

Research Article

Impact of Digitalization for MSME Actors in the Era of Adapting New Habits

Paulus Israwan Setyoko^{1*}, Ranjani²¹Department of Public Administration, Faculty of Social and Political Science, Universitas Jenderal Soedirman Purwokerto, Indonesia²Department of Public Administration, Faculty of Social and Political Science, Universitas Wijayakusuma Purwokerto, Indonesia**ORCID**Paulus Israwan Setyoko: <https://orcid.org/0000-0003-4410-4234>Ranjani: <https://orcid.org/0000-0002-0591-1255>**Abstract.**

Impact is a secondary effect brought on by the adoption of a plan or strategy. The Indonesian economy has been significantly impacted by the COVID-19 outbreak. Moreover, MSMEs are among the most severely impacted economic sectors. One of the regencies with a sizable number of MSMEs is Purbalingga. People are being pushed to adjust to rather rapid digital advancements as a result of the COVID-19 epidemic. Therefore, the study aims to examine and describe in detail how digitalization has affected MSME actors in the age of forming new habits, particularly in the Purbalingga Regency. This study used a qualitative research design with procedures for collecting data from in-depth interviews, observations, and documentation. Purposive sampling was used to choose research participants, and interactive analysis was used to analyze the data. The findings of this study suggest that MSMEs in Purbalingga Regency have been more negatively impacted by the COVID-19 epidemic than other groups. For instance, there has been a sharp decline in MSME incomes and a rise in layoffs as a result of MSMEs' inability to pay for their personnel. The Purbalingga Regency government has implemented e-commerce, specifically through "Tuka Tuku Purbalingga," as one of its strategies for saving MSMEs. However, the MSME actors in Purbalingga Regency have faced new challenges as a result of digitalization. This is because some MSME actors in Purbalingga Regency continued to face technical gaps and restricted internet access.

Keywords: impact, digitalization, MSMEs

1. Introduction

The economic, social, and political spheres have all been significantly impacted by the COVID-19 pandemic, which has been endemic since 2019. Additionally, the COVID-19 pandemic has triggered recessions in a number of different nations around the world (1,2). According to forecasts from the World Bank and the International Monetary Fund, the global economy will experience a very sharp correction recession in 2020 (3). One of the nations most impacted by COVID-19 is Indonesia. The government has taken a

Corresponding Author: Paulus
Israwan Setyoko; email:
paulus.setyoko@unsoed.ac.id**Published** 6 March 2023Publishing services provided by
Knowledge E

© Paulus Israwan Setyoko et al. This article is distributed under the terms of the [Creative Commons Attribution License](#), which permits unrestricted use and redistribution provided that the original author and source are credited.

Selection and Peer-review under the responsibility of the IAPA 2022 Conference Committee.

 OPEN ACCESS

number of steps to contain the outbreak, including enacting PSBB's large-scale social restrictions and a stay-at-home policy. The policy's application turned out to have a detrimental effect on the MSME industry. 1,785 cooperatives and 163,713 Micro, Small and Medium Enterprises (MSMEs) were reportedly impacted by COVID-19, according to the Ministry of Cooperatives (4). The situation of MSMEs in Indonesia was in the fairly excellent category before the COVID-19 epidemic struck, but since then there has been a huge reversal, with 56% of MSMEs falling into the bad category and only 14.2% remaining in the category good (5). According to a survey done by the data.co.id team, which found that 82.9% of MSMEs were adversely impacted by the COVID-19 pandemic, the COVID-19 pandemic has had a significant impact on the Indonesian MSME business. While another 5.9% were positively affected and only 11.2% of MSMEs were not affected at all, this condition is described in more detail in the following pie chart:

