

# The Role of Digital Innovation as A MSME Business Resilience Strategy During the Covid Pandemic

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## Abstract

*As long as the COVID-19 pandemic continues, MSMEs will experience setbacks and face various problems. They will continue to do so if there is no adaptation from the perpetrators to increase their productivity again. The low productivity of MSMEs causes the profit also generated to decrease. This is a threat to the national economy. Therefore, efforts and strategies are needed to save MSMEs so they can continue to survive amid the COVID-19 pandemic, even after the pandemic. The strategy that can be used, for example, is the MSME digitalization development strategy from the Kemenkop MSMEs, namely: preparing MSME business actors to increase human resources and intervene in improving MSME business processes which will later be implemented in several programs. For the strategy to be successful, MSMEs need to innovate business through genuine efforts, such as using digital marketing and creative content, as well as improving quality and service so that more potential customers are captured, and it is hoped that repeat purchases will occur in the future. Buying and selling transactions mean that the opportunity for MSMEs to survive is more significant, and the Indonesian economy can move positively. This article was written using the literature study method by collecting empirical data sources related to the topics discussed in the article. The result is that the digitization program has several strategies for MSMEs to maintain their business, including (1) Utilizing the digital platform as much as possible, (2) Mastering digital marketing skills, (3) improving product quality.*

## Keywords

digital innovation; UMKM;  
business resilience; covid-19



## I. Introduction

The COVID-19 pandemic has brought drastic disruption in every sector of society. According to the World Health Organization (WHO), there are more than 255 million. Confirmed cases of COVID-19 globally, including 5 million deaths as of November 17, 2021 (WHO 2021). Various governments have imposed several social and economic restrictions to prevent the virus's spread, limiting people's mobility and physical interaction. The sudden reduction in face-to-face contact increases the shift in social and economic activities to digital platforms, including digital entrepreneurship (Dannenberg et al. 2020).

In recent years, several studies have debated the circumstances and reasons that facilitate the digital transformation of business and the public policies that support this phenomenon in light of its impact on job creation and economic growth (Sahut et al. 2019).

Among the enablers identified were technologies including social media, open educational resources, crowdsourcing, 3D printing, digital imaging, and data mining, which empower young entrepreneurs to reduce the barriers between discovery and new venture creation (Steininger 2019). Other drivers are the COVID-19 pandemic which is

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changing consumer habits and organizational innovation programs that lead to accelerated digital transformation of micro, small and medium enterprises (MSMEs) and large companies (Gavrila Gavrila and De Lucas Ancillo 2021).

In addition, people's purchasing power decreased during the COVID-19 pandemic due to government policies that limit outdoor interactions to prevent the spread of the coronavirus. That way, many consumers and MSME actors choose not to interact directly, so they switch to digital interactions. Many MSMEs that still depend on offline or offline sales (outside the network) have closed their businesses due to declining income and reduced purchases. Therefore, some MSMEs still unable to adapt to the COVID-19 pandemic by switching to digital systems will slowly close their businesses.

Covid 19 pandemic caused all efforts not to be as maximal as expected (Sihombing and Nasib, 2020). The outbreak of this virus has an impact of a nation and Globally (Ningrum *et al*, 2020). The presence of Covid-19 as a pandemic certainly has an economic, social and psychological impact on society (Saleh and Mujahiddin, 2020).

During the COVID-19 pandemic, only 16% of MSMEs joined the digital economy ecosystem, which is far from the expected number. Within Indonesia, MSMEs became the driving force of the Indonesian economy, even during the monetary crisis in 1998. Seeing this, it is inevitable that the MSME sector also has great potential to help Indonesia's economic recovery after the COVID-19 pandemic. Therefore, digital entrepreneurship students are needed, so the MSME sector continues to run amid the COVID-19 pandemic by adapting to technological advances. This digital technology also has a significant impact on new businesses. Apart from the issue of the COVID-19 pandemic, digital technology experts are needed by the MSME sector because they can increase performance productivity.

