

Conference Paper

A New Strategic Business Expectancy for MSME Sustainability: The Impact of Uncertainty During the COVID-19 Pandemic

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Abstract

The COVID-19 pandemic has led to a significant economic crisis. Production activities have stopped, people's purchasing power has decreased, and the fall in the stock market has led to uncertainty. MSMEs need to maintain business continuity during a pandemic to exist after the pandemic is over. The purpose of this research was to analyze the impact of COVID-19 on MSMEs and to suggest several strategies to maintain business continuity. Qualitative research methods and a thematic analysis approach were used to examine themes and patterns. Most interview participants said they had been strongly affected by this pandemic. Several entrepreneurs assessed how the emerging needs which related to the COVID-19 business crisis could affect their business and how to take appropriate action.

Keywords: Business Strategy, COVID-19 Impact, Indonesia Entrepreneurs, Small Business

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1. Introduction

COVID-19 pandemic adversely impacted the global economy. Most significant economies will lose at least 2.4 percent of the value of their Gross Domestic Product (GDP) over 2020 (WorldBank, 2020) leading economists to already reduce their 2020 forecasts of global economic growth down from around 3.0 percent to 2.4 percent. Indonesian economy suffered the national losses that can be miscalculated uses a Gross Domestic Product (GDP), which is the total accumulation of state production within one year (Maliszewska, Mattoo, & Van Der Mensbrugge, 2020). Indonesia's economic growth increased from 2.97 percent (yoy) in the 1st Quartal (Q1/2020) become

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5.32 percent (yoy) in the 2nd Quartal (Q2/2020); it is indicated that Indonesia's economic growth is experiencing an economic cycle deep downturn (Djalante et al., 2020). Domestic growth has declined across all GDP components from the expense side.

The impact of COVID-19 can be threatened as a significant economic crisis. It is indicated from production activities stop, people's purchasing power decreases, and the fall in the stock market led to uncertainty (Djalante et al., 2020). All economic sectors experienced a contraction in the second quarter in 2020 (BI, 2020) excluding agriculture, education, financial services, health services, information and communications, water supply, processing industry, wholesale and retail trade, and transportation warehousing. Multiple fields suffered a loss, but certain areas experience the benefits of being Large-scale Social Restrictions (in Bahasa called PSBB – *Pembatasan Sosial Berskala Besar*) and social distancing during this pandemic (Prameka, Sudarmiatin, Prabowo, & Wiraguna, 2020). Several fields that can potentially get a benefit from PSBB and social distancing regulation are health, cellular operators, internet provider, health insurance, delivery, and shipping services (Hadiwardoyo, 2020). However, several fields that suffer losses are affected in Indonesia, namely tourism, investment, and trade (Tambunnan, 2007). Like, the information and communications business posted higher growth in line with the greater uptake of digital and technology media in response to Work From Home (WFH) and School From Home (SFH) because of social distancing and PSBB regulation (BI, 2020).

Micro-Small Medium Enterprise (MSMEs) is the largest group number and has proven to withstand various economic crises (BI, 2020). However, at the moment of the COVID-19 pandemic was also affected MSMEs in the various business sector. Minister of Cooperatives and MSMEs stated that the results of the COVID-19 pandemic have a significant impact on the sustainability of MSMEs (RI, 2020) Around 47 percent of MSMEs have to roll out mat because of being affected by the COVID-19 pandemic. MSMEs are experiencing cash flow health problems, and the weakening of the demand side suppresses the sustainability of MSMEs. Based on a BPS survey, 96 percent of actors MSMEs experience the impact of COVID-19 on the business process and a 75 percent significant decrease in sales, performance, and consumption power. According to the Minister of Cooperatives and MSMEs explain that until the second quartile, the COVID-19 pandemic, around 56 percent of MSMEs experienced a declined sale, 22 percent experienced problems financing, 15 percent experienced internal problems distribution of goods, and 4 percent experienced difficulties in getting some raw materials. These problems require stakeholders to work together to maintain the sustainability of MSMEs

and structuring as well revitalization after the COVID-19 pandemic in the MSMEs sector to give commitment and trust of MSMEs (Hadi & Setyawati, 2020).

