

SMEs Resilience During the Covid-19 Pandemic: A Case Study in Indonesia

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ABSTRACT

The purpose of this study is to describe the resilience of MSME businesses in Indonesia during the COVID-19 pandemic. MSMEs are one of the affected industries by the COVID-19 pandemic. The existence of lockdown policies in several countries has suddenly stopped economic activity which resulted in a drop in demand and disruption of supply chains throughout the world, including in Indonesia. This study uses a qualitative method with a case study approach. The data collection technique used in this study is participatory observation using secondary data sources from research results, references and online news that are directly related to this research. The results show that the resilience of SMEs can be seen from the perspective of profitability and resilience in the perspective of competitiveness with two main key factors, namely resources (tangible and intangible resources) and strategy (the way companies compete). The resilience of the MSME business in Indonesia can be seen from the constraints experienced by MSMEs during the pandemic, such as declining sales, lowering selling prices to increase buyer interest, decreasing raw material availability due to limited distribution processes, doing layoffs, and being unable to pay credit installments. MSMEs that are able to survive during the Covid-19 period include MSMEs that are already connected to the digital ecosystem by utilizing the existing marketplace in Indonesia.

Keywords: SMES, Resilience, Covid-19, Digital Transformation.

1. INTRODUCTION

The year 2020 is a very tough year for the world because of the extraordinary events caused by the COVID-19 pandemic. The current Covid-19 pandemic is a global health threat with confirmed cases and a fairly high mortality rate [1]. On January 30, 2020, WHO declared the Covid-19 outbreak a public health emergency of international concern because it poses a high risk, especially for countries with vulnerable health care systems [2]. The risks posed by the Covid-19 pandemic do not only affect health aspects, but also affect various lines of life. Reference [3] stated that the evolution of the Corona Virus and its impact on the economy is very difficult to predict, making it difficult for the authorities to formulate economic policies in the face of the impact of the Covid-19 pandemic. MSMEs are one of those affected by the COVID-19 pandemic, even though based on many previous research results, MSMEs

have been proven to be able to survive various crisis shocks.

MSMEs play a major role in most economies, especially in developing countries. The contribution of MSMEs plays a role as a solution for the country's economic growth, in terms of job creation [4], offering innovative products or services and competitiveness [5]; [6] and increasing international trade economy through diversification [7]. MSMEs represent around 90% of businesses and more than 50% of jobs worldwide. Formal MSMEs contribute up to 40% of national income (GDP) in developing countries.

In Indonesia, MSMEs are one of the economic pillars that are considered to have the best resilience to the crisis. Since the monetary crisis in 1998 and 2008, MSMEs have been considered capable of surviving compared to large companies. However, in 2020, during the crisis caused by the Covid-19 Pandemic, it turned out that

MSMEs were one of the businesses that were most affected. The ability to survive, recover and bounce back when faced with threatening external events such as crises is an important issue for strategic management research, especially for micro, small and medium enterprises (MSMEs) [8]. The obstacle for MSMEs to survive during the Covid-19 period is because most MSMEs still run their business conventionally so that when there is a social distancing policy in order to reduce the number of spikes in the spread of Covid-19, conventional business activities will automatically stop. This study aims to get a picture of the resilience of the MSME business. The results of the study are expected to help MSMEs to survive in various conditions, especially in going through the COVID-19 pandemic and environmental changes in the future.

Several documents discuss the concept of Resilience in very broad terms and without reference to a specific object of analysis (e.g., critical assets/facilities, communities, or regions) [9]. As the set of definitions included here shows, there is clear disagreement about how Resilience should be defined. To be more specific, in describing the components or determinants of resilience, some of the definitions considered here focus on what happens "after an adverse event" (i.e., a natural or man-made adverse event), whereas others include one or more "before the adverse event." "adverse events", including resistance, protection, anticipation, and preparedness.

The notion of Resilience has been investigated from various perspectives and in the context of several disciplines including economics, psychology, ecology, environmental sustainability, engineering, etc. [10]. Business resilience is the ability of a business to cope with, adapt to and recover from stressful or traumatic experiences. It is considered important in various fields, and especially in entrepreneurship [11]. Refence [12] define resilience "not only as a concept about minimizing and managing the impact of disasters, but also about creating the agility needed to adapt to unexpected challenges and the ability to take advantage of adversity opportunities". Resilient organizations are those that are "capable of making and sustaining positive adjustments in challenging conditions" [13].