MSMEs are the backbone of the economy in many developed and developing countries, and further research is needed to discuss the sustainable development of MSMEs in a globalized and digital world (Mukhoryanova *et al*. 2021). The latest study analyzes the digitization of MSMEs in various sectors and regions. For example, Muhammad *et al*. (2021) conducted an online survey of Malaysia's industrial sectors (services, retail, manufacturing, and tourism). They showed a significant increase in the use of digital by companies during the pandemic compared to the situation before the pandemic. Another study in the manufacturing sector found that the importance of digital technology during the pandemic has gained customer satisfaction in the industry. Therefore, customers find confidence in digital technology solutions in various ways of solving pandemic problems (Mohapatra *et al*. 2021). In the European Agri-Food Cooperative Sector, Jorge-Vázquez *et al*. (2021) identify the digitization of business structures as an element of undeniable importance as a catalytic phenomenon of a series of disruptive processes that lead to gains in terms of efficiency, productivity, and business competitiveness. In addition, Massaro (2021) found that digital transformation can help solve challenges in medical practice by offering new value development patterns, such as blockchain technology that reduce some of the data management difficulties. (2021) identify that digitizing business structures is an element of undeniable importance as a catalytic phenomenon of a series of disruptive processes that lead to gains in terms of efficiency, productivity, and business competitiveness. In addition, Massaro (2021) found that digital transformation can help solve challenges in medical practice by offering new value development patterns, such as blockchain technology that reduce some of the data management difficulties. (2021) identify that digitizing business structures is an element of undeniable importance as a catalytic phenomenon of a series of disruptive processes that lead to gains in terms of efficiency, productivity, and business competitiveness. In addition, Massaro (2021) found

that digital transformation can help solve challenges in medical practice by offering new value development patterns, such as blockchain technology that reduce some of the data management difficulties.

Therefore, a digital MSME transformation is needed. The digital MSME transformation was launched in the digitization program, which is an essential part of the Ministry of MSME and Cooperatives transformation program. Digital transformation is an academic term that denotes organizational change due to the influence of digital technology. (Pasaribu, 2020) Changes in the organization or environment driven by technological developments create digital transformation. These changes occur for business process adjustments such as between customers and companies, companies and employees, or employees and customers, as well as changes in current environmental or market conditions.

The number of MSME actors already using digital platforms has increased significantly compared to the beginning of the COVID-19 pandemic. It can be concluded that social media is a means of developing entrepreneurship and MSME businesses. (Naimah, 2020) The high use of social media correlates with the increase in online buying and selling transactions. This is undoubtedly an opportunity for the MSME sector to switch to using the digital model completely. However, Digitalization does not guarantee that MSMEs will avoid various obstacles, such as digital market demand, uneven quality of resilience among MSME players, and minimal digital literacy education. The analysis results identify the drivers (intrinsic and extrinsic motivation) and challenges of MSME digital innovation during economic disruptions such as pandemics.

## **II. Research Method**

This research uses a literature study approach by analyzing all data and information related to research topics related to strategic steps in developing digital SMEs after the COVID-19 pandemic. The steps that need to be carried out when using the literature study model are the first, the researchers here observe and analyze the phenomena related to the article writing topic. Second, the data source is obtained from empirical data from the official literature. Third, determine the research focus based on the literature obtained. Fourth, reviewing various literature sources to find new ideas related to the research to be carried out. Researchers obtain data from official literature relevant to research topics such as journals, books, or scientific articles. In writing, the researcher uses data collection techniques, namely looking for variables in books, notes, papers, and articles. The content analysis method was chosen as a data analysis technique that aims to maintain the assessment process and minimize misinformation. Researchers need to check between libraries and re-examine them.

Based on the search results, 17 articles were identified and matched with the research objectives, then ranked to see if the article titles matched. Of the 13 articles, 13 articles with the same title were reviewed for inclusion and exclusion, and 8 articles were taken for additional review. After evaluating the quality of the study, eight articles were rated as good (high), and then the data were extracted.

