

Survival Strategy of SMEs in Dealing with COVID-19 Pandemic: A Study from Indonesian SMEs

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Abstract

This research paper has the main objective to analyze how an SMEs are adapting its business strategy in order to survive in the COVID-19 pandemic era. In addition, this research will give several examples base on secondary data regarding the application of this strategy alteration. The subjects of this research are SME in Indonesia which are affected business model must be modified to survive in the pandemic era. The study was conducted based on secondary data obtained from articles, journals, research report and government report. Based on the results of the study, it was found that mainly SMEs in Indonesia use online sales, product diversification, cost efficiency, and change focus to another business that more beneficiary during the pandemic. Based on this result there are several strategies that possible to be applied for SMEs in general during this difficult time.

Keywords:

Defensive strategy, SME, Survival Strategy, Covid-19

1. Introduction

In recent years the development of the world of technology has had a huge impact on the company's business activities, supplier relationships, innovation of the company's business model and the accompanying value creation activities (Bresciani et al., 2017; Scuotto et al., 2019). Digital transformation is defined as an economic and social disruption that drives the implementation of digital technology to adapt business models and add value to companies (Verhoef et al., 2019). These changes not only have an impact on large companies but also for the form of Micro, Small and Medium Enterprises (MSMEs) (Bharadwaj et al., 2013; Lucas et al., 2013). As a developing country, the existence of SMEs contributes greatly to the Indonesian economy. According to the Ministry of Cooperatives and SMEs of the Republic of Indonesia (2020) SMEs contribute to 61.07% of the absorption of the national Gross Domestic Product (GDP). However, it is quite unfortunate that the current economic slowdown due to the COVID-19 pandemic in various countries has also added to the problems faced by the SME industry (Bagodi et al., 2020). This is not only happening on a global scale but also in Indonesia as a result of this pandemic (Wahyono et al., 2021).

Since the beginning of the pandemic, the Indonesian government through the Regional Government and the Ministry of Health has implemented several policies to limit social activities. Following this policy of reducing working hours, several companies responded by implementing employee efficiency. In a survey conducted by the LIPI Population Research Centre together with the Demographic Institute of the University of Indonesia and the Research and Development Agency of the Ministry of Manpower regarding the impact of COVID-19 on the workforce, out of a total of 1,112 workers/employees/employees the percentage of layoffs reached 15.6% with details of 1.8% being laid off with severance pay and 13.8% layoffs without severance pay. In addition to layoffs, another impact felt by employees was a decrease in work income where 31% of workers' incomes fell below 50% while 8.6% had their incomes decreased above 50% (Ngadi et al., 2020). This resulted in a decrease in public demand and purchasing power for consumption needs (Bahtiar & Saragih, 2020).

Therefore, this paper will give exploratory study regarding the strategy of Indonesian SMEs in dealing with COVID-19 pandemic through qualitative method by using several research literature and secondary data as a reference and give suggestion regarding survival strategy based on strategic management point of view. The rest of this paper is organized as follows: Section 2 describes literature review which correlate with the topic. Section 3 presents the

objective of this study. Then, Section 4 gives the method to carry out this study. Analysis and discussion will be given in Section 5. Finally, Section 6 will summarize all the finding that is given in this study.

1.1. Objectives of The Study

1. Analyzing the effect of COVID-19 pandemic to Indonesian SMEs and how they react to deal with any challenges that occur
2. Give suggestion regarding strategy to survive during the pandemic era for Indonesian SMEs

2. Literature Review

2.1. Micro Small and Medium Enterprises

MSMEs have different definitions in each country and government organization. Therefore, the definition of MSMEs has become a controversial discussion among experts (Street & Meister, 2004). In Indonesia, the definition of MSME that is often used is the definition from the Ministry of Cooperatives and Micro, Small and Medium Enterprises and the definition by the Central Statistics Agency. Broadly speaking, the definition of MSMEs according to the two agencies can be seen in table 1 below.

Table 1. Definition of MSMEs according to Indonesian Government Agencies

	BPS	Minsitry of Koperasi & UMKM	
	Based on number of workforce	Asset (not included with land and building)	Sales proceeds (every year)
micro	1 - 4	max. Rp 50 million	max. Rp 300 million
small	5 - 19	Rp50 million-Rp 500 million	Rp 300 million - Rp 2,5 billion
medium	20 - 99	Rp500 million-Rp 10 billion	Rp 2,5 billion - Rp 50 billion

Broadly speaking, Ministry of Koperasi & MSMEs define MSMEs in accordance with Law number 20 of 2008 concerning Micro, Small and Medium Enterprises, while the Central Statistics Agency (BPS) defines MSMEs based on the number of workers owned by the company.

