

# THE GROWTH OF CREATIVE MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMEs) BUSINESS IN SPECIAL REGION OF YOGYAKARTA BEFORE AND AFTER COVID-19 PANDEMIC

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## ABSTRACT

*The Covid-19 pandemic resulted in economic changes that led to a national recession as well as a global recession. Various regulations have been implemented to suppress the spread of Covid-19, such as the closure of schools and several business activities, large-scale social restrictions, and even "lockdowns" which resulted in a decrease in the level of consumption and investment. The COVID-19 pandemic situation provides challenges as well as opportunities for the government to maintain the existence of MSMEs. Indonesia as one of the countries affected, especially on the economic side. Indonesia, which is dominated by Micro, Small and Medium Enterprises (MSMEs), needs to pay special attention to this sector because the contribution of MSMEs to the national economy is quite large. This study aims to determine the level of business growth during the Covid-19 pandemic. The business growth is analyzed before and after the Covid-19 pandemic to find the differences. This study uses primary data sources, namely Creative MSME actors throughout the Special Region of Yogyakarta. Data collection was carried out through independent questionnaires, to analyze the conditions of the MSME mapping before and after the Covid-19 pandemic. Data analysis used One-Sample t-test and Paired Samples t-test. The result shows Another result is found that there were differences in the level of MSME business growth during the Covid-19 pandemic. Another result is found that there is a difference between business growth before and after the Covid-19 pandemic.*

**Keywords:** Business Growth, Creative MSMEs, the Covid-19 Pandemic.

## INTRODUCTION

The Ministry of Cooperatives and Small Medium Enterprises stated that during the Covid-19 pandemics there were around 37,000 MSMEs who reported that they were very seriously affected. This pandemic was indicated by approximately 56 percent experiencing a decline in sales, 22 percent having problems in the financing aspect, 15 percent having been disrupted in the distribution of goods, and 4 percent having difficulty getting raw materials (Rahman, 2020).

These problems have also become more widespread when linked to the large-scale social restrictions (PSBB) policy which is implemented in several regions in Indonesia. Referring to the Minister of Health Regulation No. 9/2020 concerning PSBB Guidelines for the Acceleration of

Handling Covid-19, PSBB includes restrictions on certain activities of residents in an area suspected of being infected with Covid-19 including restrictions on the movement of people and or goods for a particular province or district/city to prevent the spread of Covid-19.

The existence of PSBB or Lockdown is feared that the disruption of economic activities, especially production, distribution and sales will experience disruption, which in turn will further contribute to the performance of MSMEs and the national economy, as the results of the study by the Ministry of Finance above. It is not wrong if there are concerns, especially if you look at a large number of MSMEs in Indonesia and the number of workers absorbed in MSMEs. According to data from the Central Statistics Agency (BPS), the contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) reached 61.41 percent in 2018. Of course this contribution shows the role of MSMEs as the backbone of Indonesia's national economy (Pakpahan, 2020).

MSMEs lack resilience and flexibility in facing this pandemic due to several things such as the low level of digitization, difficulties in accessing technology and lack of understanding of survival strategies in business (OECD, 2020). MSMEs are required to be able to adapt to existing business developments because businesses that can survive are businesses that are responsive to the times. Related to the Covid-19 Pandemic also has an impact on the limited operations of MSMEs and reduced consumers who shop directly compared to normal days. With this, Business Actors can adjust by opening an online store or selling via e-commerce. E-commerce is a system of sale, buying and marketing products using electronics (Kotler, Philip dan Armstrong, 2012). Research of Hardilawati (2019) and Setyorini et al. (2019) conclude that e-commerce has a positive and significant effect on improving the marketing performance and income of MSMEs.

According to Pakpahan (2020), no country can predict when this Covid-19 pandemic will end. A simple way to adapt and deal with this pandemic is to prepare short-term and long-term strategies while continuing to hope that a vaccine for the Covid-19 virus will soon be discovered and mass-produced. The short policy that can be implemented is financial assistance in the form of soft loans or direct cash assistance by involving the government and the private sector. Meanwhile, the long-term strategy is focused on the introduction and use of digital technology for MSMEs and preparation for entering the Industrial 4.0 era.