### III. Results and Discussion

#### 3.1 Challenges and Strategies for Developing MSMEs after the COVID-19 Pandemic

The COVID-19 pandemic has impacted MSME actors, resulting in a business crisis. (Bahtiar, 2021) Several evaluations were carried out to understand whether digital changes were able to overcome the adverse effects of the business crisis due to the COVID-19 pandemic or not at all. In this case, external and internal analysis is needed for SMEs to be able to choose the business model they want to run.

Berger's research results (2021), Digitalization is currently the most critical force in entrepreneurship and innovation. The current state of digital entrepreneurship and digital innovation research assesses past research and identifies future opportunities (Berger, 2021). Digital entrepreneurship and digital innovation mean that digital technology effectively crosses traditional entrepreneurship and the innovation process. These two fields provide a reasonable estimate of the changes taking place in digital technology. The basic assumption is that digital technology fundamentally differs from traditional technology and represents another technological change. According to Satalkina (2020) research, digital entrepreneurship is an important driving force in the innovation ecosystem. This concept changes the structure, purpose, and network mechanisms of the entire business system, ultimately affecting the innovation system's various levels and dimensions. To make the necessary changes to the innovation system, digital technology may provide new business opportunities and disrupt and create new vulnerabilities (Satalkina, 2020).

Based on the statement (Marlinah, 2020), digital transformation is not only about new technologies used in business but also about the ease of rearranging business models to suit customer needs. (Marlinah, 2020) The government's policy of limiting outdoor social interaction has resulted in changes in customers' behavior and needs who tend to use digital technology as a medium for interaction. This is a factor that accelerates digital transformation. In addition, the development of digital technology and intense market competition has also triggered the acceleration of digital transformation.

Studies by Scuotto, V., Arrigo, E., Canelo, E., & Nicotra, M. (2019) suggest that to drive the development and innovation of technologies such as sensor technology, social media, artificial intelligence, blockchain, and cloud computing. Smartphones, 3D printers, chatbots, big data, augmented reality, nanotechnology, digital supply networks, robotics, and advanced manufacturing technologies. The use of social media platforms can be considered a new tool for implementing innovative innovation trends.

According to W. El Hilali, A. El Manoor, and M. Janati Idrissi (2018), consumers, data, and innovation are the driving force behind companies working in the digital era, significantly impacting the company's efforts. To achieve. Stability.

The results of research by A. Briono et al. Moin, FNAO Ceramics (2020). The COVID-19 epidemic has caused drastic environmental changes, prompting companies to adopt digital technologies on a much broader scale and under time pressure [43]. During the outbreak, remote workers increased the need for companies to digitize quickly.

#### 3.2 What is the Digital Transformation Process for MSMEs?

The results of the research by S. Gamache, G. Abdul-Nur, and S. Baril (2020) on the digital transformation of SMEs can be done in different ways. It is not enough to have the technology to do the digital conversion. They need the right solutions approach to direct their digital transformation efforts. However, in the study of A. Heberle, W. Löwe, and A. Gustafsson. Many factors must be considered when designing Vorrei (2017), particularly

how specific characteristics of a company can positively or negatively affect its digital transformation. According to S.Anim-Yeboa, R.Boateng, R.Odoom, and EA Kolog (2020), the digital transformation of SMEs is a digital start-up process, functions, process changes, skills gap management, and four generations. Follow the steps. Strategic change. It is also based on developing management, society, and human capital awareness. According to A. Priyono, A. Moin, and VAA Putri (2020), there are three digital transformation models for SMEs.

- a. MSMEs with high levels of digital maturity: accelerating the transition to a digitalized organization.
- b. MSMEs that experience liquidity constraints but have a low level of digital maturity: only digitize the sales function.
- c. MSMEs with limited digital literacy but high social capital collaborate with other parties with high digital literacy and capabilities.

According to J. Jeansson and K. Bredmar (2019), digital transformation actions follow three categories, namely:

1. The act of understanding and responding to the dynamic nature of digitization;
2. The act of managing the dynamic nature of digital capabilities and technologies;
3. The act of creating and capturing the elusive nature of digital business value.