2.2. Defensive Strategy

In an effort to ensure that the companies still be able to remain competitive during difficult times, firm can alter its strategic view by using defensive strategy. According to David (2011) there are 3 strategies that categorized as defensive strategy namely retrenchment, divestiture, or liquidation. Because of ongoing rivalry, established firms need to engage in defensive strategies to fend off the various challengers. Defensive strategy also useful to ensure a firm's position is remain competitive from the attack of its competition (Yannopoulos, 2011).

In the most severe condition such as bankruptcy cost retrenchment proved to be an advisable method to encourage survival and increased firm performance (Rico & Puig, 2019). This could be achieved by cutting wages or workers to limit expenses while using existing resources to work efficiently. Meanwhile, divestiture also has proven to be one of effective strategy in dealing with underperformed business unit or branch company. By focusing on the more important business unit experienced divestors tend to get increased in overall firm performance (Jenner et al. 2019). On the other hand, liquidation might be an option if a firm is in liabilities. Efficient liquidation of bad assets can reduce the high risk of the company and add additional equity to the firm (Zou & Sun, 2000).

3. Methodology

This research is an exploratory based on secondary data including academic journals, websites, case studies, research, annual reports, and books. Then, several case studies are used to validate this data and put more detailed analysis into actual situation in Indonesia SMEs. Furthermore, recommendation will be given for SMEs to survive and rise during crysis. Finally, This research aim to identify SMEs strategy in dealing with difficult times such as pandemic COVID-19.

4. Analysis and Discussion

4.1 Indonesian Government Policy in Dealing With COVID-19 Pandemic

Since the beginning of COVID-19 pandemic, Indonesian government has put high emphasize in reducing mass crowd through several social distancing policies in the hope that these policies could prevent the spread of COVID-19 virus. This policy is stated in the Minister of Health Regulation Number 9 of 2020 concerning Large-Scale Social Restrictions and the Instruction of the Minister of Home Affairs Number 15 of 2021 concerning the Enforcement of Restrictions on Emergency Community Activities in the Java and Bali regions which include several rules, namely restrictions on working hours and the implementation of 100% working from home for non-essential sector workers.

These policies lead to mass employee efficiency in various companies as an effort to balance their balance sheet. This resulted in a decrease in public demand and purchasing power for consumption needs (Bahtiar & Saragih, 2020). This is evidenced by the sharp contraction experienced by the Indonesian economy in the 2nd quarter of 2020 until it continues into the 1st quarter of 2021 but with an improving trend (BPS, 2021). The impact of this recession is not only felt by large companies but also by SMEs (Aminy & Fithriasari, 2020).

4.2 The Effect of COVID-19 Pandemic on Indonesian SMEs

According to the results of a survey conducted by the Asian Development Bank (2021) from a sample of 6,405 MSMEs in Indonesia, only 8.1% of the total stated that their performance was the same or better during the pandemic. While the rest experienced a decline, even 36.7% of MSMEs had no sales at all as can be seen in Figure 1. From this data, MSMEs engaged in the creative industry were one of the most affected along with MSMEs in the food, trade, and tourism sectors (Ministry of Cooperatives and SMEs, 2020). As an example, The batik craft industry in East Java is one of the industry which experience the biggest decline in turnover, which is 78%. Where before the pandemic, batik handicraft SMEs could generate an average profit of 32 million rupiah per month, but since the pandemic started they have only been able to generate a profit of 7 million rupiah per month (Soetjipto, 2020).

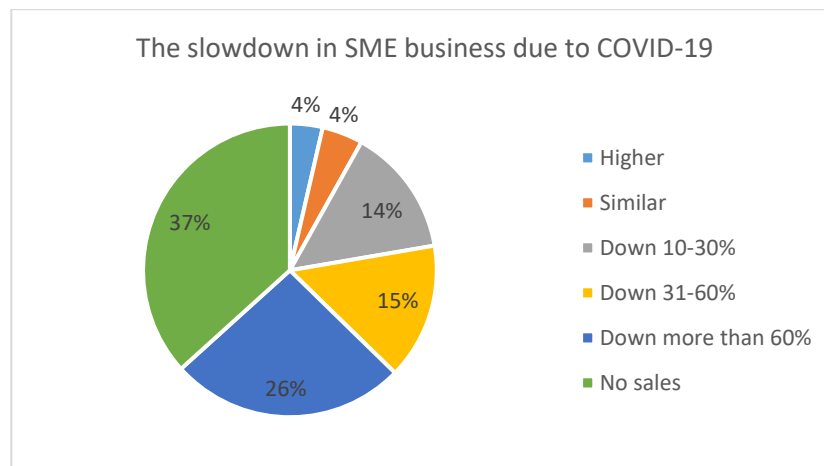


Figure 1. The slowdown in SME business due to COVID-19
(Source: ADB Rapid Survey Results: Impact of Covid-19 on Indonesian SMEs (2020))