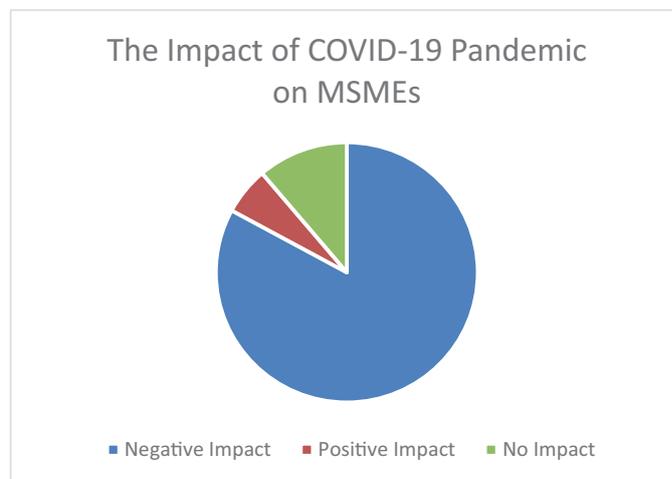


Figure 1: Results of the Survey on the Impact of the COVID-19 Pandemic on MSMEs. Source: katadata.co.id, 2022.

One of the regencies in Indonesia with a large number of MSMEs—up to 95,000 MSME units—is Purbalingga (6). MSMEs in Purbalingga Regency are able to employ a significant number of people, up to 300 000, or one-third of the region's total population. Through a variety of initiatives, including the "Tuka-Tuku" program and the formation of MSME associations with the goal of coordinating all MSMEs in Purbalingga Regency, the Purbalingga Regency Government is actively fostering MSME economic activity (6).

Accelerating the digitization of MSMEs is one of the government's resilience initiatives (5). The entrepreneurial model undergoes a full transformation as a result of digitalization, becoming more dependent on digital advances (7). In this age of forming new habits, MSME actors leverage digitization through the usage of numerous social media platforms and marketplaces to facilitate and increase access to business marketing (8).

The COVID-19 pandemic's effects are pushing the general public—including MSME actors—to be prepared to adapt to rapid changes in the digital world. In the era of adopting these new habits, the digitization of MSMEs in Purbalingga Regency resulted in a variety of conditions and repercussions. Therefore, the purpose of this study is to examine and describe in greater detail how digitalization has affected MSME actors in the age of forming new habits, particularly in Purbalingga Regency. Given the significance of MSMEs in supporting the local economy, particularly in this period of embracing new habits, it is necessary to do this research.

2. Theoretical framework

2.1. Digitalization

Digitalization has fundamentally reshaped business processes, products and services, and relationships between companies, greatly reducing the difficulty and cost of resource transfer (9). Digitalization is then interpreted as a product, process or business model that is considered new, thus demanding significant changes for its adopters, which is then realized by information technology. Digitalization by using various social media facilities and market places in this era of adapting to new habits is used as a means for MSME actors to facilitate and expand access to business marketing (8).

Digital transformation or digitization has been proven to be able to reduce MSMEs' concerns about their survival, both economically and the various social and environmental obligations that they must fulfill. However, even though digitization brings many positive benefits and various conveniences for MSMEs, in fact only a small number of MSMEs implement a digitalization system in their business activities (10,11). Along with the rapid developments in the times and technology in the last four decades, MSMEs have had to adapt themselves by implementing a digitalization system in their business activities.

The digitization of MSMEs has been widely studied by world researchers over the past two decades (12). Various previous studies have examined digitalization in terms of its supporting aspects (13), the resources and capabilities needed (14), the processes and modes of transformation (15) and the benefits that obtained from digital transformation (12). One of the important sectors related to the digital transformation experienced by MSMEs in this era of adapting to new habits is digital payments. When compared to other digital media, mobile use is more widely used by MSMEs, especially MSMEs in developing countries (16). The various results of these previous studies have not fully

reviewed in more depth matters relating to the weaknesses of digitalizing MSMEs in this era of adapting to new habits, so it is interesting to study in more depth regarding the digitalization of MSMEs in this era of adapting to new habits, especially with this digitalization. also raises the emergence of various impacts and conditions felt by MSME actors and the public as their consumers.

