Mindanao. Company D also functions as a supplier of raw materials and cooking oil to other countries.

Company E is engaged in emerging technology such as renewable energy. Its main office is located in the NCR and employs 82 full-time employees (FTE) and 16 project-based contractors. Its B2B partners are the United Nations, Asian Development Bank, the Department of Education, other government agencies, higher education institutions, publicly listed companies, and some retail customers among others.

## **Data Collection**

Semi-structured interviews were the primary data collection method employed in this study. A free-flowing interview allows for the capture of rich data from participants in different situations and under peculiar circumstances (Creswell, 2012; Myers, 2013). Semi-structured interviews are often conducted using a predetermined questionnaire to guide the interviewer. During the process, particular questions or insights might raise new questions or expand upon particular topics or concepts. The interviews were recorded with the consent of the participants, and further notes taken during the process. Based on the constraints that the pandemic has engendered, these interviews were done via Zoom, Messenger Video, and phone calls.

### Qualitative Data Analysis

There are numerous methods of data processing, analysis, and interpretation of data for qualitative research (Creswell, 2014; Linneberg & Korsgaard, 2019). It is imperative to pay attention to the details of the empirical evidence extracted and to synthesize it using the data analysis techniques used for this research, regardless of which particular techniques and approaches will be used (Berryman, 2019; O'Connor & Gibson, 2003). This research will adopt the coding method from Saldaña (2015), which is a descriptive coding methodology.

**Figure 2:** Sample code

Data Extract	Codes	Category	Theme
<i>“I terminated the lease on our office and sold off the equipment that we can’t use for our work from home setup. It reduced our overhead which left us with cash that we can use for salaries.”</i>	Expense, Savings, Repurpose	Working Capital	Liquidity

**Source:** Author’s own

The coding process is concerned with the storage, coding, interpretation, and presentation of qualitative data (Charmaz, 2014; Linneberg & Korsgaard, 2019). Coding relies unambiguously on the data extracted, and considers the empirical facts, The next step is clustering, where the

codes begin to take shape leading to broader categories, and finally, themes that cover common concepts including the categories developed. Coding is therefore, the optimal method to make sense of the data, whether through tagging or marking sentences and clustering words that are similar in their meaning (Miles, Huberman, & Saldana, 2014). By writing, the codes over and over through transcription and repeated listening to the data, phrases become concepts that can be interpreted by the researcher (Creswell, 2014).

The researcher transcribed the interviews and completed the coding by parsing out phrases. The codes were then arranged in order of commonality creating categories. Further processing of these categories created themes that covered multiple categories created from the codes. These themes were synthesized into information that created an understanding of the phenomenon being explored and explained, that is, the effects of the COVID-19 pandemic on MSMEs operating in the Philippines.

The following sub-sections detail the salient themes emerging from the qualitative data. The results provided a perspective of the challenges that MSMEs in the Philippines have been contending with during the COVID-19 pandemic. The study produced a synthesis of the collective criteria from the data extracts leading to the themes that cover the experiences of the leaders within organizations and the management paradigms that they subscribe to, in order to navigate the pandemic. The researcher was able to answer the research questions posed by the case.

## **Themes Emerging from this Study**

### **1. Employment and Workforce Management during the COVID-19 Pandemic**

Employment is one of the central issues surrounding the pandemic. Several MSMEs had to contend with this challenge depending on their circumstances. Turnover is a function of the financial health of an enterprise. During the early months of the nationwide lockdowns, over half of the MSMEs did not experience negative employee turnover.

However, startups that were in operation in less than five years were downsizing to survive. The biggest losses were in the manufacturing and service industries. In large companies, job rotations and reclassification options were available, therefore employee turnover was not as bad as in the

MSMEs. The popular work from home (WFH) arrangement was unfortunately not an option for most MSME operations. On the other hand, some of them reduced employee work hours.

