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Cover Page Footnote

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Unveiling The Impact of Covid-19 And The Policy Implications On Indonesian Small Businesses: Where Do They Hurt The Most?

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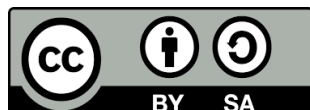
Abstract. The catastrophic impact of COVID-19 Pandemic on micro, small and medium enterprises (MSMEs) is well-presented across countries featured on a helicopter view. However, studies on business activities as proxies to business functions that are exclusively affected by the pandemic are scarcely found, which in turn might cause ineffective recovery policy. Using Indonesia as a case in point, this study aims at codifying the particular business activities to proxy the functions that have been impacted across the sectors and business owners' perception on the government's policy. The study uses indicators for three business functions that are qualitatively constructed from previous studies to ensure their robustness. Data from the 220 respondents across Indonesia are collected using a non-probability sampling technique and the questionnaire is distributed online. The results are presented in descriptive statistics along with Kruskal-Wallis test to detect any difference across industries and duration of business. The study finds that production is the most severely impacted on creative sectors, whilst human resources issues are rampant for manufacturing and financial issues remain the center of the conundrum for all sectors. Notwithstanding the fatalistic result of downfall in demand of goods and services, the second most impacted business activity is productivity due to the reduced working hour of employees. In terms of COVID-19 Pandemic policy, financing facilities and health protocol are equally impactful for small businesses. These findings provide unambiguous evidence on specific business activities that are impacted, that is beneficial for evidence-based policy making.

Keywords: COVID-19 Pandemic policy, micro-, small-, and medium enterprises, business, Indonesia

INTRODUCTION

The global outreach of COVID-19 Pandemic impact on social and economic sphere is undisputed (Al-Fadly, 2020; Kurniawati & Kustulasari, 2021; Skidmore, 2020). Especially in small businesses – generally termed as Micro, Small and Medium Enterprises (MSMEs), the impact of COVID-19 Pandemic on the social and economic fields is interconnected, causing a domino effect due to lockdowns, social distancing, and disruption of business operations. The impact of COVID-19 Pandemic that hits most business units has an impact on the emergence of an economic crisis (Godbless, 2020). The economic crisis is a setback in economic activity (Cepel, Gavurova, Dvorsky, & Belas, 2020; Klyver & Nielsen, 2021). In such circumstances, the economic crisis is considered as an event that triggers uncertainty among business actors, especially MSMEs (Burhan, Salam, Hamdan, & Tariq, 2021; Miocevic, 2021; Rashid & Ratten, 2020).

MSMEs has been known to dominate the economy of countries across the world. Accordingly, the MSMEs have been the main pillar of the Indonesian economy and known to be the buffer during economic crises. As many as 99.99% of business units in Indonesia are MSMEs (Ministry of Cooperatives and Small and Medium Enterprises, 2019). The contribution of SMEs to the economy is well-documented. MSMEs have a labor absorption rate of around 97% of the entire national workforce and have a contribution to gross domestic product (GDP) of around 60.34 % (Darwin, Bastian, & Sukamdi, 2020). Various previous studies have also shown that MSMEs have an important role in efforts to maintain the country's economic stability (Eggers, 2020; Marconatto et al., 2021; Styaningrum, Soetjipto, & Wulandari, 2020). There are still many concerns about MSMEs (Rodrigues et al., 2021). This problem is even more felt by MSME actors when Indonesia is hit by the COVID-19 crisis (Hamsal & Ichsan, 2021). The data from the Ministry of Cooperatives and Small and



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Medium Enterprises shows that Indonesia has 64.19 million MSMEs. MSMEs also contribute 61.07 percent of total GDP, 14.37 percent of total exports, and absorb 97.30 percent of total employment (Saturwa, Suharno, 2020).

As with their global counterparts, more than 90% of MSMEs in Indonesia have been impacted by Covid19. The Indonesia Central Bank's survey finds that 72% of MSME actors were affected by the COVID-19 Pandemic (Purnomo, Adiguna, Widodo, Suyatna, & Nusantoro, 2021). During the height of the Pandemic, as many as 56% of the around 37,000 MSMEs have reported a decline in sales, 22% reported problems in the financing aspect, 15% reported problems with distribution of goods and 4% reported difficulties in obtaining raw materials (Pakpahan, 2020). There are three implications related to the spread of Covid-19 in Indonesia, namely in the tourism, trade, and investment sectors where these three sectors have an important role in supporting the nation's economic growth. This is also in line with a study conducted by the Ministry of Finance in early 2020, that the Pandemic resulted in negative implications for the domestic economy and economic crises, for example affecting people's consumption and purchasing power, company performance, as well as such a large impact on the sustainability of MSMEs in Indonesia as shown by a significant decline in gross domestic product (GDP) growth from 5.02 percent in 2019 to -2.07 in 2020 (Central Bureau of Statistics, 2020).

Studies have found that the COVID-19 Pandemic has had a significant impact on the MSME' business sustainability (Chirume & Kaseke, 2020; Godbless, 2020; Kulathunga, Ye, Sharma, & Weerathunga, 2020; Gourinchas, 2020; Pelikanova, Cvik, & MacGregor, 2021). However, previous studies have not identified the affected business activities such as the impact on production, finance, and human resource activities. There is also no research that looks at the differences in the impact of the COVID-19 Pandemic on business activities in terms of duration. Business activities are presented as indicators of three business functions, namely production, human resource, and financial aspects (Abed, 2021; Abu Hatab, 2021; Aigbavboa, 2021; Al-Fadly, 2020; Aladejebi, 2020; Burhan, 2021; Che Omar, 2020; James, 2020; King, 2021; Lu, Wu, Peng, & Lu, 2020; Magableh, 2021; Rashid & Ratten, 2020; Rodrigues, 2021). The construct of business activities as proxies is rigorously performed based on previous studies using keyword search in various databases. Based on this search, 110 research articles were found, and 42 articles were applicable for references since they are focused on business functions of MSMEs. In addition to looking at the impact on the MSME sector being analyzed, the impact is also assessed based on the duration of the business to see if there is a difference between businesses that were started before the COVID-19 Pandemic and businesses that started during COVID19 Pandemic. The importance of identifying more specific business activities for different sectors and duration is

to provide unambiguous data for policy makers to design evidence-based policies. By understanding the interdependency amongst activities, rather than the general business functions, policies can be designed in an integrated and scaffolding manner with sector-specific instead of a one-size-fits-all approach. Thus, this study aims at codifying the particular business activities that have been impacted across the business sectors and seeks to see whether there are differences in the impact on six business sectors of the MSMEs, namely agriculture, trading, production/processing, service, household industry, and art, entertainment, and recreational. The classification of the business sector in this study is based on the categorization of the Indonesian Standard Classification of Business Fields (*Klasifikasi Baku Lapangan Usaha Indonesia*, 2020) from (Ministry of Investment, 2020) as a guide for determining the sector group.