2.2. MSME

The issue of MSMEs has been extensively studied by previous researchers with a focus on studies covering production recovery, corporate social responsibility, and matters relating to participation or forms of community involvement in suppressing the threat of the global crisis for MSME actors (17,18,19). Other findings found by previous researchers state that the company's dynamic capabilities are the main factor determining the response to public crises (20,21,22).

MSMEs have an important role in maintaining stable levels of employment and income for many informal, vulnerable and disadvantaged groups (23). In addition, MSMEs also have an important role in introducing new technology, increasing the availability of jobs, and maintaining social balance. However, the limited resources owned by MSMEs have resulted in MSMEs being far more vulnerable to crises when compared to other companies (24), even though MSMEs are one of the key factors determining the success of sustainable development in developing countries. growing (25).

3. Methods

In the age of forming new habits, this study looks more closely at the issues relating to how digitalization has affected MSMEs in the Purbalingga Regency area. This study's research method is a qualitative one that mostly utilizes open-ended questions and varied data in the form of text and images using an innovative methodology (26). Purbalingga Regency serves as the study's geographic setting, and its research goals include the community of Purbalingga Regency as well as the head of the office of cooperatives and MSMEs there, as well as MSME assistance officers and owners there. The researcher employed the purposive sample strategy to choose informants. Utilizing an interactive analytical model from Miles et al. (27), data analysis in this study was done through the processes of data collection, data condensation, data presentation, data verification, and conclusion drawing.

4. Results and Discussion

COVID-19 has had a substantial impact on society as well as the business environment (28), harming not only human health but also the global economy, particularly Indonesia (29). Due to different policies put in place, including the Work From Home, Physical Distancing, and Large-Scale Social Restrictions (PSBB) laws, the rapid spread of the COVID-19 virus has led to a decrease in the domestic economy. MSME performers also felt the effects of the economic downturn, which ultimately led them to fire their staff members and even temporarily close their operations (30).

Governments in numerous nations have reacted to COVID-19's WHO declaration of a global health emergency with a variety of mitigating measures, particularly for the vulnerable sectors that were impacted, namely Micro, Small, and Medium-Sized Enterprises (MSMEs) (31, 32). Given that MSMEs account for 90% of its economic sector, Indonesia is one of the nations where the COVID-19 epidemic is having a significant negative impact. According to data from the Ministry of Cooperatives and MSMEs, the MSME sector has seen a fall in sales, financial limits, and a variety of distribution issues. A total of 16.1 percent of MSMEs decided to reduce the number of employees, while about 39.9 percent eventually lowered production (30). Another detrimental effect of the COVID-19 pandemic on MSME players is the severe drop in turnover that 63.9% of MSMEs in Indonesia suffered, which fell by up to 30%. MSMEs, on the other hand, only saw a 3.8% rise in turnover during the COVID-19 epidemic. The following is a graph of changes in MSME turnover in Indonesia after the COVID-19 pandemic:

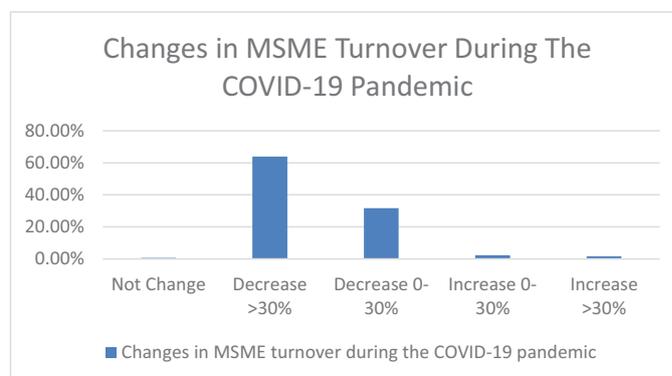


Figure 2: Changes in MSME Turnover During The COVID-19 Pandemic. Source: katadata.co.id, 2022.