According to the stakeholder theory, people are the most valuable resource that MSMEs have access to, therefore workforce management suffered from a great degree of vulnerability during the COVID-19 pandemic. A respondent commented on work-from-home arrangements:

*Because of the nature of our business, we did not have a difficult time adapting to work from home. Our jobs are online, so its not too much of a problem. We just have to spend more for our employees to have a work from home setup.*

Another challenge was attrition. A respondent detailed their struggle with attrition and turnover:

*We have several jobs project-based employees or project-based staff so let them go immediately. During the second month of the lockdown, sorry, the first month of the lockdown, we must let them go, eventually moving on to the second and third month of the lockdown, we understood that there is a lot of news that there will be an extension of the lockdown, so we must decide, we had to slowly cut down the manpower size. So, prior to COVID we were 45 then now we are down to 23. We had to let go of 50 percent of our workforce.*

The pandemic has greatly affected the job vulnerability of employees. A respondent shared this challenging experience:

*I have to deal with court cases about the other businesses. This other one, I must fly over to Mindanao because the employees want to start a union. During the pandemic, can you believe it? We had to let them go and get an agency to fill the ones we lost.*

Another respondent also expressed their struggle:

*I'm talking to the family members, and they are thinking of closing down the plant if this union would be more trouble. It's also costing the company a lot of money for lawyers, I have other court cases to deal with from the other businesses.*

A common strategy of MSMEs is to reduce work hours to manage costs. An owner mentioned:

*We have to adapt, otherwise we will have to shut down the company. We decided that we will cut workdays and work hours so everyone will still have a job.*

## **2. Value Chain and Financial Position during the COVID-19 Pandemic**

In business, finance becomes one of the focal points whenever issues arise. Sustainability is generally believed to be grounded on profitability. In times of crisis, MSMEs are extremely susceptible, as their balance sheets are not as strong as that of the larger organizations. Advantages such as access to capital markets and preferred interest rates are unavailable to the majority of MSMEs. Working capital is probably one of the best indicators of MSMEs' long term survival. Hence, the pandemic has created a volatility that most MSMEs may not be able to recover from (Shinozaki & Rao, 2021).

Disruption in supply chains is considered to be the second most critical issue concerning MSMEs; declining domestic demand and stringent payment schedules were factors that exacerbated the issue. Startups stood little to no chance of survival in the face of the upheaval caused by the pandemic. While some MSMEs who have been in operation for over 15 - 30 years were able to stave off impending closure but not all did so. Those who did have some working capital used a combination of wage cuts to extend their operations. However, most startups who had less than a year of working capital were wiped out.

Another consideration (viewed through the lens of the stakeholder theory), that the participants identified as critical was their role in the value chain. Business activities are part of a mechanism of interconnected stakeholders that is interdependent on one another; a disruption within the value chain disrupts the entire system. In terms of supply chain disruption, a respondent mentioned:

*Our core clients are malls, restaurants, and fitness facilities. They were the worst hit during in the pandemic. They have no sales therefore we cannot collect so we are all tied up in the same mess.*

In terms of supplier relationships, a respondent mentioned:

*One strategy we did was we had to ask our suppliers more time, we must write to them, we had to send out commitment letters that we are going pay them. We did not provide any terms on when to pay. It is a commitment letter that states that we will pay, we will honor our obligations to them. We're just asking for extension.*

The primary theme underlying the sentiments of the participants was that of financial management. This refers to the extent to which a company must fulfill its cash requirements for the year. A participant shared their challenge on working capital and expenses:

*The main challenge is your cash flow is depleting and your cash reserves are almost gone. There is a big uncertainty on whether the business could continue because you are almost out of cash, and you cannot collect at this time because everyone is not working.*

Related to working capital, there is also a struggle with expenses:

*Even the internet, we have expensive internet in the office, our internet costs about PhP40,000 per month alone. I still have to worry about paying for the lease for our office because the landlord did not give us a discount or stop collecting rent when the lockdown started. Let's not forget salaries and Christmas bonuses.*

A participant expressed having to terminate fixed costs, such as leasing:

*I terminated the lease on our office and sold off the equipment that we can't use for our work from home setup. It reduced our overhead which left us with cash that we can use for salaries.*

Aside from cutting costs, the participants shared the need to find sources of revenue:

*I have to find other sources of income for the company. The pandemic has hit our clients hard, they can't pay for the services that we rendered.*

This is contextualized by the challenge of consumers also avoiding spending:

*It's hard to find clients right now during the pandemic. Everyone is holding on to their money and they don't want to spend.*



The financial struggles led to cash flow issues and leverage:

*The problem was very evident that there would be a cash flow problem so going on to the third, fourth, and fifth month, majority we can say that the problem was the lack of funds, the lack of emergency funds if you will or the cash reserve*

