

CHAPTER I

INTRODUCTION

This chapter will cover the background of the study, research problem, research questions, research objectives, significance of the study, and lastly organization of the study.

1.1 Background of the Study

COVID-19 has been a disaster to tourism sector in Indonesia. It suddenly buried the development of tourism in Indonesia, especially in Bali. The virus firstly suspected in Wuhan on December 2019 and spread to other areas outside China such as America, East Asia, Southeast Asia, and Europe rapidly with The novel variant of coronavirus, like SARS-CoV-2, has the potential to cause severe pneumonia. (Chinazzi M. et al, 2020). The virus has highly impacted the tourism sector of China and other countries as Chinese tourists have been one of the biggest visitors for other countries. (Hoque A., et al, 2020). Tourism was a dependable industry for expansion before the pandemic, but it has been suffering a decline due to global health issues. (Hitka et al, 2021)

According to Sumarni, T. et al (2020), Micro, Small, and Medium Enterprises (MSMEs) are the most susceptible business categories to be impacted by a pandemic. One of the heaviest impacts has been the COVID-19 pandemic, which caused many MSMEs to suffer losses until their businesses closed. However, on the other hand MSMEs are the most important pillars of Indonesia's economy. According to the Ministry of Cooperatives and Small and Medium Enterprises, Indonesia has 64.19

million MSMEs in 2021 and has contributed 61.97 percent or 8.6 billion rupiah to Indonesia's GDP. These numbers are also backed by MSME's ability to absorb the total workforce and can collect up to 60.4 percent of the total investment (Herman, et al, 2018). In 2019, The Ministry of Cooperatives and Small and Medium Enterprises (2022) reports that 119.6 million people or 96.92% of the total workforce in Indonesia. The growth of MSMEs to Indonesia's GDP, which always increases stably every year, is supported by programs provided by the government to support MSMEs (Herman, et al., 2018). MSMEs have a character that is critical of the circular economy, environmental protection, and social responsibility. (Prayitno et al, 2021).

During the pandemic, the tourism sector was greatly affected, especially in Bali. In 2019, the tourism sector in Bali contributed 78 percent of Bali's economy, followed by the agricultural sector at 14.5 percent. (Purwahita et al, 2021). The data shows the heavy dependence on the tourism sector for Bali's economy. The government has officially suspended the visa on arrival policy and tightened health checks in Bali in 2020 to reduce the spread of the existing virus. Several regulations and circulars were issued by the government. This makes the tourism sector even more depressed because all tourist activities cannot be carried out by social distancing. Bali is facing a big challenge in COVID-19, with the number of local and foreign tourists experiencing a drastic decline (Figure 1.1). The decline in visits from tourists has had a major impact on Bali's economy.

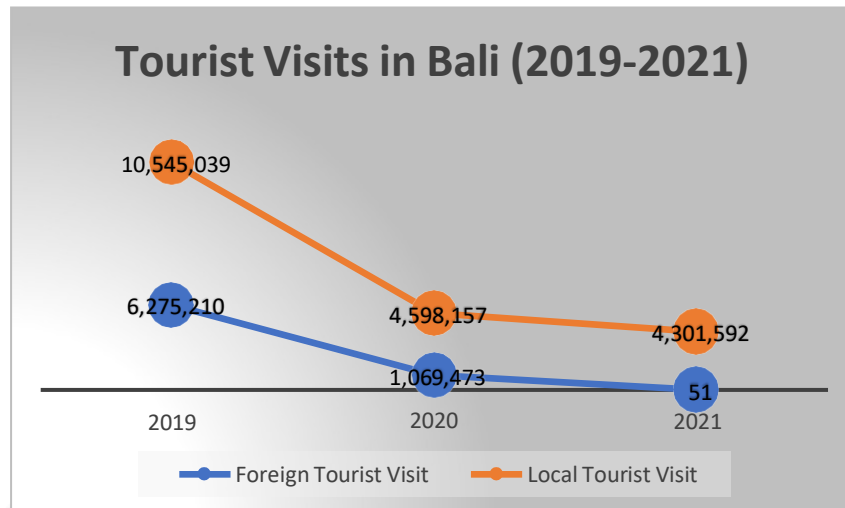


Figure 1.1 Tourist Visit Decline in Bali from 2019 until 2021
 Source: Indonesian Central Bureau of Statistics