To reduce the negative impact on the MSMEs sector, the entrepreneur needs to precise and fast innovations to create new activities to ensure its business continuity (Reardon et al., 2019). By taking advantage of technological advances such as social media and online shops as alternative solutions due to the government's forced closure of businesses. MSMEs players are confronted with the problem of losing stalls caused by the enactment of the PSBB and WFH. Therefore, MSMEs need to maintain business continuity during a pandemic and exists after a pandemic COVID-19 is over. The purpose of this research to analyze the impact of COVID-19 on MSMEs and suggest several strategies undertaken by MSMEs to maintain business continuity.

2. Literature Review

Micro-Small and Medium Enterprise (MSMEs)

According to Indonesian Law (UU) No. 20 articles 1 of 2008 (Indonesia, 2008) MSMEs are defined into:

1. Micro Business: productive economic business owned individually and/or individuals business entity who meet the micro business's criteria as regulated in the Law (UU) No.20 article 1 of 2008.

The original Bahasa version: *"Usaha Mikro adalah usaha produktif milik orang perorangan dan/atau badan usaha perorangan yang memenuhi kriteria Usaha Mikro sebagaimana diatur dalam Undang Undang ini"*

2. Small Business: single established economic productive business organized by individual-small group or business entity, not a subsidiary or branch of the head company as a controlled or part either direct/indirect from the medium or large-sized business. Meet the criteria for small business enterprises as regulated in the Law (UU) No.20 article 1 of 2008.

The original Bahasa version: *"Usaha Kecil adalah usaha ekonomi produktif yang berdiri sendiri, yang dilakukan oleh borang perorangan atau badan usaha yang bukan merupakan anak perusahaan atau bukan cabang perusahaan yang dimiliki, dikuasai, atau menjadi bagian baik langsung maupun tidak langsung dari Usaha menengah atau Usaha Besar yang memenuhi kriteria Usaha Kecil sebagaimana dimaksud dalam Undang-Undang ini"*

3. Medium Enterprise: single established economic productive business, organized by a small group or business entity not subsidiary or branch of the head company as a controlled or part either direct/indirect from medium or large-sized business with the net worth amount or proceeds annual sales as regulated in the Law (UU) No.20 article 1 of 2008.

The original Bahasa version: *“Usaha Menengah adalah usaha ekonomi produktif yang berdiri sendiri, yang dilakukan oleh orang perorangan atau badan usaha yang bukan merupakan anak perusahaan atau cabang perusahaan yang dimiliki, dikuasai, atau menjadi bagian baik langsung maupun tidak langsung dengan Usaha Kecil atau Usaha Besar dengan jumlah kekayaan bersih atau hasil penjualan tahunan sebagaimana diatur dalam Undang-Undang ini”*

TABLE 1: MSMEs criteria according to Article 6 of Law No. 20 of 2008 in the capital form

No	Effort	Criteria	
		Asset	Turnover
1	Micro Business	Max. 50 million	Max. 300 million
2	Small Business	> 50 million – 500 million	> 300 million – 2,5 billion
3	Medium Enterprise	> 500 million – 10 billion	> 2.5 billion – 50 billion

Source: Indonesia UU No. 20 of 2008

3. Method

This qualitative research used a framework thematic analysis approach and made an initial attempt to explore the impact of COVID-19 related to the struggling owner MSMEs experienced and their strategic plan for business survival. Research data collection using primary data through online interviews among entrepreneurs as an MSMEs owner in Indonesia for 1.5 hours because social distancing is still enforced to avoid the COVID-19 pandemic. Thematic analysis was conducted as an interpretive procedure, using methodical examination to find the data patterns to reveal the phenomenon (Zainal, 2007). This method helps in forming meaningful themes without creating the theoretical.