The COVID-19 epidemic presents SMEs with both an opportunity and a challenge. This compels the government to modify its policies in light of the current circumstances. A number of researchers from around the world have conducted various studies about the impact of COVID-19 on MSMEs in affected countries in order to support the policy adaptation process. These studies were conducted by Bartik et al. (2020) and Fairlie

(2020) in the United States, Shafi, Liu, and Ren (2020) in Pakistan, Ferrando and Ganoulis (2020) in 12 European countries, and Shafi, Liu, and Ren (2020) in the United States.

Up to 95,000 MSME units can be found in Purbalingga Regency, one of the regencies with a significant number of MSMEs (6). The Purbalingga Regency Government responded to the effects of the COVID-19 epidemic on MSMEs in the region by making a number of development measures, such as persuading people to purchase MSME goods through the "Tuka-Tuku Purbalingga" campaign. In partnership with Buka, efforts are made to digitize MSMEs in the marketing industry. "Mawar" (Against Moneylender)" credit program was also run by the Purbalingga Regency Government.

This interest-free loan is intended to assist MSME capital. Another initiative made by the government of Purbalingga Regency is to create associations or associations of MSMEs, which are made up of 13 associations based on their respective business fields: Batik Association; Perwira Craft; Ecoprint Forum; Purbalingga Fashion Designers Association (Afdega); Purbalingga Coffee Room; Purbalingga Coffee Farmers Community (Kompak Proud); Purbalingga Screen Printing Artists (SSP); Urban Street Culture (USC); Accessories Craft The association's creation is anticipated to support MSMEs in their industries, enabling them to grow their enterprises by adjusting to the current digitization era. The MSME sector in Purbalingga Regency has been severely impacted by a number of COVID-19-related problems. Due to the different effects of the COVID-19 pandemic, MSMEs must get specific consideration when growing their economic activity. This is consistent with earlier research by Winarsih et al. (2021), who found that during the COVID-19 pandemic, it is important to pay attention to how the economic process is progressing.

In addition, as information technology advances, MSME actors face new challenges. As a result, MSMEs must hasten the digital era transition phase in order to survive, which will fundamentally alter the nature and character of the entrepreneurial model to be more based on digital developments (7). The ability and desire to adapt to the advances and demands of a very dynamic market have a significant impact on the success of a firm or businesses. As a result, in order to succeed, businesses must be willing to keep up with technological advancements (28).

One of the crucial elements that MSME players must possess as a provision in establishing their businesses is digital and technology skills. The study's findings show that the MSME actors in Purbalingga Regency have tried to combine offline and online procedures. The biggest challenges they still confront, though, are technological gaps and a lack of widespread internet access. On the basis of this, it can be said that the MSME actors in Purbalingga Regency are not yet fully prepared to convert to online

or digital methods. This is sometimes caused by the fact that small firms generally have less effective marketing strategies than do major corporations, especially when it comes to digital marketing strategies (35). Other empirical data demonstrates that MSME consumers in Purbalingga Regency are unable to use the internet to the same extent as SMEs.

5. Conclusion

It is clear from the analysis and discussion's findings that the COVID-19 pandemic in Indonesia has had a variety of effects and conditions on the economy, particularly MSMEs. One of the regencies with a high concentration of MSMEs is Purbalingga. Following up on the effects of the COVID-19 pandemic on MSMEs in Purbalingga Regency, several development initiatives were made, such as persuasive efforts to get consumers to purchase MSME goods through the "Tuka-Tuku Purbalingga" program. The "Mawar (Against Moneylender)" lending program, Buka, is working with MSMEs in the marketing industry to digitize them. The establishment of an association or association of SMEs is another action performed by the Purbalingga Regency government. After the COVID-19 pandemic breakout, MSMEs in Purbalingga Regency were forced to adapt to new behaviors, which necessitated the implementation of a digitalization mechanism in their company development. This is because some MSME actors in Purbalingga Regency continue to face technical gaps and restricted internet access.

The Purbalingga Regency Government should hold workshops on digital literacy for MSME actors and the Purbalingga Regency community, starting with the conclusions of the research results, the researcher practically advises. Additionally, the government should improve internet access for areas that are still restricted by the network. This study has locus restrictions, so it is desired that future research will be conducted using a larger locus or by contrasting two loci with distinct characteristics in the hopes of developing a digitizing MSMEs model that can be applied to the growth of MSMEs generally.