Reference [14] show that the antecedents of resilience identified in the existing literature from large enterprise studies are applied also to SMEs. Several factors that give rise to resilience in SMEs are identified and a two-stage conceptual model is developed that describes strategies and practices SMEs can register for first, laying the groundwork for renewal (top management championing innovation, strengthening internal knowledge networks, building external knowledge networks, transitioning to organic organizational structures , implementing a strategic planning process with an entrepreneurial focus) and second, to implement on an ongoing basis the

renewal strategy (embedded in the customer value chain, being aggressive in identifying new options and opportunities, externalizing some innovations).

Reference [15] conducted an empirical study of Swedish textile and clothing SMEs and identified several key proponents of resilience, divided into three major assets that firms generally need to support resilience: resourcefulness (material resources, financial resources, social resources, network resources, intangible resources), competitiveness (flexibility, resource redundancy, resilience, networking), and learning and culture (leadership and rapid, collective decision-making, and top management decision-making, employee welfare). Specifically, the main points are: availability of sources to fund investments and cash flow (availability of liquidity), current assets (relational network with clients, suppliers etc.), strategic and operational flexibility (ability and willingness to shift, quick decision making, internal communication fast and effective, capacity for rapid learning and ability to quickly adapt routines and strategies) [16]. Similarly, other frameworks were developed and studied empirically by collecting data from SMEs [17], highlighting the main supporting factors that determine not only the resilience, but also the competitiveness of SMEs. These key factors are grouped as internal (organizational behavior, managerial characteristics, quality), external (globalization) and supporting (use of technology, capital generation, location and marketing, supply chain integration).

The MSME resilience framework adopted in the study is a development of the framework [18]; [15] based on the Resources Based View (RBV) theory [19]. The MSME resilience framework is divided into 2, namely resilience in the perspective of profitability and resilience in the perspective of competitiveness with two main key factors, namely resources (tangible and intangible resources) and strategy (the way the company competes).

2. METHODS

This research uses a qualitative method with a case study approach, namely research that focuses on a particular case that is carefully observed and analyzed thoroughly. Research with a case study approach is carried out to obtain an in-depth understanding of the situation and meaning of something being studied [20]. The phenomenon that is the case in this study is the resilience of MSME businesses in Indonesia during the pandemic caused by COVID-19. The data sources used are secondary data sources from research results, references and online news that are directly related to this research.

3. RESULTS AND DISCUSSION

In 2020 the world was rocked by the corona virus outbreak which is spreading very fast. All over the world, including Indonesia. Covid-19 began to enter Indonesia in March 2020. Like other countries, the Indonesian government has set various policies in an effort to prevent the spread of this virus, including Large-Scale Social Restrictions (PSBB) and Adaptation of New Habits (IMR). The Covid-19 pandemic has had an impact on changes in the order of social life and a decline in economic performance. In Indonesia, the decline in economic performance due to COVID-19 has occurred since the 1st quarter of 2020 which is reflected in the economic growth rate of the first quarter which only reached 2.97%, and again decreased significantly in the second quarter of 2020 which grew -5.32% [20]. The economic impact caused by the COVID-19 pandemic has also been felt by the MSME sector. The Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) reports that in 2018, the number of MSMEs in Indonesia was around 64,194,057, with an absorption capacity of 116,978,631 the total workforce. This figure is equivalent to 99% of the total business units in Indonesia, with the percentage of labor absorption in the economic sector equivalent to 97%. While the remaining 3 percent is divided into the large industrial sector.

During the Covid-19 pandemic, the Ministry of Cooperative SMEs again conducted research in April 2020, with a sample of MSMEs recorded at the Ministry of Cooperative SMEs. It was reported that 56% of MSMEs claimed to have experienced a decline in sales turnover due to the Covid-19 pandemic, another 22% experienced difficulties in obtaining financing/credit, 15% experienced problems in the distribution of goods, and the remaining 4% reported difficulties in obtaining raw raw materials.

Bank Indonesia also reported that only 12.50% of MSMEs were able to survive without experiencing problems and 27.6% of them showed increased sales. The ability to survive, recover and bounce back when faced with threatening external events such as crises is an important issue for entrepreneurship research and strategic management, especially for micro, small and medium enterprises (MSMEs) [16]; [21]; [8]; [22]. The concept of resilience (resilience) was first introduced by an ecologist named Holling in 1973 [23]; [24]. Resilience indicates the ability of an ecosystem to respond to sudden environmental changes and immediately return to its original state. Although the concept of resilience was first developed in the field of ecology, currently the concept of resilience is used in various fields (multi-faceted and multi-dimensional concepts) [23]; [25] such as engineering [26], ecology [27], psychology [28], sociology [29], disaster management [30], and business administration [31]. Even resilience is more widely

applied in business as revealed by [25] based on research results using the Systematic Literature Review (SLR) method where out of 144 articles discussing resilience from various multidisciplinary sciences as many as 92 articles related to business research and management and the rest from other disciplines.