The COVID-19 Pandemic has indeed had a significant impact on various MSME business functions resulting in many businesses failure (Abed, 2021; Gourinchas, 2020). These business functions include the functions of production, finance, marketing, supply chain, employee problems to the motivation of business owners or entrepreneurs (Eggers, 2020; Elanthi, 2021; Gavurova, 2020; Gregurec, 2021; Klyver & Nielsen, 2021; Rashid & Ratten, 2020). In this study, marketing is incorporated in the production function consistent with the discussions provided in previous studies. The indicators of affected business functions measured in this study refer to several previous studies related to the impact of COVID-19 Pandemic on MSMEs (Abu Hatab, 2021; Aigbavboa, 2021; Al-Fadly, 2020; Aladejebi, 2020; Burhan et al., 2021; Che Omar, 2020; James, 2020; King, 2021; Lu, Wu, Peng, & Lu, 2020; Magableh, 2021; Rashid & Ratten, 2020; Rodrigues, 2021) and based on the results of a review of several literature reviews of the impact of COVID-19 Pandemic on MSMEs that have been carried out previously (García-Vidal et al., 2020; Marconatto, Teixeira, Peixoto, & Faccin, 2021; Maritz, Perenyi, de Waal, & Buck, 2020; Singh, Kumar, Panchal, & Tiwari, 2021; Tajudin, Rahim, Idris, & Arshad, 2021).

Previous scholars have highlighted the impact of the COVID-19 Pandemic focusing on general business functions (Abu Hatab et al., 2021) as well as the macroeconomic indicators such as MSME finances, market stock, economic conditions, business and marketing, job allocation, and company recruitment of specific trade, tourism, and hospitality sectors (Abed, 2021). A closer look into the disturbed functions is provided by Rodrigues et al (2021) whereby it is indicated that the flow of liquidity, human resources, and production supply chains are identified as well as the need for digital improvements for businesses. Due to the absence of proxies for assessing the impact of COVID-19 Pandemic on three business functions, namely production, human resources and financial, this study performed the triangulation on the body of literature. These grounded-constructed proxies are

highlighted below and applied in this study.

The proxies for business production aspects include business disruptions related to logistics and delivery of raw materials, partners facing business uncertainty, reduced demand for products or services, inability to send orders, businesses unable to invest in market development, businesses unable to develop technology, problems related to commodities, retailers, disrupted local/international distribution operations, and other constraints related to production aspects (Aigbavboa et al., 2021; Aladejebi, 2020; King et al., 2021; Okundaye, Fan, & Dwyer, 2019; Rashid & Ratten, 2020; Rodrigues et al., 2021).

Since the last two years, COVID-19 Pandemic has hit Indonesia, various rapid studies have been carried out by the government, such as through ministries and agencies, the Indonesian Research Institute, the Central Statistics Agency, to research conducted by academics in looking at the impact of COVID-19 Pandemic in Indonesia (Pakpahan, 2020). Furthermore, a rapid assessment survey of the impact of the COVID-19 Pandemic conducted online May 1-20 2020 conducted by the Indonesian Institute of Sciences, it showed that 94.69% of businesses experienced a decline in sales. The 75 percent decrease in sales was experienced by ultra-micro businesses as much as 49.01 percent. 43.3% experienced by micro-enterprises, 40% experienced by small enterprises, and 45.83% experienced by medium enterprises (Pakpahan, 2020). The survey also collects the perception of business actors on the vulnerability of the decline in MSMEs if the Pandemic does not end soon. As many as 47.13% of businesses were able to survive until August 2020, as many as 72.02% of businesses will close in November 2020, and 85.42% of businesses can survive the longest within one year since the Pandemic.

The human resource aspect relates to the problem of increasing human resource costs such as salaries, employee welfare, and employee health costs. Problems related to the decline in business productivity with the reduction of staff, employees working from home, and a reduction in the number of working days. Business productivity can also be caused by the loss of skilled labor because experienced employees have left the company. And finally, the problem related to HR is decreased productivity due to high employee absenteeism due to the COVID-19 Pandemic (Aigbavboa, Aghimien, Thwala, & Ngozwana, 2021; Aladejebi, 2020; King, Rahman, Fauzi, & Haron, 2021; Okundaye, Fan, & Dwyer, 2019; Rashid & Ratten, 2020; Rodrigues, Franco, Sousa, & Silva, 2021).

Employment has taken a downfall rate as well. The Indonesian Statistics Bureau recorded an increase of 2.36 million within the labor force from August 2019 to August 2020 that amounted to 138.22 million. Consistently, the number of labor force participation and unemployment have increased 0.24% and 1.84%, respectively. The increase in unemployment is bigger than that of the labor force suggests that leads

to 7.07% unemployment rate. In a more detail look, during August 2019 to August 2020, there are 29.12 million of the working-age population that are affected by COVID-19 Pandemic situation. The breakdown of the number are as follows: 2.56 million people are laid off, 1.77 million people are temporarily not working due to COVID-19 Pandemic situation, 24.03 million people have experienced reduced work-days and only 0.76 million people that have not entered the labor force. The impact on the business as well as the unemployment show the domino effect of social and economic crises of the COVID-19 Pandemic in Indonesia.

