

A Review on MSMEs Resilience: Strategies and Policies Post Covid-19 Pandemic

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— *Review of* —
**Integrative
Business &
Economics**
— *Research* —

ABSTRACT

The COVID-19 pandemic has significantly impact on the survival of companies, especially Micro, Small Medium-sized Enterprises (MSMEs). To be able to survive in competitive pressures and unfavorable economic conditions due to the pandemic, MSMEs are required to be able to adapt to the changes that occur. This paper discusses the literature review on strategies and policies to increase the resilience of MSMEs in dealing with the effects of the COVID-19 pandemic. The discussion covers various problems of MSMEs after the COVID-19 pandemic, the concept of MSMEs resilience, key enablers of MSME resilience, policies and strategies to enhance MSMEs resilience. This paper is expected to contribute in mapping the problems faced by MSMEs during the pandemic to determine the right strategies and policies so that MSME resilience capabilities can be improved.

Keywords: MSMEs Resilience, strategy and policy, covid-19 Pandemic.

1. INTRODUCTION

The Covid-19 pandemic in Indonesia, which was announced since March 2020, had a very significant impact on the Indonesian economy at the macro level, business actors, and all aspects of people's lives. The results of a study conducted by Nasution et al. (2020) using a quantitative descriptive method found that the Covid-19 pandemic lead to the low investor sentiment towards the market. Prolonged negative sentiment causes the market to tend to be negative and volatile. Export growth which tends to decline has resulted in a slowdown in Indonesia's economic growth. The slowdown in economic growth is inseparable from the effect of the decline in tax revenues from the trade sector, which so far has had a significant contribution to Indonesia's revenue. A real example is what happened to crude palm oil (CPO) which decreased by 10%.

The same thing happened in the tourism sector as stated in the study conducted by Sugihamretha (2020). The findings of this study indicate that the Covid-19 pandemic leads to the decreasing revenues in the tourism sector due to the decline in domestic and international travel demand. It surely provides a multiplier to its derivative industries such as hospitality, supporting MSMEs in the tourism sector which in turn has a negative impact on the decreasing employment and people's income, which in general, MSMEs are labor-intensive businesses.

Still related to the tourism sector as the most affected sector by the pandemic, the Central Statistics Agency (BPS) recorded a decrease in the number of foreign tourist arrivals since January 2020 to 1.27 million or a decline of 7.62% compared to the previous

month in December 2019 (Sugihamretha, 2020). This study provides several recommendations including: 1) Fiscal support in the form of relief for MSMEs, especially the tourism sector in order to avoid bankruptcy, 2) Financial assistance to protect affected workers, 3) Liquidity injection and cash assistance, for example through such assistance. social funds which of course are adjusted to the ability and participation of both the community and the business world.

Amri (2020) conducted a study to determine the impact of Covid-19 pandemic on MSMEs using qualitative descriptive method. The results of the study showed that MSMEs turnover is significantly decrease during the pandemic. For example, there was a decline of up to 27% on the micro scale of food and beverage industry, 1.77% on the small scale and 0.07% on the medium scale. Overall household consumption also experienced a correction of 0.5% to 0.8% due to the pandemic. In the retail sector, where digital technology has been widely used through e-commerce platforms, the decline in turnover continues to occur due to the high level of public reluctance to do online shopping (Amri, 2020).

The study conducted by Rosita (2020) found that the most affected types of businesses by the Covid-19 pandemic were the automotive, steel, electricity, textile, handicrafts and heavy equipment industries as well as tourism. Industries that are able to survive in pandemic are the retail industry that is able to adapt to digital technology, as well as other industries such as electricity, water, livestock, agriculture, fisheries, and banking. The food, pharmaceutical, and information and communication technology industries are considered to be the fastest growing industries during the pandemic.

The Central Statistics Agency (BPS) conducted a survey on the impact of the Covid-19 pandemic on MSME actors. The study showed that there were 3 business sectors that felt the greatest impact due to the pandemic, namely the accommodation, food and beverage sector (92.47%), other service sectors (90.90%), and transportation and warehousing (90.34%) with a decrease in demand of 87% for the accommodation, food and beverage sector, 85% for other service sectors and transportation and warehousing.

This paper discusses a literature review on the ability of MSMEs to survive during the pandemic and various policies and strategies to increase MSME resilience. The discussion will begin with a discussion about the problems faced by MSMEs during the Covid-19 pandemic, the concept of MSMEs resilience, key enablers to analyze the resilience capabilities of MSMEs, and several strategies and policies to increase MSMEs resilience. Through the study conducted, this paper is expected to be able to contribute in mapping the problems faced by MSMEs due to the pandemic so that appropriate policies and strategies can be formulated to increase MSME resilience.