4.3 Strategy of Indonesian SMEs in Dealing with COVID-19 Pandemic

To address this, the Indonesian government through the Ministry of Cooperatives and MSMEs launched a program to accelerate digitization for SMEs in the hope of reducing the impact of the pandemic and preparing for a new normal life after the pandemic. According to a survey conducted by Bank Indonesia (2020) from a sample of 370 SMEs, the results showed that as many as 65.6% of MSMEs included in the classification were not affected by the pandemic in the sense that the SMEs showed stability or even increased sales during the pandemic implementing online selling strategies as can be seen in Figure 2. The same thing is also shown in the research conducted by Sun et al. (2021) that there are several MSMEs that have shown increased performance during the pandemic due to the application of digital technology, increased market needs, especially SMEs whose business lines are in the health and food sectors, and other reasons.

This finding has also been supported by previous studies that has been conducted as a case study by using primary data from interview with SMEs in Indonesia as shown by table 2 below. In its study, Murfidiyah et al. (2021) conducted interview on coffee bean seller placed in Bondowoso which originally only sale its product conventionally by relying on human interaction as a marketing scheme for its product. However, during the COVID-19 pandemic this action is not possible due to restriction for social interaction and restriction for non-essential business to remain open as usual. Therefore, the owner of Kopi Manting Kuning Bondowoso start to marketed its product by using digital platform on social media and e-commerce. After some times, the owner started to realize its positive effect by generating increased in profit although not drastically. This also supported by Nurcahyo et al. (2018), that the utilization of digital media is proved to be useful to penetrate market for SMEs and bring positive results to the business in general.

Second case study of product diversification as stated by Hastuti (2021) on the study of SME Bogor Kefir community which originally this SME only sell Kefir product and yoghurt. However, during the COVID-19 pandemic this SME inspired to develop products from these raw materials. In order to make sure that the product will attract buyers, some traditional spices which some believed are able to increase body immune are added to lemon whey product which rich with Vitamin C. The result is this product has been sold and the profit of this SME has been increased to 200% until 300%.

Third case study is from Ningrum et al. (2021) with cost efficiency as a strategic of SME in Pekanbaru to survive during the COVID-19 pandemic. In its study regarding Cake shop in Pekanbaru, researcher found that the SME still operate in a normal rate but not adding new product of innovation. However, to make sure that they remain competitive this cake shop try to operate efficiently by creating better relationship with its supplier. This is achieved by reviewing their contract with some particular supplier and managed to get better deal with them without decrease its product quality.

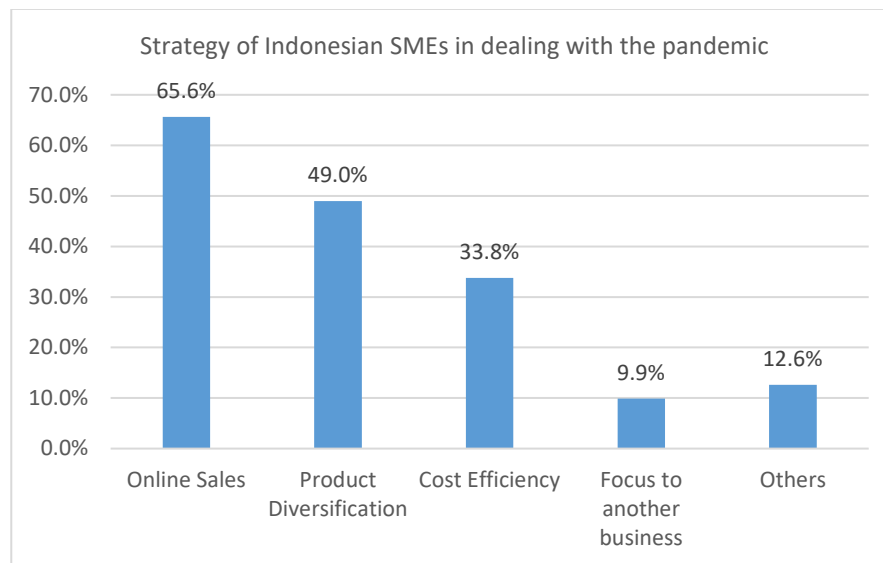


Figure 2. Strategy of Indonesian SMEs in dealing with the pandemic
(Source: Bank Indonesia SME Survey (2020))