This qualitative inquiry aimed to explore the economic impact of COVID-19, understand how they were dealing with the COVID-19 pandemic, and their struggling to plan the strategy for facing this pandemic. Themes presented in Figure 1

This research obtained through the convenience sampling method invites fifteen entrepreneurs as a random sampling has a business in the seven largest contributor sectors to GDP for becoming online interviewed. The researcher makes an advertisement to

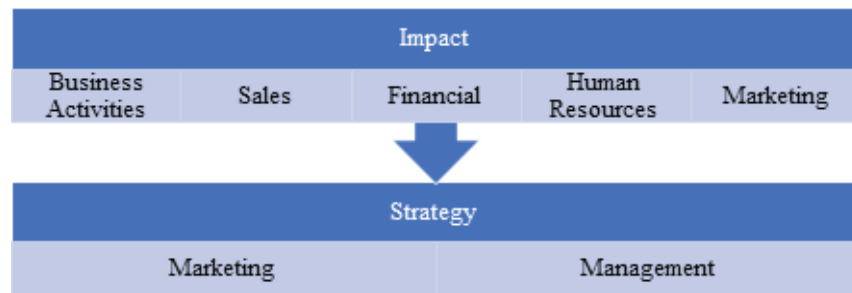


Figure 1: Themes for interviews

recruit the participants were shared in some community group, with the criteria included (1) The entrepreneurs who still run their business during the COVID-19 pandemic; (2) The entrepreneurs has business more than one year; (3) In a range age of 21-50 years old; (4) Business categorize in seven largest contributor sector in GDP (Agriculture, Ranch, Forestry and Fisheries; Trade, Hotel & Restaurant; Transport & Communication; Industry Processing; Services; Financial, Leasing and Corporate Services; Construction, Building and Development Services). The interview protocols designed following the literature relate, discussing with experts of qualitative research, and using Indonesia's national language (i.e., Bahasa) to make the participants more comfortable sharing their perspectives. Asking several questions like 1) "How is your business affected by the COVID-19 outbreak?"; 2) "Would you describe the internal business organization condition during the COVID-19 pandemic?"; 3) "How does your business respond and struggling to these new challenges?"; 4) "What your plan for keep your business existed?". After doing the interviews, the transcription process began, and the data are subsequently analyzed through the thematic analysis approach.

4. Results and Discussion

The participants come from various business sectors and have business experience in this sector ranging from 1 to more than 15 years. Table 2 is showing the participant characteristics (N=15).

The majority of participants responding to the interviews said they had been strongly affected by this pandemic. Smaller enterprises tended to be stronger affected by COVID-19 than larger ones. Several entrepreneurs assessed how the emerging needs related to the COVID-19 business crisis could affect their business and take appropriate action. These are some core problems and difficulties that entrepreneurs face during the pandemic and mostly seen from the internal condition of the business company that already summarized to illustrate the research finding:

TABLE 2: Research Participants Sample

Participant No.	Age	Business Sector	Gender	Year in Business
P1	31-40	Processing Industry	Female	1-3 years
P2	41-50	Commerce, Retail, Hotel, and Restaurant	Female	5-7 years
P3	31-40	Commerce, Retail, Hotel, and Restaurant	Female	3-5 years
P4	31-40	Services, and Creative Industry	Female	5-7 years
P5	31-40	Shipping and Communication	Female	> 7 years
P6	21-30	Processing Industry	Female	3-5 years
P7	41-50	Services, and Creative Industry	Female	>7 years
P8	21-30	Commerce, Retail, Hotel, and Restaurant	Female	>7 years
P9	31-40	Services, and Creative Industry	Male	3-5 years
P10	31-40	Services, and Creative Industry	Female	5-7 years
P11	21-30	Services, and Creative Industry	Male	1-3 years
P12	21-30	Commerce, Retail, Hotel, and Restaurant	Female	5-7 years
P13	41-50	Services, and Creative Industry	Female	5-7 years
P14	21-30	Shipping and Communication	Male	1-3 years
P15	31-40	Commerce, Retail, Hotel, and Restaurant	Female	1-3 years

Source: data processed (2020)

1. Business Activities Difficulties

- (a) Lack of high prices of raw materials
- (b) High price or short supply of energy
- (c) Hampered of Distributions
- (d) Business Closures
- (e) Transportation or Distributions obstacles
- (f) Sales Decreased or Lack of Sales