2. MSME'S PROBLEMS DURING COVID-19 PANDEMIC

Several studies discussed in the introduction show that there is a negative impact caused by the pandemic, namely a significant decrease in turnover. Several survey results were also conducted by National and International Government Institutions including Bank Indonesia (BI), Indonesian Institute of Sciences (LIPI), International Labor Organization (ILO) to find out the significant impact of the pandemic on MSMEs in Indonesia. Bank Indonesia reports that 72% of MSMEs have been affected by the pandemic, to be exact, 67,051 MSMEs.

Based on survey data conducted by LIPI, it shows that MSMEs which still rely on offline stores, direct sales and re-sellers are the most affected MSMEs in terms of declining sales and profits which reach 50%. To be exact, a number of 1,785 cooperatives and 163,713 MSMEs, the majority of which are engaged in food and beverage MSMEs, experienced decline in sales, lack of capital and distribution problems. Chatani et al. (2020) presented the results of a survey conducted by the ILO in the period 6 April to 24 April 2020 which involved 571 companies. The results of the study found that 68% of companies faced problems due to the pandemic, so that 65% of the companies decided to temporarily stop their operations and 3% decided to close the company.

Moeldoko, Head of the Presidential Staff Office (KSP) revealed some of the main problems arising from the outbreak that occurred. First, with regard to the demand side. The Covid-19 pandemic resulted in a significant decrease in people's income which lead to the drastically decrease in people's purchasing power, in other words the level of demand for MSMEs products decreased. Second, related to the financial aspect, namely the problem of access to capital and the ability to manage finances. MSMEs are considered to have limited ability to gain access to capital since banks are considered to prefer using funds to buy national securities (SBN) rather than providing capital loans to MSMEs. Another reason is that there are still many MSMEs in Indonesia that are considered un-bankable so they cannot get access to capital easily.

The same thing was stated by the Chair of the Jakarta MSMEs Focus, Roy Baskoro that the financial problems faced by MSMEs were more due to the inability of MSMEs to utilize digital technology that made it easy for them to access capital or funding. Another problem arises because there are still many MSME actors who have not made the separation between personal assets and business capital so that when they get a profit, they are often not used for capital turnover but to meet personal needs.

Third, the problem of human resources and their management. The human resources of MSME actors are considered to still have many limitations in terms of competence and mastery of skills, especially with regard to the use of digital technology. Another problem is business management that has not been conducted professionally and is still simply manage. Fourth, the problem of innovation and technology. Due to the low level of skills and competencies, another problem that arises is the low level of innovation. As a simple example in branding and product packaging, there are still many MSMEs who do not realize the importance of these two things. Fifth, the market problem. Problems related to human resources and innovation resulted in the competitiveness of the products produced still tends to be low, so that the expansion of market share is hampered. Sixth, institutional problems related to legality and licensing aspects. There are still many MSMEs in Indonesia that do not realize the importance of legal and licensing aspects in carrying out their operational activities. Table 1 summarizes some of the problems faced by MSMEs during the Covid-19 pandemic.

Table 1. Problem Faced by MSMEs During Covid-19 Pandemic

| Problems | Summary |
|--------------------------------|---|
| Demand | Decreasing in Customer Purchasing Power |
| Financial | Funding and Financial Management |
| Human Resources and Management | Lack of skill and competence |
| Innovation and Technology | Lack of Innovation and Digital Literation |
| Market | Difficulties in expanding market share |
| Institutional Problems | Legal and Business Licence |

Source: Author's Elaboration

3. DEFINING MSMES RESILIENCE: CONCEPTUAL AND EMPIRICAL STUDIES

The use of the concept of resilience in both individual and organizational contexts is defined as good performance even in difficult conditions (Sutcliffe & Vogus, 2003). In its development, this concept has been implemented in several sectors such as ecology, physics, engineering, and psychology. According to Burnard and Bhamra, (2011) and Bhamra et al. (2011), the concept of resilience has become a multi-faceted and multidimensional concept. According to them, resilience emphasizes the ability to respond to sudden environmental changes and return to all conditions quickly. In the context of management literature, Chrisman et al. (2011) defined resilience as the ability to avoid, absorb, respond to, and recover from situations that threaten their survival. Those threatening situations can be identified in conditions of unpredictable global competition, developments and demands for the use of technology rapid gear shift, increased demand, and natural disasters.