Hardilawati (2020) in her research, found that MSMEs can adopt a survival strategy and can adapt to changes in the business environment during this pandemic and in the future. This condition is because MSME actors are responsive to changes in the surrounding environment and can adapt both in terms of products, marketing systems, sales, and in the use of technology that supports the business. Hardilawati (2020) added that not all MSMEs felt a decrease in sales turnover and had to close their businesses. Some MSMEs that are still stable and experienced an increase in sales turnover because they made adjustments in terms of products and carried out several marketing strategies to survive. Several things that can be done by MSMEs, including choosing to open new product lines or updating their marketing systems, because businesses that can survive are businesses that are responsive to changes in their environment.

This research is conducted to prove the differences in the business growth of MSME players in maintaining their business during the Covid-19 pandemic that hit the world. This study aims to determine the level of business growth during the Covid-19 pandemic. Another objective of this study is to determine the differences in the growth rates of MSMEs before and after the Covid-19 pandemic So that they can continue to survive and become more responsive to changes in the business climate, especially during the Covid-19 pandemic.

## LITERATURE REVIEW

### Business Growth

Cantele & Zardini (2018), found that competitive advantage is influenced by company growth. The results of the study Bashor et al. (2017) state that manager performance, entrepreneurial orientation factors, business growth and creativity directly have a positive effect on competitive advantage. The finding of Sucuahi (2013) shows that the significant role of SMEs can be overshadowed and maintained through sound and proper financial management of the entrepreneurs themselves. According to the resource-based view, many resources owned by companies can increase their competitive advantage. Das & Teng (2000) argue that the level of maintaining a competitive advantage by firms depends on their ability to maintain the heterogeneity of their knowledge sources. Business growth has an effect on the competitive advantage of Creditive MSMEs at D.I. Yogyakarta through financial literacy and taxation as a mediating variable (Resmi et al., 2019).

### MSME Business Growth During the Covid-19 Pandemic

The Covid-19 pandemic currently occurring inevitably affects various sectors. At the global economic level, the Covid-19 pandemic has a very significant impact on the domestic economy of the nation-state and the existence of MSMEs. The Organization for Economic Co-operation and Development (OECD) report states that this pandemic has implications for the threat of a major economic crisis. This threat is marked by the cessation of production activities in many countries, falling levels of public consumption, loss of consumer confidence, falling stock markets, and ultimately leading to uncertainty (OECD, 2020). Business actors are known that the decline in sales revenue has gradually occurred since mid-February, and in March the decline in turnover was still relatively small. In April-May 2020, when the government issued a policy on health, transportation and social distancing protocols, almost all trades were carried out. UMKM business actors. According to Soetjipto (2020), it is known that 68% of business actors explain the decline in turnover due to decreased consumer purchasing power due to most consumers starting to save money and have no income or income. Then 46% of business actors stated that the reason for their decreased turnover was because consumers were afraid to buy, and most consumers felt that they were not used to buying online, and were still accustomed to buying by coming directly to the store. Also, 46% of business actors concluded that the decline in turnover occurred after the prohibition of leaving the house or the implementation of PSBB (Large-Scale Social Restrictions) accompanied by criminal sanctions and fines.

*H<sub>1</sub>: There are differences in the growth rates of MSMEs during the Covid-19 pandemic*

Sales decreased due to restrictions on shop opening hours specified in security protocols and health protocols. Rules in buying to take home and restrictions on distance in public places affect an effect on reducing consumer convenience. In these conditions, consumers choose to stay at home temporarily. During a pandemic and the implementation of stay at home or work at home policies. 33% of the subjects of business actors do off orders, namely stopping production, exhausting the inventory stock, and producing when there is an order, and producing according to the number of orders. Then 27% of business actors continue to open merchandise, especially

for shops at home, traditional market stands, stalls, cafes, depots and restaurants by still following the health protocol rules and pandemic security policies. In addition, 19% of business operators only try to sell their withdrawn or returned products because shops are closed or sales stalls are often closed due to pandemic safety and health protocols. Some business actors reduce opening trade hours and reduce the amount of production while looking for new opportunities to market (Varagur, 2020).