The financial aspect includes the impact related to the decline in revenue resulting from a decrease in the main revenue from the sale of goods and services. Increased costs include input costs, costs for preventing the spread of COVID-19 Pandemic in business premises, increased commodity costs, and problems related to business liquidity problems such as difficulties in obtaining loan financing, inability to fulfill obligations to third parties such as creditors, and business actors unable to pay employee costs such as salaries, and well-being and health (Abed, 2021; Abu Hatab et al., 2021; Al-Fadly, 2020; Rodrigues et al., 2021).

During COVID-19 Pandemic, the Indonesian government has enacted policies related to economic recovery (*Kebijakan Pemulihan Ekonomi Nasional*), social and health protocol, development of individual's capacity and one that is targeted for micro, small and medium enterprises. Policies that are directly channeled into businesses are in the form of tax relief/subsidy/incentive, loan facilities and capital support. In addition to these policies, for MSMEs, is given the support for operational cost such as a discount on electricity cost and market expansion through, for example, ASEAN Online Sale Day. Assuming the difficulties imposed on MSME to fulfil their financing payments, the Government enacted deferred loan payment, debt structuring and subsidy on loan interest. Policies on social and health protocol relates to social distance and reduced work days/hours. Consequently, the government initiates a full-swing workshops and trainings on digital literacy and competence for small business owners. The impact of the COVID-19 Pandemic resulted in truncated demand combined with temporary lockdown and is followed by social distancing have triggered the heavy dependence on technology advancement. Offline business transactions have shifted to online business activities, especially in goods and services delivery. The government's interest to nurture the MSMEs during the crisis is understandable given the 99.99% of the country's businesses is managed by the MSMEs. With this in mind, there is an urgency to understand if these policies are properly targeted from the perspective of MSMEs. Therefore, this study also tries to highlight respondents' perceptions on government' policy during COVID-19 Pandemic. This study uses three areas of government policies about policies on health

sector (health protocol, social distancing), economic sector (tax relief/subsidy, loan facilities and capital support) and development sector (capacity building, trainings, digitalization support, education) to support MSMEs during the COVID-19 Pandemic. This aims to see how impactful the government's policy on each of the aforementioned sectors on their business' agility is.

In order to provide idiosyncratic result, this study uses six business sectors that are rooted from the Indonesian Standard Business Field Classification (Ministry of Investment, 2020). The six sectors are (1) Agricultural, which includes food crop agriculture, plantations, horticulture, animal husbandry, harvesting forest products, and catching and cultivating fish/water biota; (2) Production or processing activities that includes economic activities/business fields in the field of chemical or physical changes from materials, elements, or components into new products; (3) Trading, which includes economic activities/business fields in wholesale and retail trade of various types of goods and services; (4) Art, entertainment, and recreational, that includes activities to meet the needs of art/culture, entertainment, and recreation for the general public; (5) Services, that includes activities from organizational membership, repair of computers and household goods and personal goods and various personal service activities; and (6) Household industries that produce goods/services.

RESEARCH METHOD

This study is considered exploratory research with quantitative data collection technique using an online questionnaire. The explorative nature of the study can be identified from the proxies that is qualitatively constructed from the body of knowledge. Based on the vast literature of studies performed across countries, including that of Indonesia, production, human resource and financial are identified as the dimension of business function as shown in the concept construct in Table 1. The production includes supply chain and capacity development. The sub-dimension of human resource is grouped into costs and expenses related to staff and staff productivity. The last dimension, financial, covers revenue, costs and liquidity. All indicators for each sub-dimension are derived from various studies, based on their prominence appearance on the studies and relevancy to the policies enacted during the COVID-19 Pandemic. In addition to looking at the impact on the MSME sector being analyzed, the impact is also assessed based on the duration of the business to see if there is a difference between businesses that were started before the COVID-19 Pandemic and businesses that started during COVID-19 Pandemic. The last part of this study to highlights respondents' perceptions on government' policy during COVID-19 Pandemic. This study uses three areas of government policies about policies on health sector (health protocol, social distancing), economic sector (tax relief/subsidy, loan facilities and capital

Table 1. Conceptual Design

Concept	Dimension	Sub Dimension	Indicators	
Business Functions	Production	Supply chain	1. Logistics and raw materials	
			2. Market demand	
			3. Distribution channel and partners	
			4. Commodity	
			5. Domestic/international transportation	
	Human Resource	Capacity development	1. Market development investment	
			2. Technology advancement investment	
		Staff costs	3. Increase Staff Cost	
			Human resource productivity	1. Staff shortage
				2. Work from home policy
Financial	Revenue/Income	1. Decreased revenue		
		2. Health protocol adherence cost		
	Costs	3. Commodity prices		
		4. Staff costs		
		Liquidity	1. Financing capacity	
2. Third-party obligation				

support) and development sector (capacity building, trainings, digitalization support, education) to support MSMEs during the COVID-19 Pandemic.

The questionnaire is divided into three parts. The first part of the instrument is to collect respondents' business profile before and during COVID-19 Pandemic, which means pre- and post-2019. The second part consists of business activities as proxies for business functions where seven activities for production, six activities for human resources and seven activities for financial functions are shown. The third part is designed to have the respondents' self-assessment on their business sustainability facing the COVID-19 Pandemic time of crisis and their approval rate of government's COVID-19's policies.

Due to the aforementioned intention, respondents are targeted at MSME owners who have been operating before COVID-19 Pandemic and during COVID-19 Pandemic, which means within the last ten years to present time. A pre-test was conducted to ensure readability and understandability of the instrument. Then, the questionnaire is distributed on social networks and media from September to November 2021. The respondent's consent statement is presented as early as possible on the online questionnaire. The sampling technique used is accidental sampling due to the non-existent population data. The questionnaire is distributed through social media and community network. The distribution through WhatsApp Groups includes Komunitas Sahabat UMKM Indonesia and Entrepreneur Community of Ministry of Finance. The channeling through Instagram is done via accounts: MSME Info (UMKM Info), MSME News (Berita UMKM), and Friends of MSME (Sahabat UMKM). The next channel is Facebook group of Indonesia Small Business Community (Komunitas Usaha Kecil Indonesia), Scale-Up MSME Group (Group UMKM Naik Kelas), Forum MSME, and Komunitas Peluang Usaha UMKM. The last channel is through broadcast e-mail to MSME who are participating in Innovation Competition organized by Universitas Indonesia.