One example of rapid changes in technology is the changing economic era, not only in the Industrial Revolution 4.0, but also Society 5.0 (Anatan, 2018; Ellitan & Anatan, 2020). Facing Revolution 4.0 and Society 5.0 which have an impact on the disruption of innovation in all aspects of life, every organization is required to be able to carry out transformations in its organization. For example, in the field of higher education, campuses no longer only focus on teaching, research, and community service activities, but must be able to encourage innovation and entrepreneurship so that they can produce graduates who are able to adapt to a world transformation that is full of massive digital technology developments (Anatan, 2019). To support the digital based transformation, MSMEs need to collaborate with the university through knowledge transfer mechanism (Anatan, 2013).

Facing various opportunities and challenges that occur as a result of these changes, the concept of resilience becomes a very important issue to be explored in the management literature. Several authors have implemented the concept of resilience in MSMEs (Gunasekaran et al., 2011; Cowling et al., 2015). MSMEs are the pillar of the economy in many countries and the survival of MSMEs is very important for the global economy.

Rusliati and Mulyaningrum (2020) conducted a study that aims to determine the ability of MSMEs to innovate as an absolute requirement for realizing resilience and the development of MSMEs. By involving 111 MSMEs in Majalengka Regency and using qualitative descriptive methods and continuous analysis, the results of the study show that MSMEs have had innovations, especially in process and product design using simple

machines, product development, market share development and packaging innovation. Leadership support is an important factor in determining the performance of MSMEs.

Hidayat et al. (2020) conducted an empirical study to find out what factors affect the resilience of MSMEs during the pandemic. Some of the factors considered are entrepreneurial personality in using technology and government support. By involving 97 MSMEs in South Sulawesi and the Partial Least Square (PLS) analysis method, it was found that there was a significantly positive relationship between entrepreneurial personality and crisis management and a significantly positive relationship between government support and crisis management. The results of the study also show that there is a significantly positive effect between crisis management and MSME resilience.

Afriza (2021) conducted a study using secondary data obtained from the Central Statistics Agency (BPS) and involved 25,256 MSMEs in Indonesia. Using a descriptive analysis, this study was conducted to test the resilience of MSMEs in dealing with the pressures of problems caused by the Covid-19 pandemic. The results of the study show that half of the MSMEs involved in the study can be said to have strong resilience in the face of the impact of the pandemic and contingency factors have a significant role in determining the level of resilience of MSMEs in Indonesia.

4. KEY ENABLERS FOR MSME RESILIENCE

Many studies on the determinants of business resilience have been conducted. Acquah et al. (2011) suggests that manufacturing strategy is a mechanism for companies to develop competitive advantage and resilience. The effectiveness of alignment between manufacturing strategy and competitive strategy, flexible resource development and strategies and new business models are considered to have significant contributions as key enablers in efforts to develop business resilience.

Meanwhile, the study conducted by Gunasekaran et al. (2011) concluded that the key enablers of organizational resilience are grouped into internal and external factors of the organization. Internal factors that determine the success of resilience development include organizational behavior and managerial characteristics or qualities, while external factors include the use of technology, investment, company location and marketing, as well as integration in the supply chain. These factors are considered important in anticipating and responding to all existing uncertainties, especially with regard to market demand, which of course requires top management support, strategic thinking, and mastery of technology.

De Oliveira et al. (2013) found that organizational innovation processes in the form of reactive, proactive, and anticipatory are key enablers in the formation of business resilience. For example, an anticipatory innovator will be able to achieve serial innovation, develop their business resilience by creating an internal business environment that is supported by strong leadership, an open and trustworthy work climate, reliable strategic planning, and making innovation as way of life for the organization.

The study conducted by Lampel et al. (2014) concluded that the relationship between ownership and organizational climate has a significant influence on the development of organizational resilience. It can be explained that the employee's sense of belonging will encourage the creation of open communication which in turn will have a positive impact on the organization to be able to develop resilience so that it can respond quickly to changes that occur.

Another study conducted by Seville et al. (2015) identified seven principles in managing uncertainty and developing organizational resilience. The seven principles include: determining the core competences of the organization as an adaptive capacity, becoming a learning organization, developing social capital owned by the organization, practicing resilience at the group level, designing and implementing resilience in organizational operational excellence, considering risks in every opportunity they have, and develop a roadmap for organizations to achieve resilience.

Alberti et al. (2018) identified several factors that are considered to be the determinants of the success of MSMEs resilience. Based on the literature review, the key enablers of organizational resilience can be identified in terms of factors, namely Firstly, wide product range, high product quality which related to the issue of value creation strategy. Secondly, diversification, core business investment which related to competitive strategy. Thirdly, tangible, intangible and financial resources, human resources which covering several key enablers namely motivation, competences, innovation oriented and related to resources. Fourthly, planning, new product development, promptness, marketing related to organizational resources issues which related to cultural and organizational systems, flexibility, promptness, planning, innovations.