Another participant shared:

*I have to ask the bank for more money, I will talk to them and tell them to extend my loans.*

Some participants also struggled with collecting their receivables:

*If you want to get clients, specifically clients under the top 30 companies of the Philippines, they would have to wait because their aging for collection is really long, you would sign a contract for 30 days when in reality, you cannot collect in 30 days, in practice, 60 days to 90 days.*

This affects the cost of capital of MSMEs:

*We received a commitment from one of our big clients, they promised a specific date for payment. That would have no cost of money because that is money owed to us.*

### **3. Digital Divide**

Digital divide refers to the gap between those who have access to technology and its benefits versus those who do not. IT infrastructure has become increasingly vital during the COVID-19 pandemic because of the accelerated shift to a hybrid work environment. In terms of technological readiness, a respondent shared:

*So, if you could see the list of MSMEs 97-98 percent of the economy are MSMEs right? but if you see the allocation, you know that a lot of them don't even have a website. They're not even digital.*

Another participant mentioned:

*As for the government, if you look at the DTI website, what they're saying is unclear. It's not even user friendly. I saw it on social media because someone else shared it from an online news outlet. But that did not come directly from the government source.*

Internet stability and access was also a prime concern:

*Internet is really unstable, sometimes people get disconnected when we're having meetings or they will be late because they have no internet, sometimes they don't attend.*

Another respondent shared:

*We can't do work from home because of the nature of our business. Also, some of our employees live in areas where they don't have internet. Some have very slow connections because they have prepaid internet only.*

#### **4. Government Contribution**

The national and local governments are central players in the COVID-19 pandemic economy. They can alleviate or aggravate the effects of the pandemic in a country or the global supply chain, as shared by the respondents. One challenge is bureaucracy:

*There's so little information, it's not even clear. Even those we availed like CAMP and SBWS it's so bureaucratic. Too many processes, if it can be done in two steps it would probably take over five with the government to avail of that.*

Another respondent shared the difficulty of communicating with government officials:

*Government is difficult. I tried it before, it takes so long, they ask for so many requirements because of red tape. I did it with a simple maternity benefit for my employee. It took over a year! The child was already 1 year old before we got the money*

#### **5. Humanistic Management**

A management philosophy that puts people before profits and considers people as the end goal of the organization rather than profit, can be termed as humanistic. Upholding human dignity - the fundamental, intrinsic value of a person, quality of life, happiness and the well-being of employees are considered to be superordinate goals of organizations (Pirson, 2017).

Different themes were identified from this study, such as, stakeholders in a firm's value chain create a circular system enabled by IT, which connects actors on the value chain. From an operational standpoint, workforce management involves the disposition of resources towards empowering employees and people. These resources are controlled by financial management. The government is another stakeholder, which affects all actors in an organization. However, digital divide is a factor that has exacerbated the effects of the pandemic, because it has disabled the IT enabling necessary in a time of no-contact. These themes were found to have been responsible for business resilience in a time of crisis.

A surprising finding is how humanistic management principles helped founders and employees of MSMEs survive the pandemic and demonstrate resilience. A founder shared about dignity and well-being:

*I started this company with the promise that all my employees will have a house of their own.*

Another founder proudly narrated:

*Person X and I started this company under the stairs of our old house. These people have been with my company for more than 20 years. I won't let them go just because times are difficult. That's not how you treat people.*

Despite the pressure to manage their business in a traditional manner, the founders of the surviving MSMEs shared the importance of empathy, wherein the managers put themselves in the employees' situation and understand what they are going through. A manager shared:

*We are still hiring for the shipyard even more during the pandemic, people are looking for jobs and we still have projects that need to be finished.*

A veteran businessperson recalled overcoming past crises:

*During the Asian Financial crisis, everyone was closing shop, everyone was going bankrupt. We did not let go of anyone in the company. I'm proud of that. Sure, I took on more debt, but we saved a lot of employees.*

Another founder shared the importance of empathy:

*We did not let go of anyone, it's hard to find a job during the pandemic and nobody knows what's going to happen in the future.*