Shafi (2020) states the outbreak of coronavirus disease (Covid-19) has severely affected the global and Pakistani economy. Primary victims of the Covid-19 pandemic are micro, small, and medium-sized enterprises (MSMEs). Based on the results of the research, different policy recommendations were proposed to ease the adverse effects of the outbreak on MSMEs. Although our suggested policy recommendations may not be sufficient to help MSMEs go through the ongoing crisis, these measures will help them weather the storm. Several studies have reported devastating effects of such events on MSMEs. For instance, the 1999 earthquake in Turkey severely affected MSMEs with damages estimated \$1.1–4.5 billion (Asgary et al. (2020). Likewise, in Malaysia, due to unprecedented flooding at the end of 2014, more than 13,000 SMEs were affected (Auzzir et al., 2018). Further, Samantha (2018) reported that in May 2016, a tropical storm severely hit western parts of Sri Lanka, which causes huge damage to society, public property and MSMEs. The most significant and most immediate impact of the lockdown is the halt in business operations. Lockdown was first announced in Sindh province from March 23, 2020. Karachi, the capital city of Sindh province, is considered as the country's largest industrial zone accounted for 30% of total exports. Due to lockdown, out of 2,700 factories in Karachi, less than 50 were operating on the first working day (Hussain, 2020). Furthermore, Hussain (2020) reported that Covid-19 affected around 5 million people in Pakistan living below the poverty line. Most of the unskilled people (such as labours, waste recyclers, construction workers, transportation workers, and domestic workers) work in a variety of industries, services, and agriculture. They depend on daily wages to provide for their needs. According to the author, around 4 million people are working on a daily wage basis in Karachi alone. Besides, it is estimated that approximately 04 million individuals are also working in The Punjab province. These day workers were most affected by the lockdown.

*H<sub>2</sub>: There is a difference between business growth before and after the Covid-19 pandemic*

## METHOD

This study used primary data through a questionnaire as the primary data source. The population was Creative MSME actors in DIY. Creative MSMEs in Yogyakarta were chosen because Yogyakarta was an area that is rich in traditional culture and various characters of its inhabitants, thus encouraging the development of the potential of Creative MSMEs. The sample was determined by proportional simple random sampling technique by taking a sample of 20% of the total creative MSMEs in each district/city. The sample that deserved to be respondents in this study is 269 samples of Creative MSME actors in DIY. Data processing techniques used the One-Sample t-test and Paired Samples t-test. The two tests are to determine differences in business growth before and after the Covid-19 pandemic.

## RESULTS AND DISCUSSION

The results of the calculation validity test can be seen in Tabel 1.

VARIABLE	INDICATOR	PEARSON CORRELATION	SIGNIFICANCE	RESULT	CRONBACH'S ALPHA
Business Growth Before Covid-19 Pandemic	Item 1	0.311	0.00	Valid	0.835
	Item 2	0.756	0.00	Valid	
	Item 3	0.803	0.00	Valid	
	Item 4	0.804	0.00	Valid	
	Item 5	0.813	0.00	Valid	
	Item 6	0.821	0.00	Valid	
	Item 7	0.776	0.00	Valid	
	Item 8	0.741	0.00	Valid	
	Item 9	0.663	0.00	Valid	
	Item 10	0.558	0.00	Valid	
Business Growth After Covid-19 Pandemic	Item 1	0.702	0.00	Valid	0.926
	Item 2	0.788	0.00	Valid	
	Item 3	0.831	0.00	Valid	
	Item 4	0.802	0.00	Valid	
	Item 5	0.788	0.00	Valid	
	Item 6	0.798	0.00	Valid	
	Item 7	0.840	0.00	Valid	
	Item 8	0.601	0.00	Valid	
	Item 9	0.821	0.00	Valid	
	Item 10	0.790	0.00	Valid	

\*Significance at 5% level

Based on Table 1, the calculated value of all questionnaire items, including the research variable, namely business growth before and after the Covid-19 pandemic, shows a probability value (sig) <0.05. So the questionnaire of the research variables are all valid, and the Cronbach Alpha value obtained from all results, including the research variable, shows a value greater than 0.6. and that means reliable.

NO	VARIABLE	MEAN	CATEGORY
1	Business Growth Before Covid-19 Pandemic	4.19	G
2	Business Growth After Covid-19 Pandemic	4.25	G

### Testing Differences in the Growth Rates of MSME Business during the Covid-19 Pandemic

The first hypothesis in this study is that it is suspected that there are differences in the level of business growth of MSMEs during the Covid-19 pandemic and tested using the One-Sample t-test technique. Following are the results of the One-Sample t-test with the help of SPSS are shown in Table 3.