Fourth case study came from Nurhaliza (2021) regarding the survival strategy of souvenir seller in Maimoon Palace Tourism Park located in Medan. During the COVID-19 pandemic Indonesian government has prohibited every tourism place to remain open in order to prevent the spread of the virus. This has affected people who are related with tourism place such as seller in Maimoon Tourism Park. During the interview, one of the seller stated that to keep their economic needs fulfilled, she has to change focus to another business namely water refill business. This is because of the government restriction that caused her business not possible to remain open as usual.

Table 2. Case Study of Indonesian SMEs Strategy During COVID-19 Pandemic

Author	Title	Strategy	Description
Murfidyah et al., 2021	Impact of Digital Marketing Utilization on Brand Awareness On MSMEs in the Covid-19 Pandemic Era (Case Study on Kopi Manting Kuning Bondowoso)	Online Sales	Using social media and e-commerce as a platform for digital marketing and online sales
Hastuti S., 2021	Implementation of Cost Reduction Strategies During the COVID-19 Pandemic in Small Medium Enterprises (SMEs) Bogor City (Study on SME Members in the Bogor Kefir Community)	Product Diversification	Related product diversification by adding spices that able to increase body immune in the pandemic era
Ningrum et al., 2021	Analysis of Strategic Management for SMEs in Pekanbaru to Survive in the Covid-19 Pandemic Period	Cost Efficiency	Cost efficiency by creating better relationship with supplier
Nurhaliza, 2021	Survival Strategy for SMEs in the Tourism Sector in the Time of COVID-19 Pandemic (Case Study of Souvenir Seller in Maimoon Palace Tourism park)	Focus to another business	Because the tourism park is closed during COVID-19 pandemic, a souvenir seller change focus to refill water business

5. Research Finding and Conclusion

With COVID-19 pandemic still unclear when it will finish, it is better for SMEs in general to strategically prepare itself to survive during this pandemic era. First, the use of digital technology is becoming increasingly important for companies especially during pandemic (Nandi et al. 2020). Unfortunately, the lack of digitization, adoption of technology, and the limited presence of SMEs online have made the pandemic even more damaging for them and increased the vulnerability of SMEs (Bartik et al. 2020). With the pandemic getting longer and not sure when it will end, digitization is an important factor so that SMEs can survive the pandemic (Akpan et al., 2020). Second, SME need to consider in diversify their products and further develop it especially if the material will not be able to stand in long time without processing such as dairy product (Wang et al., 2020). Third, in difficult times SMEs need to cut inefficient cost and try to stay afloat by staying slim and strong organizationally. SME should emulate retrenchment

strategy to reverse declining sales and profits. Following retrenchment theory, SME should regroup and work with its limited resource, cut unnecessary expense and generate profit by using its possible resource (David, 2011). Fourth, SMEs should consider to change its business line especially into product that currently possess high interest in market. Certain SMEs has been benefited from the pandemic especially SMEs that focused on healthcare product and technology (Sun et al., 2021).

SMEs has been beneficiary especially in developing country which contribute to almost 40% of total GDP in that country (Muller et al., 2014). Due to this fact it is important to keep SMEs business stay productive during the COVID-19 pandemic. Therefore, it is necessary for SMEs to update its strategy and adapt based on what is benefitting for them during this difficult time. From above discussion, it is suggested that SMEs could pursue one of either online sales, product diversification, cost efficiency, or switch to another business to remain competitive during this pandemic era. Additionally, the implementation of Total Quality Management (TQM) might be bringing some positive effect on SMEs industry as stated by Nugroho & Nurcahyo (2018) in their research due to the nature of continuous improvement of TQM might help SMEs to adapt in crisis and mitigate any risk that might occur.

This current research only focus on SME in Indonesia, therefore future research might need to asses more extensive areas to address other possible strategies. Furthermore, more specific research on certain area of SMEs might help bring more detailed and in-depth result of how SMEs in specific industry react to survive in pandemic era.

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