How Do They Survive? Study On Small Businesses Survive Covid-19 In Semarang

Aryan Eka Prastya Nugraha¹, Dwi Prastyo Hadi², Valdyan Drifanda³
¹,²,³Economic Education, Universitas PGRI Semarang, Indonesia

Abstract
The purpose of this study is to analyze the factors that push small businesses to survive during the Covid-19 pandemic and the factors that influence it. The method used in this research is the Exploratory Factor Analysis (EFA) uses PLS-SEM with a moderating effect. A total of 162 small-scale business units in Semarang participated in this research by filling the online research instrument. The result of this study indicates that Business Performance, Government Policy, and Stress processes have a positive influence on Business Resilience. The process of maintaining a business is weakened by the characteristics of a business vulnerability that will continue to overshadow the owners to keep the business. It is hoped that small business owners in Semarang could improve business performance by expanding market orientation by producing goods that are at lower prices with the same quality and possibly reducing quantity. Input Materials must switch to using local raw materials even though the price is quite high compared to those that often used imported raw materials to continue to meet the basic needs of the community, such as in the grocery / wholesale business. As for small businesses to be able to survive, the government’s participation amidst the threat of recession at this moment should come with more flexible policies, one of them is making policies on integration between SMEs that can be interconnected with one another to keep the demand and supply on the run. Besides, business owners must be able to do a variety of ways related to resource management that can do from the investment of resources and, most importantly, ready to prevent excessive loss of resources.

Keywords—business resilience; small business; covid-19

Abstrak

Kata kunci—ketahanan bisnis;bisnis kecil; covid-19

Article info
Received (28/07/2020)
Revised (19/09/2020)
Accepted (31/08/2021)
Corresponding author: aryaneka@upgris.ac.id
DOI: 10.25124/jmi.v21i3.3045
Copyright©2021. Published by School of Economics and Business – Telkom University
I. INTRODUCTION

At the beginning of 2020, the world was shocked by a virus declared as a pandemic by WHO since it caused a significant impact on people's lives up to the country's economy. Indonesia is one of the countries affected by Covid-19. By April 30th, 2020, the country reported to have 10,118 positive numbers, 1,522 healed, and 792 died (WHO, 2020). This certainly had a surprising impact on the health sector that medical workers and equipment in some hospitals were not sufficient at that moment. Furthermore, the government policies on the limitation on public activities, social distancing, and travel restrictions have impacted the economic sector (Baldwin & Mauro, 2020). Atkeson (2020) explains the epidemic that happens over time is determined by the level of transition. The amount of this transition is determined by the characteristics of the underlying disease and by the level of mitigation and social distance measures that are put in place. The rapid spread of Covid-19 certainly pushes the government to review policies and anticipations at all times. In the industrial sector, there is some subsector affected such as tourism, finance, transportation, mining, construction, automotive, amalgamating in the threats of 1.7 million formal workers laid off, 749.4 thousand legal workers laid off, 282 thousand informal workers whose business disrupted, and 100 thousand migrants were sent home (Jayani, 2020).

The economic channels in Indonesia affected by Covid-19 have not differed much from other countries, including the flow of goods, services, people, finance, investment, banking, and exchange rates that are all interconnected (Baldwin & Mauro, 2020). The city of Semarang is one of those affected. The city holds 1,538 small businesses consisting of culinary, fashion, education, and home-based businesses. The trade sector in small companies, which indeed becomes the engine of the Indonesian economy during the crisis, is proven. During the 2008 crisis, the small business sector still survived and was able to rise after the economic disaster. But for now, almost 50% of the small business sector is directly affected by Covid-19. Gostin and Wiley (2020) explains that to be able to reduce the amount of distribution of this virus, a country must take immediate actions, namely the closure of certain schools and businesses, the prohibition to gather, limiting the activities during curfew, staying at home policy, quarantine for those who went back from travel, conduct travel restrictions, and maintain cleanliness. Some of these changes are the reasons for small businesses being pushed to close their stores. However, the government also provides stimulus such as tax relaxation, relaxation of SME loans, and lower electricity bills. Limited studies on small business strategies to minimize losses and post-crisis recovery proved that small businesses are more resilient. Bartik et al., (2020) said that grouping them into three categories of impacts on small businesses. First, the effect of Covid-19 focuses on business operations and work. Second, on the financial fragility of these businesses, especially on cash and ongoing expenses. Third, expectations about the duration of the crisis and the survival of the business economy.