References

- [1] Ahmad T, Haroon MB, Hui J. Coronavirus disease 2019 (COVID-19) pandemic and economic impact. *Pak J Med Sci.* 2020;36(COVID-19-S4): S73.
- [2] Handayani L. <https://www.suamerdeka.com/news/opini/228739-perankeluarga-hadapi-pandemi-covid-19>. Dipetik 07 18, 2020, dari www.suamerdeka.com. 2020.

- [3] Liu W, Yue X-G, Tchounwou PB. Response to the COVID-19 epidemic: The Chinese experience and implications for other countries. *Int J Environ Res Public Health*. 2020;17(7):2304. <https://doi.org/10.3390/ijerph17072304>
- [4] Antara. Dampak Covid-19, 1.222 Pekerja di Banyumas Dirumahkan. Accessed on October 15 2022. 2020.
- [5] Katadata.co.id/umkm. Digitalisasi UMKM di Tengah Pandemi Covid-19. Accessed on September 17, 2022. 2022.
- [6] Republika.com. <https://republika.co.id/berita/q23ftt423/sektor-umkm-purbalingga-serap-300-ribu-tenagakerja#:~:text=REPUBLIKA.CO.ID%2C%20PURBALINGGA%20%20Sektor%20Usaha%20Mikro%20Kecil%20Menengah,jumlah%20unit%20UMM%20Purbalingga%20mencapai%2095%20ribu%20unit>. Accessed on Oktober 1 2022. 2022.
- [7] Nambisan S. Digital entrepreneurship: Toward a digital technology perspective of entrepreneurship. *Entrep Theory Pract*. 2017;41(6):1029-1055.
- [8] Purnomo F. Program Ladit (Lapak Digital): Optimalisasi Media Digital sebagai Wadah dalam Pengembangan Umkm di Madura. *Jurnal Studi Manajemen Dan Bisnis*. 2019;6(2):89-95.
- [9] Nambisan S, Wright M, Feldman, M. The digital transformation of innovation and entrepreneurship: Progress, challenges and key themes. *Res Policy*. 2019;48(8):1–9.
- [10] Liu C, Cheng J. Exploring driving forces of innovation in the MSEs: The case of the sustainable B & B tourism industry. 2018;1–19. <https://doi.org/10.3390/su10113983>
- [11] Tengeh RK, Talom FSG. Mobile money as a sustainable alternative for smes in less developed financial markets. *J Open Innov*. 2020;6(4):1–21. doi:10.3390/joitmc6040163.
- [12] Barann B, Hermann A, Cordes A-K, Chasin F, Becker J. Supporting digital transformation in small and medium-sized enterprises: A procedure model involving publicly funded support units. *Proc 52nd Hawaii Int Conf Syst Sci*. 2019;6(2):4977–4986. doi:10.24251/hicss.2019.598.
- [13] Martín-Gómez A, Aguayo-González F, Luque, A. A holonic framework for managing the sustainable supply chain in emerging economies with smart connected metabolism. *Resour Conserv Recycl*. 2019;141:219–232. doi:10.1016/j.
- [14] Li L, Su F, Zhang W, Mao JY. Digital transformation by SME entrepreneurs: A capability perspective. *Inf Syst J* 2018;28(6):1129–1157. doi:10.1111/isj.12153.
- [15] Bienhaus F, Haddud A. Procurement 4.0: Factors influencing the digitisation of procurement and supply chains. *Bus Process Manage J*. 2018;24(4):965–984. doi:10.1108/BPMJ-06-2017-0139.