The decline in tourism visits in Bali impacted the economy of Bali's society. According to Indonesian Central Bureau of Statistics (2021), COVID-19 has caused 20.35% or around 714.2 thousand of the working age population to lose their jobs at all sectors in Bali. Many tourism companies have closed their business lines indefinitely due to the pandemic. The closure of the international airport by the government had a significant impact on individuals employed in Bali's tourism industry. When referring to the blow caused by the pandemic, During the pandemic, the Indonesian tourism industry has laid off 90 percent of the existing workforce (Purwahita et al, 2021), due to being laid off, affected by layoffs, and their workplace is temporarily closed. The pandemic has impacted numerous tourism enterprises, including travel agencies, hotels, restaurants/tourist eateries, souvenir and gift shops, and transportation service to tourism employees such as tour guides and others. Bali needs a breakthrough to restore the tourism sector which is the largest contributor to

the economy in Bali, with 53 percent supported by the tourism sector (Purwahita et al, 2021). In addition, according to the Indonesian Ministry of Tourism and Creative Economy, Bali has contributed the largest foreign exchange to the tourism sector in 2019, namely 40 percent of the country's total foreign exchange of \$17.6 billion (Soraya E. et al, 2022).

The emerging concept of the "new normal" presents novel prospects for sustainable tourism that prioritize economic, socio-cultural, and environmental equilibrium (Hakim L, 2020). Describes how entrepreneurs can develop by considering many things after the pandemic. New normal arrangements is well prepared by government to gain productivity and safety on the tourism sectors (Budhi M et al, 2022) as CHSE (Cleanliness, Health, Safety, and Environmental Cleanliness) become the compilation new normal policy for tourist destination in Bali. The Provincial Government of Bali has anticipated the spread of the Covid virus along with budget relocation to the health industry, economic climate, social welfare programs, and policies specific to the tourism industry (Astawa, 2022). The Tourism Grants (70% tourism business actors and 30% local government) has been approved by Minister of Finance of the republic of Indonesia that affected by COVID-19 as some areas of Bali's destination are through a financial disturbance (Budhi M et al, 2022). The grant could help to restart the tourism sectors from the fundamental. The bounce of Bali Tourism started on March 2022 where the border from international entry to Indonesia began to open and the visa application on arrival was unsuspending. According to Indonesian Central Bureau of Statistics (2022), 291.162 foreign tourist visit Bali in the month of September 2022. it

shows a significant increase if it compares to September 2021 which none are visiting Bali. This also shows an increase in hotel room occupancy in Bali to 46.45 percent in September 2022. The bounce back of the Bali Tourism sector is deeply felt by the people of Bali, especially tourism figures. To do the improvement in MSMEs tourism in Bali, government support is required to build small-scale tourism that will provide new livelihoods. That support does not necessarily need to be in the form of cash. Some of the small and micro enterprises needs to marketing educated by doing the marketing training and also access to tourism-research data.

The accelerated growth of Bali's tourism industry was additionally aided by the G20 Presidency Summit 2022, which took place in Nusa Dua, Bali. 20 representatives from each of the G20 members discussed the topic "Recover Together Recover Stronger". A study (Devi N et al, 2022) shows that the G20 Presidency has had a positive impact on tourists to Bali. The impact is in the form of increasing trust and behavioral intentions to tourists. Other than that, the main focus of Indonesian government on G20 is infrastructure development planning (Saputra F, et al, 2021). Several policies was prepared by the Ministry of Tourism and Creative Economy to promote, increase tourism attractiveness, and focus on restoring health in Indonesia. (Saputra F. et al, 2021). The government also plan to open the border for each members of G20 to Indonesia to make it easier for their tourists come to Bali more. Therefore, a study (Saputra F. et al, 2021) shows that G20 forum has an impact on Indonesian Economic and Political Policy.