Resilience according to Doern (2017) is the ability to rise and positively adapt after experiencing trauma or crisis, interference, or difficulty. The theory of Conservation of Resources (COR) is used to define and explain why these resources are essential for resilience in small businesses (Hobfoll, 2001). Some of the phenomena and previous studies are interesting to be discussed in this study, which aims to analyze the factors that make small businesses survive during the pandemic of Covid-19. Therefore, the question of this research is how can small businesses survive the Covid-19 pandemic and what factors influence it?

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Business Policy and Performance on Pandemic

Business activity and crisis must be anticipated by the government in any country. The condition of a crisis caused by a variety of reasons must certainly take several considerations that need to discuss between all related parties. Research on Covid-19 impacting the business sector, which has hit almost 180 countries, has been conducted widely, but in Indonesia itself, there is still limited literature reviewing the issue at the moment. Explorative studies on how a business can survive amid the crisis of Covid-19 that is happening in early 2020 will undoubtedly be able to provide a solution for entrepreneurs, the government, and society. Covid-19 is the first pandemic ever to hit Indonesia, which has a massive impact on the SME sector (Barman, 2020). Although the country has experienced several phases of crisis in the last few decades, this time, the effect of Covid-19 is considered worse.

Bouey (2020) said that one of which highlights the government's response and the impact on the economy in China which found findings divided into three successive stages namely, Phase One: Awakening to the
epidemic, where the initial detection of Covid-19 in December 2019, which led the Chinese government to implement several regulations on health, economy, and security. The immediate economic impact was the consumer market and the domestic service sector can only make a small contribution to China's GDP (Aigbogun, 2020). Other areas also experienced a significant decrease in demand, especially in the automotive and smartphone industries. At this stage, it certainly illustrates that the agility of taking action remained to create a heavy blow to the business sector. The policy adopted by the Indonesian government at this stage was to increase APBN expenditure, prioritize budgets in the health sector, social protection, provision of business incentives, non-fiscal sector priorities, and monetary policy (Idhom, 2020). Various plans were taken by the government of Indonesia, which focused on two things, namely the health sector and the economy, to be able to survive even in the pandemic. The small business sector at this stage has not been affected and is still running normally as usual. Stage Two: Quarantine and Shutdown, at this stage, the government has taken many actions such as large-scale Social Restrictions in certain areas that show increasing data. For small businesses, of course, this has an impact on the decline in income because consumers begin to stay at home and prefer to do transactions online. Government policies regarding social distancing show a great impact for small businesses because of the prohibition to gather in a large number of people. The plan is positive, of course, to reduce the spreading rate of Covid-19. Still, small businesses in the food, fashion, education, and home industry sectors must be able to survive and adapt to policies that can change according to conditions. There is a phenomenon where several businesses are moving to the online industry by offering their products to customers on platforms such as Whatsapp, Instagram, and Facebook. It proves that some with a strong desire to survive must adapt to the conditions and adapt themselves to the existing supporting instruments, namely technology. But many prefer to close their businesses because they do not have the adaptive capacity and lack resources.

Phase Three: "Back to Work", the State of China has passed this phase by opening and loosening the lockdown policy that was previously implemented by looking at the decline in data of Covid-19. But for Indonesia at this phase, it has not been applied considering the high increase in the spreading of Covid-19, only a portion of it can still be actively working again. Besides that, the government is faced with the choice to open the door to the people's economy to keep it running. From these phases, it can be seen that the speed and in-depth study in formulating policies influence the business sector, especially small businesses that must take adaptive action. Based on these phases, it can be concluded that Indonesia has only reached the second phase with many policies, although it will enter the third phase, namely "new normal," which was planned to start in June 2020.