Data analysis is carried out using descriptive and inferential statistics. Descriptive statistics are used to codify the business activities affected by the COVID-19 Pandemic. The impacted activities are presented in frequency and percentage in each sector and based on

Table 2. Respondents by Business Sectors

Sectors	Number of samples	Percentage
Agricultural activity	13	6
Production/processing activities	37	17
Trading activity	100	45
Art, entertainment, and recreational activities	17	8
Service activity	38	17
Household activities that produce goods or services	15	7
Total	220	100

the three business functions. The aim of the presentation is to highlight which sectors are most affected in certain business functions. Inferential statistics are used to test whether there are differences of impact based on sector and duration of business. Of the 229 respondents who have filled the questionnaire, there are 220 that are eligible for analysis. The first nine were pre-test respondents and were not included in the analysis. Table 2 shows the number of respondents by their group sectors.

In order to provide a confirmation to the result, this study applies Kruskal Wallist Test to detect any differences on the results by business sector and duration of business. The hypothesis tested by the Kruskal-Wallis test in this study is as follows:

H1: COVID-19 Pandemic affected small businesses in Indonesia based on sector.

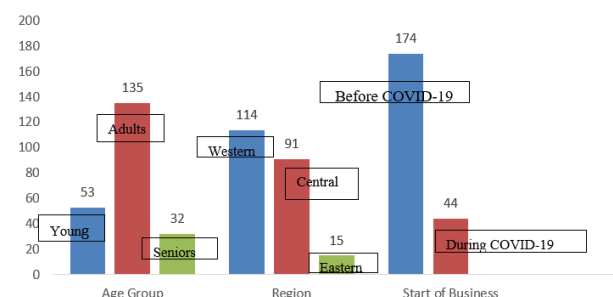
H2: COVID-19 Pandemic affected small businesses in Indonesia based on duration of business.

RESULT AND DISCUSSION

In the first part of the results and discussion, a demographic profile of the respondents consisting of age, regional area and duration of the business is presented. The second part of this section is dedicated to the codification of business activities that are impacted the hardest by COVID-19 Pandemic, the MSMEs' perception of their business' trajectory and the difference (if any) of impact amongst sectors and duration of business. The third part of this highlights respondents' perceptions on government' policy during COVID-19 Pandemic using the current policies aforementioned in the introduction section.

Figure 1 below illustrates the demographic profiles

Figure 1. Graph of Respondents' Demographic Profile



of the 220 respondents. Majority of the respondents are adults between 26 to 45 years of age (61%), followed by a younger group between 15 to 24 years old (25%) and a more mature age group between 46 to 65 years old (14%). Proportional to the national landscape, the majority of businesses are in western region covering Java, Madura, Sumatra, Central Kalimantan, West Kalimantan (52%) and central region including Bali, East Kalimantan, North Kalimantan, South Kalimantan, Sulawesi, West and East Nusa Tenggara (41%). Only a small fraction of respondents represents the eastern region, which include North Maluku, Maluku, West Papua and Papua (7%). In terms of duration of business, pre-COVID-19 Pandemic dated businesses are prominent (79%), whilst businesses started during COVID-19 Pandemic in early 2020 (21%) complete the total respondents. The earliest start of business is on the year 1980, with four other respondents who began their businesses in the 1990s. Based on the skewness of the demographic profile, it can be stated that the respondents are of productive age, concentrated around western and central region and have operated before COVID-19 pandemic times of crisis. The profile indicates the sampled MSMEs have survived the height of COVID-19 Pandemic era and privileged with good business infrastructure.

The next section presents the codification of the impact of the COVID-19 Pandemic on MSMEs and the respondents' trajectory perception of their business in response to the impact. Table 3 confirms the multiplier effect of lockdown and – at a later stage – social distancing policy imposed by countries across the world. The dramatic pause on social and economic activities has affected the flow of goods and services, truncated cash flow and diminished staff' productivity level. Financial function is the most hit by the COVID-19 Pandemic, which is experienced by all sectors. On the other spectrum, the human resource function is the least impacted by the rough situation as experienced by respondents shown by the moderate percentage across sectors in comparison to production function. Production and delivery of goods and services are mostly hit in the creative sector, followed by trading and service sectors.

Table 3 provides an insight on the acuteness of the impact experienced by small businesses. The percentage shown on Table 3 is calculated against the number of samples per sector presented on Table 2.

Table 3. Impact of the Covid19 Pandemic on MSMEs’ Business Functions by Sectors

Sectors	Production	Human Resource	Financial
Agricultural Activities	84%	77%	100%
Production/Processing industry	97%	100%	100%
Trading Activities	98%	88%	100%
Arts, entertainment, and recreation activities	100%	82%	100%
Service activity	98%	92%	100%
Household activities that produce goods or services	93%	87%	100%

For example, 84%, 77% and 100% for agricultural activities mean that the number of respondents whose operations are in the agricultural sector and claimed that their business is impacted in production, human resources and financial functions are 11, 10 and 13, respectively. Overall, the agriculture sector appears to be the least impacted by the stale economic and social activities due to COVID-19 Pandemic outbreak. Based on Table 3, two sectors that are severely hit in the production function, namely arts, entertainment, and recreational (100%) as well as trading sectors (98%). The two sectors that are severely affected by COVID-19 Pandemic in human resources function are production (100%) and service sectors (92%) and financial problems experienced by all sectors. This findings are aligned with (Abed, 2021; Hatab, 2021) that the COVID-19 Pandemic has affected all sectors in different ways. In line with the research by (Al-Fadly, 2020; Huang, Makridis, Baker, Medeiros, & Guo, 2020) the arts, entertainment and recreation sectors are the most affected as a result of the social restrictions. Likewise, in the production/processing industry, problems related to supply chain have caused this sector to be disrupted (Abu Hatab et al., 2021; Rashid & Ratten, 2020; Rodrigues et al., 2021).