According to Ulas (2019), to carry out digital transformation, SMEs need to do the following things [14]:

- a) Management requires data-driven digital transformation and determines who will be responsible for what.
- b) Applying a "learning culture" in MSMEs is very important for the digital transformation of operations.
- c) Define a simple roadmap of business goals or digital transformation.
- d) Creation of digital awareness and a supportive environment.
- e) Collaboration with UMKM assistants, innovation laboratories, and research institutes.
- f) Equipping MSMEs with requirements and needs analysis, implementing feasible goals. SMEs requesting digital transformation must be supported by the government.

According to Scuotto, V., Arrigo, E., Candelo, E., & Nicotra, M. (2019), companies are more likely to identify growth opportunities based on digital technology rather than profit-seeking. Any SME was starting to digitize their SME needs to determine which processes in the company's total value chain will benefit them the most according to their KPIs (e.g., improving performance, process transparency and efficiency, improving customer satisfaction and cash flow, etc.). Identifying the most profitable projects with manageable costs, limited resources, and limited knowledge. In addition, the research of C. Leona Niemeyer, I. Gehrke, K. Muller, D. Küsters, and T. Gries (2020) identified digital routers and divided them into three categories: e-commerce, e-marketing, and marketing. Electronic business. These developments have contributed to the understanding that digitization is not just a matter of introducing technology but also changing management mindsets and practices. Intelligent and networked systems, products, and processes enable product quality through efficient use of resources. In addition, digitization creates an entirely new business model for manufacturers. Squotto, W., Arrigo, E., Candelo, E., Nicotra, M. (2019) In the context of the current pandemic caused by COVID-19, flexible production capacity and collaboration of SMEs have been demonstrated in several cases. Working the digital change journey on the customer, data, and innovation axis will

enhance a sustainable business experience. In today's digital era, consumers can exchange information, gain knowledge, and share resources.

### **3.3 Improving Product and Service Quality**

The results of Krisnawati's research (2018) In the digital economy ecosystem, consumers are more careful in choosing the goods and services needed. This condition reduces consumer confidence in the goods and services offered by sellers, even more so during the current pandemic. The decrease in purchases due to limited consumer activity in direct purchases requires MSMEs to improve product quality so that consumer confidence can increase in the products or services traded. These improvements can be made periodically by adjusting consumers' needs, expectations, and desires. In addition, MSME actors must also be able to improve the quality of their services by adding types of services to consumers, such as messaging services between products or services through online media or other special services that are easily accessible by consumers. Following Hastuti's research (2020), MSME actors also need to tighten their service standards by paying attention to product cleanliness and online communication so that it is more effective and efficient and businesses can run as they should. Good service quality will create consumer confidence in business actors so that consumers are satisfied with the services offered. During the current COVID-19 pandemic, consumer trust is a significant factor in online business activities. (2020) MSME actors also need to tighten their service standards by paying attention to product cleanliness and online communication so that it is more effective and efficient and businesses can run as they should. Good service quality will create consumer confidence in business actors so that consumers are satisfied with the services offered. During the current COVID-19 pandemic, consumer trust is a significant factor in online business activities. (2020) MSME actors also need to tighten their service standards by paying attention to product cleanliness and online communication so that it is more effective and efficient and businesses can run as they should. Good service quality will create consumer confidence in business actors so that consumers are satisfied with the services offered. During the current COVID-19 pandemic, consumer trust is a significant factor in online business activities.

## **IV. Conclusion**

The instability of the Indonesian economy due to the COVID-19 pandemic impacts the MSME sector. MSME actors feel a significant impact in the form of a decline in consumer purchasing power. Especially in government policies that limit social interaction outside the room or at home, MSMEs have to adapt to existing conditions through the digitization of MSMEs. The digitization program has several strategies for MSMEs to maintain their business, namely; (1) Utilize the digital platform as much as possible. (2) Mastering digital marketing skills. (3) improve product quality. So that with the implementation of this strategy, it is hoped that these MSME actors can survive in running their businesses amid a pandemic and positively impact the Indonesian digital economy.

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