Small and medium-sized businesses have a strategic interest in economic recovery because they can help restructure the industry and take a role as a source of competition for large companies, contribute to technology transfer, and also regional development. This is certainly a consideration of the government to formulate policies during a pandemic condition so that the small business sector at the local level continues to run by fulfilling the health protocol, especially in the community's primary needs sector (Bourletidis, 2013). Small business becomes important for recovery and economic growth by contributing to job creation, especially during the pandemic, if business performance in a crisis period is still able to survive with several factors such as Market Orientation, in a crisis, sales will decline because all demand decreases. Some small businesses have an interesting adaptation by producing goods whose prices are lower to meet the market demand, which is shifting towards needs such as used goods that are relatively cheap due to the crisis of reducing the level of real income of the community.

The next factor is Input Materials; small businesses have substantial losses compared to large companies; this is due to their limited capacity to withstand rising prices and weaker positions to access raw materials. Different businesses in the service sector do not face such problems because they do not have raw materials. Some small businesses that rely on imported raw materials will replace local raw materials which are certainly limited and expensive. Location, the cost of production in one place is lower than the equivalent in other regions. It causes a pandemic condition as such; some still survive, and some immediately close their businesses in several areas. Exposure to Debt, during pandemic conditions, the debt burden dramatically affects the profitability of small businesses. Some businesses spend all of their gross profits to pay off investment debt, and some of them stop doing payments, even though the Indonesian government's policy suggests providing credit relaxation for SMEs. Still, they think it will remain a burden in the future. Based on several factors that make small business performance considered more adaptive to survive than large companies during a pandemic condition, business performance in times of crisis is considered as a predictor in this study. The hypothesis proposed that business performance influences the ability of small businesses to survive.
B. Conservation of Resources (COR) Theory

Theory of Conservation of Resources (COR) estimates that the loss of resources is a major element in the stress process (Hobfoll, 2001) since resources are also used to prevent the loss of resources. COR theory can be seen as an alternative for assessment-based stress theory because it depends more on the purpose and the nature of environmental culture in determining the stress process, rather than the individual's construction. In the current condition, many business owners are under-pressured due to the growing Covid-19, which has psychological effects on business owners. Stress will occur when individual resources are threatened with loss, when individual resources are entirely lost, and when individuals fail to get sufficient resources after a significant investment of resources (Doern, 2017). Some principles in COR theory will be used to determine the condition of business owners in a pandemic condition that affects the business unit. The first principle is the virtue of losing resources. The first principle of COR theory is that disproportionately resource loss is more important than resource acquisition. The second principle is an investment in resources. The second principle of COR theory is that people must invest resources to protect against loss of resources, recover from failures, and obtain resources. The hypothesis proposed Stress on business owners who adopt the Conservation of Resources (COR) Theory is used as a predictor to determine its effect on business resilience

C. Business Resilience and Vulnerability in times of crisis

The studies on the "crisis" have undergone some changes and adjustments to the current pandemic condition et al., 2009). Some definitions describe crises as extreme, unexpected, or unexpected events that require an urgent response from the organization and create challenges (Doern, 2017; Gamette et al., 2020). The current pandemic is associated with a crisis in the economic sector that has a systemic impact from upstream to downstream. While the typology of crisis as explained by Hannah et al., (2009) refer to a typology that illustrates crisis predictability, scale, and origin. At the same time, Buchanan and Denyer (2013) explain that the crisis consists of six phases, namely the pre-crisis or incubation, the event, the crisis response management, the investigation, the organizational learning, and implementation. Many actions have been done by the Indonesian government to reduce the decline of small businesses with a variety of policies. However, still, some can survive and some are immediately closed. As Smallbone et al., (2012) explained, the vulnerability of small businesses includes being particularly vulnerable to external shocks such as a recession, or in this case Covid-19 pandemic, due to many characteristics namely, more limited internal resources compared to large companies, narrower customer base, and product lines, as well as lower bargaining power with various external actors, including customers, suppliers and financial providers. Small businesses are also far more likely to stop trading than large companies during Covid-19. This is a concern that vulnerability characteristics are the factors that can make small businesses in the event of a Covid-19 pandemic turn to be strong or weak. The hypothesis proposed characteristics of vulnerability can be a moderator to be able to influence the strength of resilience of small businesses in the pandemic.