This can be attributed to their nature of business that is more self-reliance and their output that is least affected by the decrease of demand. This is also influenced by the government strives to maintain the price and availability of staple food. On the other spectrum, the service sector appears to be the most struggled sector with all business functions severely impacted by the situation. Despite the “tsunami” impact of financial stale on all sectors, two sectors in particular are equally challenged. Production/processing and creative sectors have to overcome near-shutdown of human resource function and production function, respectively. All respondents, notwithstanding of their different sectors, have shown business agility when responding to the catastrophic situation at hand. As many as 57 of the 220 small businesses have pivoted in order to ensure their business afloat, with the most businesses come from arts, entertainment, and recreation activities (41%) and household industry (40%).

Based on the results of the analysis shown in Table 1, the first business function to be discussed is production, which is highlighted by disturbed supply

chain, plummeted demand in goods and services and inability to increase the value of their business (Aigbavboa et al., 2021; Aladejebi, 2020; King et al., 2021; Okundaye, Fan, & Dwyer, 2019; Rashid & Ratten, 2020; Rodrigues et al., 2021). Supply chain activities that are disturbed include logistics and raw material transportation, suppliers’ (domestic and international) facing business uncertainty and incapacity to deliver goods and services. Aside from issues rooted in the supply chain and decreased demand, businesses’ ability to invest in vertical and horizontal integration, as well as digitalization are incapacitated. Understandably, the limitation stems from discontinued liquidity experienced by businesses and households alike.

Figure 2 illustrates which production activities are impacted by the Pandemic. Respondents are allowed to select more than one activity. Aside from the undisputed low demand across sectors that is experienced by 160 (72%) respondents, MSMEs that are faced with challenges due to a disturbed supply chain related to logistics and transportation are amounted to 74 (33%) respondents, including those are disrupted at domestic/international ports (=15), undeliverable orders (=10) and disturbed logistics (=49). Equally, MSMEs also affected by their counterparts’ business uncertainty as experienced by 68 (30%) respondents. Lastly, the uncertainty of the going concern of business operations have reduced as many as 63 (28%) MSMEs in terms of their ability to create value through investments in market expansion and/or technology.

Table 4 provides the number of MSMEs whose production is constrained and an in-depth look at the production problems faced by MSMEs by sector

Figure 2. Production Activities Impacted by COVID-19 Pandemic

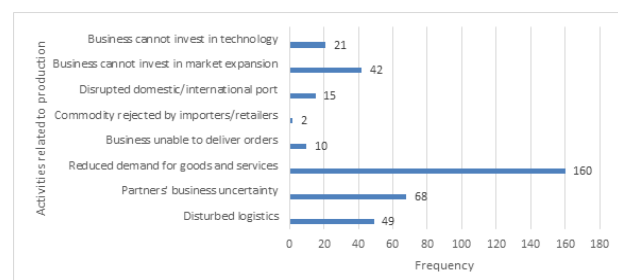


Table 4. Impacted Production Activities by Sectors

	f	Agriculture	Production /Processing	Trade	Art, Entertainment, Recreative	Services	Households
Business cannot invest in technology	21	2	7	5	4	3	0
Business cannot invest in market expansion	42	2	6	25	4	2	3
Disrupted domestic/international port	15	0	1	19	2	2	1
Business unable to deliver orders	10	0	3	5	1	1	0
Commodity rejected by importers/retailers	2	0	0	2	0	0	0
Reduced demand for goods and services	160	6	6	30	9	14	3
Partners' business uncertainty	68	6	6	30	9	14	3
Disturbed logistics	49	6	10	22	5	3	3

shows that three main sectors that are impacted by sharp decline in demand of goods and services are trade (30%), art, entertainment and recreational (52%) and agriculture (46%) with 30, 9 and 6 respondents, respectively. Similarly, both trade and art, entertainment and recreational sectors also heavily impacted by partners' business uncertainty with 30 (30%) and 6 (46%) respondents experienced it, respectively. In terms of disturbed logistics, production/processing sector is the most impacted with 10 (27%) businesses, followed by trade with 22 (22%) and art, entertainment and recreational sectors with 6 (46%) respondents. Other than these sectors, the issues with production are relatively spread across sectors.

The second business function explored is human resources. From previous studies (Aigbavboa, Aghimien, Thwala, & Ngozwana, 2021; Aladejebi, 2020; King, Rahman, Fauzi, & Haron, 2021; Okundaye, Fan, & Dwyer, 2019; Rashid & Ratten, 2020; Rodrigues, Franco, Sousa, & Silva, 2021), issues related to human resources are grouped into decreased business productivity and incremental costs incurred due to health protocol. The plummeted productivity can be attributed to: staff shortage, work from home policy, reduced working hours, high absenteeism rate and the loss of talent. In addition to productivity level, MSMEs have to manage the spike on staff expenses including insurance expense, medical expenses and cost related to health protocol adherence.

Figure 3 illustrates business activities related to human resources that are impacted by the Pandemic. As with the production, respondents are allowed to select more than one activity. Notwithstanding the liquidity issue, business productivity is the most severely hit by the Pandemic. Only 70 (31%) respondents are claiming the increased staff costs as the issue as opposed to that for decreased business productivity. The reason for downward spiraled productivity is mostly due to the reduced working days experienced by 72 (32%) respondents as part of the government's

efforts to reduce the spread of COVID-19 virus. Even worse than this, the loss of staff not only by forced but also voluntarily laid-offs particularly those considered skilled labors amounted to 86 (39%) claims by respondents. With such massive discharge of staff, the supply of goods and services are equally discontinued as the demand level.