- [16] Mohanty E, Mishra AJ. Understanding the gendered nature of developing country MSMEs' access, adoption and use of information and communication technologies for development (ICT4D). *Int J Gend Entrep.* 2020;12(3):273–295. doi:10.1108/IJGE-07-2019-0117.
- [17] Ballesteros L, Useem M, Wry T. Masters of disasters? An empirical analysis of how societies benefit from corporate disaster aid. *Acad Manage J.* 2017;60(5):1682–1708.
- [18] Kearins, K. Corporate social responsibility: The good, the bad and the ugly. *Society & Business Review.* 2017;34(2):51–79.
- [19] Neise T, Diez JR. Adapt, move or surrender? Manufacturing firms' routines and dynamic capabilities on flood risk reduction in coastal cities of Indonesia. *Int J Disaster Risk Reduct.* 2019;10(33):332–342.
- [20] Lin Y, Wu LY. Exploring the role of dynamic capabilities in firm performance under the resource-based view framework. *J Bus Res.* 2014;67(3):407–413.
- [21] Linnenluecke, MK. Resilience in business and management research: A review of influential publications and a research agenda. *Int J Manag Rev.* 2017;19(1):4–30.
- [22] Martinelli E, Tagliazucchi G, Marchi G. The resilient retail entrepreneur: Dynamic capabilities for facing natural disasters. *Int J Entrepreneurial Behav Res.* 2018;24(7):1222–1243.
- [23] Blankson C, Nukpezah JA. Market orientation and poverty reduction: A study of rural microentrepreneurs in Ghana. *Afr J Manage* 2019;5(4):332–357. doi:10.1080/23322373.2019.1676101.
- [24] Barron A, Hulten P, Hudson S. The financial crisis and the gathering of political intelligence: A cross-country comparison of SMEs in France, Sweden and the UK. *Int Small Bus J.* 2020;30(4):345–366.
- [25] Oppong M, Owiredu A, Churchill RQ. Micro and small scale enterprises development in Ghana. *Eur J Account Audit Finance Res.* 2014;2(6):84–97.
- [26] Creswell, John W. *Pendekatan Metode Penelitian Kualitatif, Kuantitatif dan Campuran* (Edisi Keempat dalam Bahasa Indonesia). Yogyakarta: Pustaka Pelajar. 2014.
- [27] Miles, Matther B, Huberman dan Saldana. *Qualitative data analysis: A methods book.* Thousands oaks, CA: Sage Publication; 1984.
- [28] Abilova, Arzu and Aliyeva, Basti. Impact of Covid-19 on digital transformation and resilience of small and medium enterprises: The case of Azerbaijan. *Wseas Transactions on Environment and Development.* 2022;18. E-ISSN: 2224-3496. DOI: 10.37394/232015.2022.18.78.
- [29] Baldwin R, Tomiura E. Thinking ahead about the trade impact of COVID-19. CEPR Press VoxEU.org. 2020.

- [30] Rosita, Rahmi. Pengaruh Pandemi Covid-19 Terhadap Umkm Di Indonesia. *Jurnal Lentera Bisnis*. 2020;9(2). DOI: 10.34127/jrlab.v9i2.380.
- [31] Asian Development Bank (ADB). ADB COVID-19 Policy Database. 2020a. Diakses pada 7 Oktober 2022. <https://covid19policy.adb.org/>
- [32] Felipe J, Fullwiler S. ADB COVID-19 policy database: A guide. *Asian Development Review*. 2020;37(2):1-20. https://doi.org/10.1162/adev_a_00147
- [33] Ballesteros L, Useem M, Wry T. Masters of disasters? An empirical analysis of how societies benefit from corporate disaster aid. *Acad Manage J*. 2017;60(5):1682–1708.
- [34] Winarsih Indriastuti, Maya, Fuad Khoerul. Impact of Covid-19 on digital transformation and sustainability in small and medium enterprises (SMEs): A conceptual framework. L. Barolli et al. (Eds.): *CISIS 2020, AISC 1194*. 2021; pp. 471–476. https://doi.org/10.1007/978-3-030-50454-0_48
- [35] Khan EA. An investigation of marketing capabilities of informal microenterprises: A study of street food vending in Thailand. *Int J Social Soc Policy*. 2020;37(3/4):186-202. <https://doiorg/10.1108/iJSSP-09-2015-0094>