The concept of resilience has been widely used in a variety of disciplines ranging from ecology to strategic management, focusing on the geographical and organizational context that is currently remain being applied, resilience is defined as the ability and capacity to respond to short-term and long-term consequences locally and regionally, including creating employment and wealth; and stimulation of competition and employment innovation (Williams & Vorley, 2014). The importance of a small business to respond positively to the external crisis, in this case, the Covid-19 pandemic, which is indirectly essential to create a resilient economy (Bruderl et al., 1992). However, small businesses are more vulnerable to external changes in situations where they lack control, flexibility, and ability to adapt and survive (Wilson, 2016). There are four dimensions of resilience, according to Williams and Vorley, (2014) i.e. sense, which means the owner's capacity to identify potential problems, set priorities, and mobilize resources to avoid damage or disruption. The technical system is the ability of the owner to ensure that the organizational system performs to a high level when under extreme pressure. The organization is the readiness of the owner to make decisions and take action to reduce the vulnerability and impact of the disaster. Clarity is the capacity of the owner to make decisions regarding threats without undue delay. This is certainly interesting to study the relation of Semarang small business’ ability to survive the Covid-19 pandemic.

III. RESEARCH METHODOLOGY

This research applies the Exploratory Factor Analysis (EFA) method. Partial Least Squares (PLS) allows reflective calculations by measuring latent variables and researching underdeveloped or developing theories
Sample use 162 small-scale business units in Semarang participated in this research by filling the online research instrument. Analysis and measurement techniques use (1) outer model/measurement model; and (2) inner model / structural model assisted by SMART-PLS software. When estimating the model, it is necessary to simultaneously take into account the measurements and structural components as well. The effect of moderation used in this research model aims to influence the relationship between exogenous and endogenous latent variables directly but in different ways (Hair et al., 2018). A total of 162 small business units in Semarang participated in filling out questionnaires that were distributed online.

IV. RESULT AND DISCUSSION

The results of research and data analysis using the SMART PLS software notes that the value of Construct Reliability and Validity shown in the following table:

<table>
<thead>
<tr>
<th>Construct Reliability and Validity</th>
<th>Cronbach's Alpha</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.835</td>
<td>0.548</td>
</tr>
<tr>
<td>Business Resilience</td>
<td>0.764</td>
<td>0.808</td>
</tr>
<tr>
<td>Government Policy</td>
<td>0.857</td>
<td>0.634</td>
</tr>
<tr>
<td>Moderating Effect 1</td>
<td>1.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Moderating Effect 2</td>
<td>1.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Moderating Effect 3</td>
<td>1.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Stress Process</td>
<td>0.829</td>
<td>0.636</td>
</tr>
<tr>
<td>Vulnerability Characteristics</td>
<td>0.703</td>
<td>0.599</td>
</tr>
</tbody>
</table>

Based table 1 measurement model, shows that the Cronbach Alpha value has a value of > 0.7 which indicates that all variables are homogeneous. In contrast, the loading factor is known to be at 0.708 which indicates that the construct can explain more than 50 percent of the indicator variants. Next, the result on AVE shows > 0.5 that the construct can explain 50 percent of the items that make up the construct. Whereas the structural model results are known as VIF values as follows:

<table>
<thead>
<tr>
<th>Collinearity Statistics (VIF)</th>
<th>Business Resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>1.816</td>
</tr>
<tr>
<td>Business Resilience</td>
<td>1.772</td>
</tr>
<tr>
<td>Government Policy</td>
<td>1.983</td>
</tr>
<tr>
<td>Moderating Effect 1</td>
<td>2.005</td>
</tr>
<tr>
<td>Moderating Effect 2</td>
<td>1.105</td>
</tr>
<tr>
<td>Moderating Effect 3</td>
<td>1.057</td>
</tr>
<tr>
<td>Stress Process</td>
<td>1.021</td>
</tr>
<tr>
<td>Vulnerability Characteristics</td>
<td></td>
</tr>
</tbody>
</table>

In table 2, the VIF results show that all <5 indicates that it is free from multicollinearity. Collinearity has no problems, the next step is checking the value of R2 which measures the variance in each endogenous construction. It is a measure of the explanatory power of the model shown in the following table:

<table>
<thead>
<tr>
<th>R Square</th>
<th>Business Resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.576</td>
<td></td>
</tr>
</tbody>
</table>

In table 3 it is known that R2 is 0.576 or 57.6%, which indicates that the predictive accuracy of business resilience categorized as a medium. While the results of the path analysis are shown in the table as follows:
Based on the results of Path Coefficients in table 4 shows that Business Performance has a positive influence on Business Resilience, this indicates that the tendency of small businesses to adapt to continue to meet market needs during the pandemic because of the level of community income can be said to be declining. So if small businesses want to be able to survive and get consumers, then they have to shift by approaching the price by producing or offering products that are relatively low in price, of course with quality that adjusts, this is reasonable because the people's ability to conduct transactions is not as much as in the non-pandemic period, in the sense that their income was affected by the pandemic. Other things such as input materials which in normal conditions only small businesses have a high risk of loss, because of the ability to get raw materials, limited raw material capacity compared to large companies. In pandemic conditions they do not want to take a high risk if they want to stay afloat, what must be done is to continue to use raw materials and get them as needed, which certainly cannot rely on imported raw materials due to restrictions and must rely on local raw materials which are more expensive. For their food business, they are shifting to the digital sector by offering their products through social media and marketplaces, and their raw materials can be said to be safe because they are entirely from local raw materials. Unlike the case with the service sector that does not have raw materials, so it is not affected, but to get the market almost all sectors are affected. Cho & Orazem, (2020) reveal that business growth is highly dependent on economic conditions at the time the business entered. In a pandemic condition, only a small proportion that starts the business even with very good performance will not necessarily survive.

The next factor is location; small businesses that rely on non-basic needs are complicated when there is a policy to close some areas. They are tough to get access to raw materials at affordable prices, which are only available in a few areas. Examples of this are handicrafts made from cow leather. It gives a big influence related to access to raw materials, which forces them to look for other regions with competitive prices to be able to survive even if they increase the cost of shipment. Exposure to Debt is one of the business performance factors that in a pandemic condition has a big influence on the finances of small businesses many of them close their businesses because they are unable to settle debts despite assistance from the government regarding credit relaxation for SMEs. The results show a negative prediction on the variable characteristics of business vulnerability, so it can be said that all characteristics of business resilience including limited resources, customer base, and product lines, and bargaining power have the effect of reducing the effect of small business performance on business resilience. In detail, it can be said that the characteristics of vulnerability, such as limited resources owned by small businesses from affecting their performance coupled with pandemic conditions that must do various ways to survive. Vulnerability characteristics reduce the effect of business performance on business resilience, which means internal resources, customer base, and product lines, and bargaining power can be a threat if the pandemic condition is not ended immediately.