As per Table 3, the human resource issues are one function that pose the least challenge to the respondents. The argument can be found on the business standings before- and during the Pandemic. Pre COVID-19 Pandemic, as many as 114 respondents or 51% are self-managed, whilst 106 businesses or 48% have employed anywhere between 1-5 to more than 20 employees. During COVID-19 Pandemic, the number is dropped by 15% whereby only 71 businesses or 32% have retain their employees though the number of staff is slashed by almost half, indicating there were 35 businesses that have laid-off all of their employees. Employees turnovers on the 71 businesses can be summarized as follows: 17 businesses have less employees, only one business have bigger number of staff whereas the rest of 53 businesses have maintain the same number of employees. This confirms the aforementioned insight that the problem with staffing is contained to their productivity rather than the lay-offs or reduced number of employees.

Table 5 shows the number of MSMEs who are constrained by human resources and an in-depth look at the human resource problems faced by MSMEs by

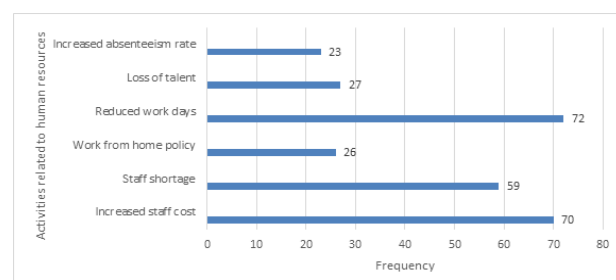
Figure 3. Human Resources Activities Impacted by COVID-19 Pandemic

Table 5. Impacted Human Resource Activities by Sectors

	f	Agriculture	Production / Processing	Trade	Art, Entertainment, Recreative	Services	Households
Increased absenteeism rate	23	0	3	8	2	8	2
Loss of talents	27	3	4	9	2	7	2
Reduced workdays	72	2	13	35	6	12	4
Work from home policy	26	2	6	7	2	8	1
Staff shortage	59	5	14	22	5	7	6
Increased staff costs	70	3	13	39	4	10	1

sector shows that trade sector is heavily impacted by increased staff costs (39%) and reduced work days (35%). This is followed by services sector with the same activities impacted 10 (26%) and 12 (31%) respondents, respectively. Amongst the sectors, agriculture is the least impacted by human resource issues presumably due to the nature of business of the respondents whereby 10 out of the 13 respondents are self-employed and the owner of their produce. Thus, the businesses are spared from employee’s turnovers.

The third business function discussed is financial, which includes decreased revenue due to plummeted sales, increased expenses related to operational costs, health-protocol adherence and commodity prices as well as liquidity issues that include difficulty in obtaining financing, intermittent or delayed loan payment and problems to make salary payment (Abed, 2021; Abu Hatab, Lagerkvist, & Esmat, 2021; Al-Fadly, 2020; Aladejebi, 2020; Rodrigues, Franco, Sousa, & Silva, 2021). Consistent with previous studies and the representation on Table 2, Graph 4 shows the highest conformity amongst respondents with 173 (78%) claims that sales are the most impacted business activity. It becomes clear that MSMEs have to face a systemic and systematic risk at the same time during COVID-19 Pandemic. MSMEs’ dependence on liquid assets and quick turnover is not sufficiently agile to meet even the internal obligations, let alone the external ones. Increased operational costs, increased material costs, salary payment and costs related to maintaining health-protocol can be applied to 164 (74%) respondents. To the contrary of general assumptions – and potentially the government’s directives – difficulty to meet creditors’ obligations is only experienced by 19 (8%) respondents. This might be caused by their short-term business horizon that allows MSMEs to fulfil their current obligations (of which are internally incurred) without external financing before COVID-19 Pandemic. Thus, they are not burden with recurring installment obligations during the recession. However, the increased internal obligations have exposed MSMEs to the need of external financing. In this matter, they face challenge to obtain loans from financial institutions, as claimed by 43 (19%) respondents.

An in-depth look at the financial problems faced by MSMEs, there are three aspects that could be beneficial for related stakeholders. The first is the respondents’ self-assessment on their operational cost, particularly that related to production cost. Out of the 220 respondents, as many as 79 businesses or 35% acknowledged the rise of production cost with various scale as follows: 31 businesses incur less than 10% increase, 26 businesses incur a rise of production cost between 10 to 15%, 12 businesses incur an increase cost between 15 to 20% and lastly, 10 businesses incur the most increase in production cost of more than 20%. A relatively equal number of businesses have managed to control their production cost. As many as 83 or 37% of the respondents claim as follows: 23 businesses incur less than 10% decrease, 9 businesses incur a decrease of production cost between 10 to 15%, 18 businesses enjoy decreased cost between 15 to 20% and lastly, 33 businesses have successfully reduced their production cost of more than 20%. Overall, 162 businesses or 73% have acknowledged an increase or decrease in production cost, whereas the rest of 58 businesses cannot determine whether they incur a variance on their production cost. The portion of businesses that have incurred an increase or a decrease on the cost is fairly equal for production/processing, trade, creative, service and household sectors. More of the agriculture sector have experienced a decrease production cost relative to that of increased cost.

The second is respondents’ self-assessment on staff cost. Out of the 220 respondents, as many as 63

Figure 4. Financial Activities Impacted by COVID-19 Pandemic

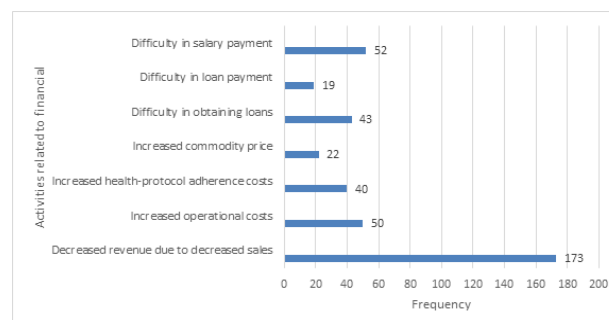


Table 6. Impacted Financial Activities by Sectors

	f	Agriculture	Production / Processing	Trade	Art, Entertainment, Recreative	Services	Households
Difficulty in salary payment	52	2	10	22	6	11	1
Difficulty in loan payment	19	2	5	10	1	0	1
Difficulty in obtaining loans	43	5	9	17	3	5	4
Increased commodity price	22	1	4	13	3	1	0
Increased health-protocol adherence costs	40	1	4	23	4	6	2
Increased operational costs	50	4	11	20	4	8	3
Decreased revenue due to decreased sales	173	9	28	77	16	30	13