5. POLICIES AND STRATEGY TO ENHANCE MSMES RESILIENCE

Facing the Covid-19 pandemic, several Fiscal Policy stimulus were implemented by the Government through the Economic Recovery Program for MSMEs including interest subsidy of 35.28 trillion, funds placement for credit restructuring of 78.78 trillion, guarantee fee expenditure of 5 trillion, guarantee for working capital of 1 trillion, final income tax borne by the Government of 2.4 trillion, investment financing for cooperatives through LDPB (Revolving Fund Management Agency) of 1 trillion (Purwanto, 2020). For example, tax incentives are in the form of a policy that MSME taxpayers do not need to pay taxes and tax cutters do not withhold taxes when making payments to MSMEs and this incentive was given for the April to September 2020 tax period. The credit restructuring policy is carried out by providing a postponement of principal and providing interest subsidies for micro and small business loans. Based on Minister of Finance Regulation Number 65/PMK.05/2020 concerning Procedures for Providing Interest Subsidy/Margin Subsidy for Credit/Financing for Micro, Small, and Medium Enterprises. In addition, the direct cash assistance policy is also given to MSMEs in the amount of Rp. 2.4 million/ business actors to strengthen the resilience of the MSME business.

Several other policies carried out by the Government to increase the resilience of MSMEs during the Covid-19 pandemic include the provision of internet facilities for MSMEs in disadvantaged areas by providing an internet subsidy of 1 GB per day for each MSME unit, a policy of postage subsidies for MSMEs which selling products in the marketplace, providing assistance to accelerate the MSME Go digital program, and providing business credit support to improve MSME innovation and productivity (Investor.id, 2021). Table 2 summarizes several policies implemented by the Government to increase the resilience of MSMEs.

Table 2. Government Policies to Increase MSMEs Resilience during Pandemic Policies (Amount in IDR and notes)

| Policies (Amount in IDR and notes) | |
|--|---------------------------------------|
| Interest subsidy | 35,28 trillion |
| funds placement for credit restructuring | 78,78 trillion |
| Guarantee fee expenditure | 5 trillion |
| Guarantee for working capital | 1 trillion |
| Final income tax borne by the Government | 2,4 trillion |
| Investment financing for cooperatives through LDPB | 1 trillion |
| Internet facilities for MSMEs | 1 Gb per day |
| Delivery fee subsidy | Sales on marketplace |
| Mentoring Programs | MSMEs Go Digital Program |
| Providing business credit | Increased Innovation and Productivity |

Source: Author's Elaboration

In addition to assistance and support from external parties, especially the Government, efforts from internal MSMEs need to be developed through the formulation of strategies that support the achievement of MSME resilience. Some of the strategies that can be taken include: the use of e-commerce and digital marketing to sell and market or promote products, improve product and service quality, manage Customer Relationship Management (CRM) appropriately, and develop businesses (Hardilawati, 2020; Awaludin et al., 2020).

Utilization of e-commerce for MSMEs will provide benefits since it might increase market share and wider sales. In addition, through e-commerce, MSMEs might easily do benchmarking, find out business strategies, especially in terms of price determination by competitors. The use of digital marketing can be done through social media marketing such as Facebook and Instagram, website creation, use of search engine operations (SEO), and pay per click (PPC) through Google ads. Product quality improvement strategies can be conducted through good quality control strategies so that product safety, cleanliness and durability can be accounted for. In addition to product quality, service quality also needs important attention to win the competition and potential customers. Consumer trust is largely determined by the quality of services provided, if the quality of service is good it will be able to create customer satisfaction and form consumer loyalty. To maintain customer loyalty, customer relationship management must be considered and implemented as well as possible. Customer satisfaction and loyalty play an important role in determining whether the company will be able to develop its business or not.

6. CONCLUSION

MSMEs resilience is an interesting issue to be studied in more depth, especially in conditions of economic uncertainty due to the prolonged Covid-19 pandemic which has impacted problems from declining demand, financial problems, human resources and management, innovation and technology, markets, and institutional problems. Several important factors that must be considered in improving the resilience of MSMEs include those related to value creation, competitive strategy, and resources. To ensure the success of increasing the resilience of MSMEs, it is necessary to formulate the right policies and strategies.

ACKNOWLEDGEMENTS

We gratefully appreciate The National Research and Innovation Agency, Republic of Indonesia for the research grant provided through Penelitian Dasar Unggulan Perguruan Tinggi (PDUPT) Scheme. We also would like to thank Yayasan Perguruan Tinggi Kristen Maranatha (YPTKM) and Lembaga Penelitian dan Pengabdian Masyarakat (LPPM) Maranatha Christian University for the support.

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