Whereas Government Policy has a positive and significant influence on Business Resilience, meaning that if small businesses want to survive, it must be accompanied by government policies that continue to encourage small businesses to keep moving during the pandemic. Systems that have been implemented by the government of Indonesia related to SMEs, such as tax relaxation and relaxation of SME loans that can be utilized. Yet, the policy must also be fully supported by health protocols that make people continue their activities as usual. For small businesses to be able to survive the government's participation amidst the threat of recession with more flexible policies, one of them is by making policies on integration between SMEs that can be interconnected with one another to keep the demand and supply running. The next factor is resourcefulness, which means the owner's capacity to identify potential problems, set priorities, and mobilize resources to avoid damage or disruption. The owner becomes the critical holder of business survival when this uncertainty starts from identifying the problem of the business unit; the owners are required to be able to become the problem solvers of their business units, starting from financial issues and human resources. The ability to set priorities becomes
fundamental also for owners in this condition to be able to make decisions and prioritize matters related to business needs. Vulnerability characteristics weaken the effect of government policy on business resilience, thus, no matter how successful the government policy in reducing the rate of the Covid-19 pandemic will remain, and greater possibility of small businesses being affected. That is because the ability to capture the policy response of each small business is different.

The Stress Process of Business Resilience has a positive and significant effect, meaning that if the business owners would like to stay running in a critical condition at this time, they must be able to prevent the loss of resources. The theory of Conservation of Resources (COR) has several principles, including the loss of resources disproportionately that is more important than the acquisition of resources. In a pandemic condition that results in many small business resources, especially in the food business, which almost lost most of its needs of the community in contrast to the business sector, in this case, owners must invest resources to protect against loss of resources. Another resource is labor that must follow the protocol, which has limited working hours, resulting in reduced wages and even layoffs because businesses are no longer able to operate. The second principle is the investment of resources, in this case, the owner must invest resources to protect against loss of resources, recover from failures, and obtain resources. Many small business owners do not invest in resources, for example, in financial resources that should have been in the pre-pandemic period with revenues that could be set aside for investments in the capital market, gold, or perhaps property. Only a few conducted such preventive acts, but many are affected by not investing in resources. To be able to survive in a crisis condition, business owners must be able to do a variety of ways related to resource management that can be done from the investment of resources and most importantly must be able to prevent disproportionate loss of resources.

Matters related to business resilience are divided into several measures, including a technical system, which means the ability of the owner to ensure that the organizational system performs at a high level even under extreme pressure. During the pandemic, the owners of small business units in Semarang experienced particular internal and external pressure, but those who can maintain the internal states of the business, in this case, can manage their finances and work models to adjust within the health protocol. Then the organization refers to the readiness of the owners to make decisions and take action to reduce the impact on their business units. At this stage, business owners are not ready for the pandemic, many quickly adapted, but many are shocked, resulting in many losses. But for those who quickly adapt can minimize loss, for example, the management of stock goods that take immediate action not to accumulate too many products.

In contrast to the business sector, the services sector is almost entirely affected because the community imposed social restriction during the onset of the pandemic. Next, the clarity of the business owner’s capacity to decide the threats without undue delay. Business owners can make decisions at the right time without having to look at the next symptom, for example, in this case, they conduct a temporary business closure while looking at the latest government policies without having to take actions that would harm consumers and the business itself. Craven et al., (2020), in their report, reveals that companies need to think and act on five horizons, namely resolving, resilience, return, re-imagination, and reform.

V. Conclusion

Based on the result and discussion on the factors that can push small businesses to survive during Covid-19, namely business performance, government policies, and stress processes, it shows that business owners have a significant influence in determining whether small businesses will survive or even join the pandemic crisis. The process of maintaining a business is also moderated, or in this case, the results are weakened by the characteristics of a business vulnerability that will continue to overshadow the business owners to maintain their businesses. It is hoped that small business owners in Semarang can improve business performance by expanding market orientation by producing goods that are at a lower price with the same quality and possibly reducing quantity. At the same time, Input Materials must switch to using local raw materials even though the price is quite expensive compared to those imported raw materials to continue to meet the basic needs of the community such as in the grocery/wholesale business. As for small businesses to be able to survive, the government's participation amidst the threat of recession at this moment should come with more flexible policies, one of them is making policies on integration between SMEs that can be interconnected with one another to keep the demand and supply on the run. Besides, business owners must be able to do a variety of ways related to resource management that can do from the investment of resources and, most importantly, ready to prevent excessive loss of resources.
VI. REFERENCE