businesses or 28% acknowledged the rise of employees cost with different scale as follows: 36 businesses incur less than 10% increase, 15 businesses incur a rise of staff cost between 10 to 15%, 7 businesses incur an increase cost between 15 to 20% and only 5 businesses incur the most increase in staff cost of more than 20%. Similar to production cost, a relatively equal number of businesses have managed to control their staff cost. As many as 68 or 30% of the respondents claim as follows: a majority of 30 businesses incur less than 10% decrease, 8 businesses incur a decrease of staff cost between 10 to 15%, 11 businesses enjoy a decreased cost between 15 to 20% and 18 businesses have successfully reduced their staff cost of more than 20%. Overall, 131 businesses or 59% have acknowledged an increase or decrease in production cost, whereas the rest of 89 businesses cannot determine whether they incur a variance on their employee's cost. The portion of businesses that have incurred an increase or a decrease on the employee's cost is fairly equal for creative and household sectors, whilst for the other sectors experienced a variation of an increase and a decrease of the particular cost.

The third and last is the respondents' self-assessment on their financial activities. The question is "How is your financial situation in September 2021 differ from that in September 2020?". Out of the 220 respondents, as many as 68 businesses or 31% acknowledged the increase of financial situation, 110 businesses or 50% claim financially decrease and 42 businesses or 19% cannot determine if their financial situation is worsened or improved within the stated period. It is a logical assumption that respondents are referring to the decrease of revenue and the increase of costs given the consistency of portion with the analysis in previous paragraphs. Out of the 68 businesses: 28 businesses incur less than 10% increase, 21 businesses incur a rise of cost between 10 to 15%, 11 businesses incur an increase cost between 15 to 20% and only 8 businesses incur the most increase in cost of more than 20%. Of the 110 respondents that

claim a decrease of revenue: 35 businesses incur a less than 10% decrease, 16 businesses incur a decrease in revenue between 10 to 15%, 11 businesses experience a decreased between 15 to 20% and the majority with 48 businesses have incur a fall in revenue of more than 20%. The plummeted revenue is mostly experienced by trade sector (55 or 55% of the respondents), whilst increased cost is mostly experience by production/process sector (16 or 43%). This result is consistent with the general findings based on Table 2.

Table 6 provides the number of MSMEs who are financially constrained and takes an in-depth look at the financial problems faced by MSMEs, are strikingly unambiguous with decreased revenue prominently experienced by all sectors. The least impacted sector by the discontinued sales is agriculture with 9 (69%) respondents positively agreed, while the most impacted sector is art, entertainment and recreational with 16 (94%) respondents. The least affected sector by financial issues is household sector, which might be benefited from their informal nature of business operations.

The study explores respondents' self-assessment on their potential to revive their business operations. The question to acquire this is "When the country enters a new normal era (starting December 2021), how long do you foresee to capture your pre-COVID19 business footing?". Unexpectedly, the majority of respondents comprises of 154 businesses or 70% have optimistically foreseen their pre-COVID19 Pandemic status in a maximum of 6 months, 66 businesses or 30% of the respondents admit that is from 6 months to more than one year. The most optimist sector to bounce back is production/processing, due to the corrected demand for goods and services. The most pessimist sector to recover during the new normal era is creative (arts, entertainment and recreation sector), presumably due to the slow mobility of people and infrastructure.

Given the results and interpretations of results, the next step is to have an indication of the survival strategy that is applied by the respondents. Realizing

the core issue of truncated demand, the impact of social distancing and limitations of goods and service transfer, the strategy comes in variety to address these problems. The most prominent strategy taken by businesses is development of their digital capacity and channel as it is taken by 140 businesses or 63% of the respondents. There are four strategies targeted at creating demand, namely nurturing client-te relationship (applied by 80 businesses or 36%), applying a different pricing strategy (applied by 70 businesses or 32%), introducing new product or variant (applied by 57 businesses or 26%), and opening new market or new customer segment (applied by 52 businesses or 23%). The least preferred strategy is to produce goods and/services in support of COVID-19 Pandemic treatment or avoidance. This means the 35 businesses or 16% of the respondents have adjusted their businesses to response to the current demand, i.e. COVID-19 Pandemic related needs.

In order to obtain a confirmation of the research result, the Kruskal-Wallis test is applied on the data to see if there are significant differences amongst business sectors and amongst duration of business. The hypotheses tested are as follows:

H1: COVID-19 Pandemic affected small businesses in Indonesia based on sector.

H2: COVID-19 Pandemic affected small businesses in Indonesia based on duration of business.

Based on Tables 7.1 and 7.2, the significance value of 0.344 and 0.136, respectively, both are higher than 0.05, which means that H0 for both hypotheses are accepted. Thus, all sectors have experienced impacts from COVID-19 Pandemic in all aforementioned activities in production, human resources and financial alike. As aforementioned, this result supports (Abed, 2021; Abu Hatab, Lagerkvist, & Esmat, 2021; Al-Fadly, 2020; Rodrigues, Franco, Sousa, & Silva, 2021; Saturwa, Suharno, 2020) whereby the COVID-19 Pandemic had a major impact on the day-to-day operations of MSMEs regardless of the sectors. In addition, the duration of businesses has not added to the agility of the business against a systemic risk such as COVID-19 Pandemic. There are three

categories for duration of business, namely less than 10 years, 10-18 years and 19-17 years of operation. Kruskal-Wallis test shows that the impact of COVID-19 Pandemic is equally experienced by businesses across duration category. This contributes to future development in twofolds: (1) small businesses have limited capability to mitigate a systemic risk, thus there is a need to re-direct government’s initiatives on small business’s capacity development; and (2) policy intervention should be generic to allow inclusiveness of various sectors and age of business though discrete enough to address particular sector’s needs and maturity of businesses.