Employee empowerment was a key sentiment of the more resilient businesses, even during the pandemic. The founders and managers who respected their employees' problem-solving abilities helped them find solutions to survival problems. The autonomy and support from the management allowed employees to feel dignified, have a sense of independence and ownership, and exhibit accountability for their actions. A proud MSME owner shared:

*It's hard to find employees that care about the business. I don't want to let go of what we have because they really care for the business. They don't need to be told what to do, they just do it. If we have slow sales, they start messaging people on Facebook or texting their friends to stop by the shop.*

## **Conclusion**

MSMEs are the drivers of the Philippine economy because they constitute the majority of enterprises and employ over 60 percent of the local workforce. The findings reveal that in a developing nation such as the Philippines, startup MSMEs engaging in traditional business models have been hit the most during the COVID-19 pandemic. However, technology and outsourcing startups are not safe either; they too suffered the same as the traditional brick and mortar MSMEs. While outsourcing startups tend to have an advantage because of their adoption of remote work, this does not exclude them from the effects of other factors beyond their control. They were mostly non-resilient to global systemic shocks, some had offices that were underutilized, and some had to liquidate their inventory and sell off their assets for ready cash. Supplier relationships and logistics partnerships were also put to the test, but surprisingly,

agricultural raw material manufacturing did not suffer as much, primarily because demand was only marginally impacted.

The results suggest that startups less than 5 years old, with traditional business models suffered immensely during the pandemic. The Advertising startup reduced its workforce by over half, which contracted their overall capacity in conjunction with several other factors, such as, challenges in receivables collection and working capital deficit, which ultimately led to cessation of operations. The diversified manufacturing plant, which released the workforce of its factory in Mindanao, continues to be in a very difficult situation, the same as at the start of the pandemic.

The findings also suggest that the factors that greatly impacted MSMEs were financial management and working capital, as they did not have a deep reserve of cash, and were greatly reliant on receivables from customers. A circular economy was put to a halt because of COVID-19, and had massive consequences.

Suppliers are key players in a circular economy and disruptions in value chains can wreak havoc in multiple areas in a business. Workforce management was a contentious topic in the exploration of how MSMEs applied humanistic management. While two of the companies studied, decided to release a portion of their workforce, whereas the others did the opposite. These MSMEs found solutions by collaborating with employees, which ultimately allowed them to navigate the crisis with the organization intact. The digital divide is another factor that was discovered to be critical. The Philippines does not have a robust IT infrastructure that could support the transition of an entire nation online. Some MSMEs developed work from home (WFH) arrangements. The nature of their business also played a part in workforce attrition, as some jobs cannot be transitioned to WFH. Government bureaucracy has also deterred MSMEs from accessing the programmes meant to help MSMEs. The irony is that while their intention was to enable and support MSMEs, their bureaucracy accomplished the exact opposite, as most of them were unable to receive the aid that the programme offered. The bureaucracy, in fact, erected barriers to access. Managers' experiences with government processes was an important factor in their decision to avoid government aid altogether.

Finally, a surprising finding is that the MSMEs who decided to adhere to humanistic management principles and protect their employees rather than downsize to alleviate their

financial pressure were still in operation, while those who released most of their employees are still confronting the issues that arose from the pandemic. The RBV accounts for people as resources and in times of crisis, some resources could turn into liabilities. The most rational course of action would be to reduce or eliminate liabilities, and focus on core assets. People tend to be the first to go in times of crisis. Downsizing when the company is in jeopardy, becomes highly publicized. Markets see this as a positive sign that the company is reducing its payables and making the organization lean, but what escapes most managers is that the company was successful because of its people. In fact, the employees themselves would have found creative solutions to issues, great products, and effective processes, among other things.

The concept that people should be the end, and not a means to an end is demonstrated during times of crisis, as it did with these MSMEs. As a result, the application of humanistic management, treating people with dignity, showing empathy, and improving their well-being and quality of life proved to be a sustainable solution, because improving stakeholder welfare led to resilience (Pirson, 2019). The results suggest that the traditional paradigm of the RBV where people are merely viewed as resources that can be disposed of when profitability is threatened, is false given the context.

The belief that salaries and wages are expenses in an organization is disconnected; the pandemic has proven that when organizations face existential crises, people are the source of resilience. This shift towards the new normal in the wake of the pandemic, makes it necessary for firms to rethink mainstream management assumptions of what is truly rare and valuable.

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