<b>Tabel 3</b>						
<b>TESTING RESULTS OF DIFFERENCES IN THE GROWTH RATES OF MSME BUSINESS DURING THE COVID-19 PANDEMIC</b>						
<b>One-Sample Test</b>						
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Business Growth Before Covid-19 Pandemic	126.550	268	.000	4.25799	4.1917	4.3242
*Significance at 5% level						

Based on the results of the analysis, it shows the significant value during the Covid-19 pandemic on Creative MSMEs in the Special Region of Yogyakarta. The results of the analysis show that only a significance value of 0.000 is below 0.05 ( $p\text{-value} < \alpha$ ). So it can be concluded that there are differences in the growth rates of MSME businesses during the Covid-19 pandemic.

### Testing the Difference between Business Growth Before and After the Covid-19 Pandemic

The second hypothesis in this study is that it is suspected that there is a difference between business growth before and after the Covid-19 pandemic and is tested using the Paired Sample t-test technique. Following are the results of the Paired Sample t-test with the help of SPSS are shown in Table 4.

<b>TABEL 4</b>			
<b>RESULTS OF TESTING THE DIFFERENCE BETWEEN BUSINESS GROWTH BEFORE AND AFTER THE COVID-19 PANDEMIC</b>			
Before Covid-19 Pandemic			
Variable	t	Sig. (2-tailed)	Mean
Business Growth	-2.133	0.034	4.1939
After Covid-19 Pandemic			
Business Growth	-2.133	0.034	4.258
*Significance at 5% level			

Table 4 shows that after the pandemic there is an increase in business growth where before the pandemic there is a large business growth of 4.1939. After the pandemic, there is a large business growth, which increased to 4.2580 with a significant increase below  $\alpha$ , namely 0.05 ( $0.034 < 0.05$ ).

According to Pakpahan (2020), Covid-19 pandemic provides challenges and opportunities for the government to maintain the existence of MSMEs. Challenges are defined as the need for short-term solutions to help MSMEs and workers who are members of it. Opportunity means that short-term solutions need to be followed by long-term solutions, especially when linked to the industrial era 4.0, which requires the availability of digital

technology to support economic activity. There are several short-term solutions to maintain the existence of MSMEs. According to the OECD, several solutions need to be considered, namely the application of strict health protocols in carrying out economic activities by MSMEs, delaying debt or credit payments to maintain MSME financial liquidity, financial assistance for MSMEs, and structural policies. Strict health protocols can be applied when the government grants permission for MSMEs to carry out their activities. The government can issue policies to provide concessions for payment of the debt or credit instalments for MSMEs or even postpone the payment process for the next six months by considering the financial liquidity of MSMEs. This policy includes simplifying the administrative process for obtaining a loan in the emergency situation. This policy is done so that MSME actors, including workers, can maintain the level of consumption and purchasing power as well as support the running of the national economy. Meanwhile, according to Hardilawati (2020), the Covid-19 pandemic that occurred in Indonesia had an impact on economic instability, especially on MSMEs. MSMEs feel the immediate impact of a decrease in sales turnover due to government calls to stay at home and large-scale social restrictions. The government invites people to feel at home for a long time resulting in many MSMEs having to stop operating for a while. For this reason, MSMEs must have a strategy to survive this pandemic and required to be able to adapt to the conditions that occur. According to Soetjipto (2020), business actors seek to find marketing and sales alternatives, secure capital and assets, temporarily transfer them to other businesses and must study technology that is deemed effective for promotion and sales.

## **CONCLUSION**

The results showed that there were differences in the growth rates of MSME businesses during the Covid-19 pandemic. There is a difference between business growth before and after the Covid-19 pandemic. As with the expectations expressed by business actors, regarding capital, technical financing (instalments) of loan and marketing capital, it is hoped that the government can provide operational assistance in the form of recommendations for the reduction of late payments, and assist in terms of product distribution and marketing. MSME players need to prepare short-term and long-term strategies while continuing to hope that the Covid-19 virus vaccine will soon be found and mass-produced to reduce the rate of development of the Covid-19 virus.

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