2. Financial Distress

- (a) Lack of Capital
- (b) Cumulative Losses

- (c) Debt Management
 - (d) Unable to pay obligation
3. Human Resources Problems
- (a) High Labor Cost
 - (b) Lack of looking for new skilled workers
 - (c) Work Termination
4. Marketing Difficulties

After we summarized the effect of COVID-19 on MSMEs business, we tried to discover what they respond and the next plan to deal with this pandemic. The new normal makes small businesses need to create something new and innovative for struggling their business. It is making it more challenging for some and easier for others. Specific differences combined in the way that small business experience, there is no one-size-fits solution for all businesses, in different places. The development of MSMEs in Indonesia is driven by several factors, including utilization of technology, information, communication facilities, ease of borrowing business capital, and decreased final PPh (individual income tax) rates or MSME taxes (Soetjipto, 2020). MSME strategy for maintaining business continuity is essential for facing the crisis during the COVID-19. Several things can be done MSMEs as a solution for maintaining business continuity. A necessary thing among others, improving product quality and services and make use of technology. MSMEs should reflect on their business models. Digital transformation does not just mean introducing new technology to carry out existing activities: it is the process of redesigning the entire business model.

MSMEs need to carry out several strategies to maintain the continuity of their business during the COVID-19 pandemic. Several strategies are conducted for MSMEs actors and divided into three strategies: product quality improvement, service quality improvement, and technology utilization. The following is a strategy carried out by MSMEs players to face the pandemic

COVID-19:

1. Utilizing Technology

Online sales and marketing online are a form of utilization of technology. Via e-commerce can create new digital markets with easy access, transparency, and global markets with its trade efficiency e-commerce can utilize in Indonesia, among others Shopee, Tokopedia, Bukalapak, OLX, GoJek, and Lazada. *E-commerce*

affects improving MSMEs' performance by reducing transaction costs and the activation coordination economy among business partners (Sinarasri & Hanum, 2017). The average MSMEs player also takes advantage of technology to its sales. They, too, provide sales services online.

2. Product quality improvement

Maintain the business is by improving product quality. This product quality improvement was carried out by prioritizing consumers, products and more focused on the consumer. Furthermore, innovation needs to be done to keep the business continuity and sustainable. Products that are produced also follow consumer demand. During their pandemic, maintain their business with innovative follows request consumers. Other ventures they are doing or any other product of interest to consumers include masks and business food. However, this new product is not either higher than the old product sales. It is happening because during the power pandemic buying society also experienced a decline

3. Service Quality Improvement

Apart from paying attention to consumers, it is also necessary to pay attention to the team or partners. Based on the survey conducted, MSMEs players maintain good relations with partners. A good relationship with partners, among others, with *suppliers* and distributors. MSME actors also feel that collaboration with partners is required for the development of their business. Collaboration with partners can also use to get new ideas and venture out need help. For expanding the business, networking is needed by gathering with organizations inside MSMEs similar fields.

5. Conclusions

Based on the research conducted, the researcher can conclude that the MSME actors did some strategy to maintain their business continuity during the COVID-19 pandemic. Several strategies are conducted for MSMEs actors divided into three strategies, namely: product quality improvement, service quality improvement, technology utilization. Product quality improvements made by MSMEs players to maintain their business is to put consumers first. Products and businesses' goals need to be more concerned with consumer-focused. Innovations and creations are also carried out to maintain business continuity. During the COVID-19 pandemic, keep their business by innovating follow consumer demand.

Service quality improvements made by the MSMEs players, namely maintaining good relations with partners. A good relationship with partners between others with *suppliers* and distributors. The perpetrators of MSMEs also feel that collaboration with partners is needed for business development. Collaboration with partners is also possible used to get new ideas and moments businesses need help. To expand business networking is carried out by associating with organizations with MSMEs in a similar field. Utilization of technology carried out by MSMEs players, namely selling and *online* marketing. The average MSMEs players also take advantage of technology for sales. They also provide services sales *online*. Future discussion and research may meet different conditions for MSME actors in other MSME fields or other countries affected by COVID-19. It is hoped that further research can be conducted widely in the MSME fields and adjust for the pandemic's current condition.

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