The last part of this section is dedicated to highlights respondents’ perceptions on government’ policy during COVID-19 Pandemic. The body of knowledge (Al-Fadly, 2020; Burhan, 2021; Che Omar, 2020; James, 2020) suggests that government policies have an impact on MSMEs during Pandemic. Therefore, this study seeks to see the perception of small businesses’ owners on government policies during the Pandemic in relation to their business operations. This study uses three areas of government policies, they are: policies on health sector (health protocol, social distancing), economic sector (tax relief/subsidy, loan facilities and capital support) and development sector (capacity building, trainings, digitalization support, education). As many as 140 businesses or 64% claim that their business’s agility is impacted by government’s COVID-19 Pandemic policies. The two most dominant policies are that of health with 130 businesses or 93% of the impacted business respond in a negative way and economic with 111 businesses or 79% of the impacted business respond in a positive way. Referring to the analysis presented in previous section where businesses are severely impacted by a decreased working hour/days and increased staff cost, this result is not surprising. When it comes to economic policy, the majority of the government’s policy is directed at third-party financing such as loan channeling, grace period facility, loan reconstruction and installment relief. However, the evidence showed in Graph 4 suggests differently whereby third-party financing is claimed only by 62 respondents (19 for difficulty in loan payment and 43 for difficulty in obtaining loans), a much smaller number in comparison to decrease revenue due to the significant fall in sales (173 respondents) and increased operational costs (52 for difficulty in salary payment, 22 for increased commodity price, 40 for adherence to health-protocol costs and 50 for increased operational costs in general). In terms of policies related to trainings and skill development, a small fraction of businesses has claimed benefitted from the policy with only 52 businesses or 37%. Another economic policy that is favorable for small businesses is social and welfare support (Bantuan Sosial) that has been benefitted for 74 businesses or 53%.

At the final stage, this study explores respondents’ self-assessment on how impactful the government’s policy on each aforementioned sector on their

Table 7.1. Kruskal Wallis Test on Business Sectors

Test Statistics ^{a,b}	
	Impact
Chi-Square	5.629
df	5
Asymp. Sig.	.344
<i>a. Kruskal Wallis Test</i>	
<i>b. Grouping Variable: Sectors</i>	

Table 7.2. Kruskal Wallis Test on Duration of Business

Test Statistics ^{a,b}	
	Impact
Chi-Square	3.983
df	2
Asymp. Sig.	.136
<i>a. Kruskal Wallis Test</i>	
<i>b. Grouping Variable: Duration of business</i>	

Table 8. Classes of Responses

Range	Category
1.00 – 2.33	Not Impactful
2.34 – 3.67	Neutral
3.68 – 5.00	Very Impactful

business' agility. Since the response is provided in Likert 5-scale, a re-classification of responses is need and provided on Table 8. Essentially, the response mirrors the evidence outlined in previous sections.

The most impactful policy according to the 220 respondents is that of health sector with mean response of 4.12. As per previous discussion, the impact is inclined towards a negative effect on business. These findings are also in line with Che Omar, Ishak, & Jusoh (2020) that movement control to minimize the spread of the virus have a significant impact on business activities. Sectors such as trade, creative, service, production/processing and household industry are the majority that claim the policy is very impactful to their business productivity. The second impactful policy is the economic policy, which amounted to 3.69 mean average, closely followed by the capacity development policy of 3.67 mean average. Majority across sectors have responded in the bottom half of Likert-scale that indicates very impactful to their business. The last discussion is to highlight policy priorities from the business' point of view.

The first priority that is addressed by respondents is the policy to stimulate demand. This strategy is in line by (Lu, Wu, Peng, & Lu, 2020) that market demand is a significant strategy for the survival during Pandemic. As many as 95 businesses aspire to have new market/customer segmentation, support for capital expenditure, and price subsidies. The second priority pivot around financial support. As small businesses are heavily reliant and sensitive to liquidity, 161 respondents anticipate a policy that would support their financial liquidity including loan amenities (89 respondents), social and welfare support (53 respondents) and various subsidies (19 respondents). The third priority for small businesses is capacity building, which is identified by 123 respondents covering trainings and workshops to nurture employees' skills in production, financial and management areas. The last priority addresses the social distancing and limitation on working hour/days (or Pemberlakuan Pembatasan Kegiatan Perkantoran, PPKM) with 76 respondents expect to have a more relax policy on PPKM. The result is understandable since the new normal brings about a more relax PPKM.

CONCLUSION

The impact of COVID-19 Pandemic on MSMEs across countries are well-understood though they are lacking substantive primary data from the businesses. This study is aimed at providing first-hand data from the 220 MSMEs in Indonesia and the perception of government's policy related to COVID-19 Pandemic. The findings of the study show that the plummeted demand in goods and services as well as financial issues cause the most severe damage to MSMEs.

Using a magnifying glass to see where the impact in relation to three main business functions, the study identifies the disturbed supply chain (in production), the reduced working hours/days (for human resource) and the increased operational costs including that related to maintaining health-protocol and material costs (for financial). The two sectors that are severely hit in the production function, namely arts, entertainment, and recreational as well as trading sectors. Production is significantly impeded in two activities, namely a decrease in demand of goods and services and the uncertainty of their business partners' going concern. The two sectors that are severely affected by COVID-19 Pandemic in human resources function are production and service sectors. The activities that are damaging to MSMEs are the decreased productivity due to reduced staff and the increase in human resource costs. As a by-product of the first two functions, financial issues are experienced by all sectors in entirety. One activity is identified as the pivot, that is the decreased revenue, which triggers other financial activities, including the increase burden of preventing the spread of COVID-19 Pandemic. The government's policy on health presents the most challenge for MSMEs, followed by economic and developmental policies. Based on the research findings, MSMEs are in need of policies that would stimulate demand, increase the business' liquidity, increase business skills and prowess as well as ease of social distancing (PPKM). Of these policies, the government's ability to create market demand is essential and is recommended to be prioritized. Equally important, the relaxed social distancing would stimulate the flow of funds from corporations, to personal and household consumptions, which in turn would affect the production and price of goods and services. The previously primary and short-term policies that include subsidies, tax relief and ease of loan, could be shifted to a longer term to release the government's spending.

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