The concept of resilience has also been applied to MSMEs which are considered the backbone of the economy in many countries (Cowling et al., 2015). Although MSMEs are seen as very important as the main factor in driving the economy of a country and the global economy [32], studies on the resilience of MSMEs are still poorly studied. Although small and medium enterprises (SMEs) are defined as the backbone of the economy in many countries [33] these have been poorly studied from a resilience standpoint.

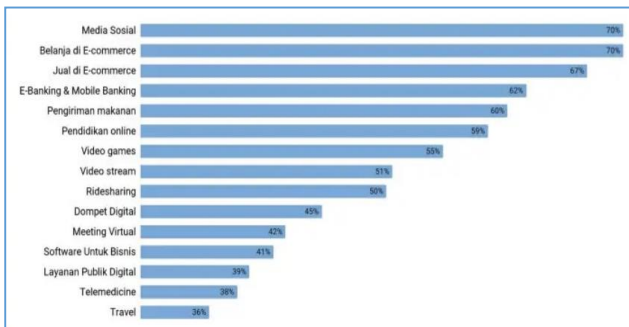
The changing business environment and managing change to adapt to an uncertain future are challenges faced by MSMEs to survive. Resilience will be the key to business sustainability [34]; [35]. One of the obstacles for MSMEs to survive during this Covid-19 period is because most MSMEs still run their business conventionally so that when there is a social distancing policy in order to reduce the number of spikes in the spread of Covid-19, conventional business activities will automatically stop. Innovation plays an important role in increasing the resilience of MSME businesses by enabling them to respond quickly to changes in the market and environment.

The resilience of the MSME business in Indonesia can be seen from Bank Indonesia, as many as 90.10% of MSMEs experienced a decline in sales, 47.40% of MSMEs lowered their selling prices to increase buyer interest, 59.60% of MSMEs acknowledged that the availability of raw materials had decreased due to the limited distribution process, 49.20 % of MSMEs did layoffs, and 86.20% of MSMEs were less able to pay installments. In addition, data released by the Kemenkop MSMEs shows that there are 949 MSME cooperative actors affected by the pandemic. Most (68%) of the problems faced by MSMEs are declining sales, 12% have problems with capital difficulties, 10% are hampered distribution problems and the rest are due to raw material difficulties and production delays [36].

Social restrictions result in conventional marketing methods being limited. MSMEs that are able to survive during the Covid-19 period include MSMEs that are already connected to the digital ecosystem by utilizing the existing marketplace in Indonesia. The digital transition for MSMEs in Indonesia is currently underway. The government established a program through the Ministry of Cooperatives and SMEs and the Ministry of Communication and Information (Kemkominfo) as well as e-commerce players who initiated a program titled 8 Million MSMEs Go Online. Currently, there are around 3.79 million micro, small and

medium enterprises (MSMEs) that have used online platforms to market their products. This number is around 8 percent of the total MSME actors in Indonesia, which is 59.2 million. It is estimated that Indonesia will experience the peak of the demographic bonus in 2030, so a new growth strategy is needed to involve the young population as the main actor, through strengthening the digital economy in Indonesia, especially strengthening small and medium enterprises (SMEs). Because digitalization in its truest sense is strengthening the resilience of MSMEs in facing today's crisis and anticipating various changes in the future.

Research from Sea Insights shows that the average income of Indonesian MSMEs adopting e-commerce increased by more than 160% and increased productivity by 110%. Based on Figure 1.5, it can be seen that the most widely used use of digital media by MSMEs is social media, shopping in e-commerce, video streaming, online training and selling in e-commerce.



Source: Sea Insight, accessed via [37]

Figure 1 Digital Transformation of SMEs in the Pandemic Period

Digital transformation will also continue to increase even after the COVID-19 pandemic ends. The Covid-19 pandemic will permanently change the use of digital media by MSMEs.

4. CONCLUSIONS

The COVID-19 pandemic has had a huge impact not only on the health aspect, but also on various lines of life. MSMEs are one of the worst-affected sectors. If you look at the contribution of MSMEs to the contribution of GDP, employment and the economy in Indonesia, it is very important to increase the resilience of MSME businesses in Indonesia. The MSME resilience framework can be seen from the perspective of profitability and resilience in the perspective of competitiveness with two main key factors, namely resources (tangible and intangible resources) and strategy (how companies can compete). The resilience of the MSME business in Indonesia can be seen from the constraints experienced by MSMEs during the pandemic, such as declining sales, lowering selling prices to increase buyer interest, decreasing raw material

availability due to limited distribution processes, doing layoffs, and being unable to pay credit installments. MSMEs that are able to survive during the Covid-19 period include MSMEs that are already connected to the digital ecosystem by utilizing the existing marketplace in Indonesia.

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