Covin et al (2019) define entrepreneurship orientation as the set of procedures, strategies, and decision-making practices that enable a company to confidently

introduce its innovation, existing or new products, services, markets, or business models. Entrepreneurial orientation is aimed at getting maximum results on company performance (Abu-Rumman et al., 2021). Entrepreneurial orientation has also become



the consideration for companies to modify their operations through the new way (Abu-Rumman et al. 2021). This entrepreneurial orientation is very important for organizations considering this can improve performance (Krisna & Giantari, 2020). During a pandemic, many economic actors were required to continue to innovate in maintaining their business (Adnyani et al, 2020). While waiting for tourists to arrive, many entrepreneurs have closed their businesses during the COVID-19 pandemic (Baker & Judge, 2020). With the new normal, Bali tourism is slowly recovering while adhering to the health regulations in force. Tourism actors strive to create tourism areas that provide tourists with a sense of comfort and security. Bali entrepreneurs engage in several activities, including various strategies to revive Bali's tourism industry, such as maintaining high standards of sanitation and security, promoting staycations, niche tourism, solo travel tours, wellness tours, and virtual tourism (Paramita et al, 2021). The new normal life has implications for seeing the readiness of the government and entrepreneurs in facing tourism recovery in Bali (Paramita et al, 2021). According to Putra I., et al (2019), business performance of MSMEs in Bali is most affected by entrepreneurial skills. Entrepreneurs are now required to have strategies that will become a benchmark for an entrepreneur to improve performance as MSMEs owner or representative will be the respondents of this study to reach validity of what this research proposed.

Cost leadership strategy and differentiation strategy are two of the three strategies that are the mainstay of M. Porter (1980) which are outlined in three generic strategies that can outperform other companies in an industry. Krisna and Giantari's (2020)

research demonstrates a favorable correlation between cost leadership strategy and performance, while Shah and Ahmad's (2019) study reveals that entrepreneurial orientation has a positive effect on performance and differentiation strategy. These findings suggest that a company's strategy is significantly impacted by its entrepreneurial orientation. The better the entrepreneurial orientation in an organization, the better the two strategies are implemented in the organization. Many entrepreneurs in Bali apply cost leadership and differentiation strategies to their post-pandemic businesses. This is also supported by Sariani N., et al (2021), in a study which shows that the performance of SMEs in Bali is heavily influenced by a differentiation strategy and followed by a cost leadership strategy implemented by entrepreneurs in the tourism sector.

This research focuses and examines one independent variable which is entrepreneurship orientation. This research examines one dependent variable which is performance. This research also examines two mediating variables which are cost leadership strategy and differentiation strategy. With statements that are reinforced by Krisna & Giantari (2020) and Shah & Ahmad (2019) that entrepreneurial orientation, cost leadership strategy, and differentiation strategy have a positive relationship to performance. The population of the study is Tourism MSMEs in Bali with the unit of analysis of Tourism MSMEs. Questionnaires will be spread toward entrepreneurs of MSMEs in Bali. The total population in this study is expected to be 150 with fair representation from all tourism sectors in Bali. The objective of this study is to

investigate the progress of Bali's MSMEs in the tourism industry following the COVID-19 pandemic.

1.2 Research Problem

Bali is an interesting area to study because the tourism sector is the largest contributor to the country's foreign exchange. Many tourists flock to Bali again and again just to get comfort and perfection on vacation. In 2019, Bali won several achievements in the tourism sector. The tourism sector skyrocketed at that time. When the borders for international airports were closed in 2020, Bali was the most affected. On Bali, like almost every other travel destination, this pandemic has had two seemingly irreconcilable consequences. On the one hand, locals can enjoy their environment without being overwhelmed by it. On the other hand, it destroyed the lives of thousands of workers (Subadra & Hughes, 2021). Bali tourism experienced a severe downturn during the pandemic (Budhi M et al, 2022). Bali also have some MSMEs problem, which MSME in tourism can't access the information from the government regarding the tourist visits and other information about tourists. When the tourist border at the international airport in Bali was opened, Bali experienced a very good recovery. Tourists from Europe, Middle East Asia, Australia are starting to come to Bali with the Visa on Arrival policy given to tourists by the Indonesian government to gain tourist attraction after the pandemic.

Many destinations were reintroduced and new destinations began to be enlivened by many foreign tourists. For now, MSMEs Entrepreneurs engaged in the tourism sector must have a longer vision if they learn from the current pandemic. They must have strategies that make their business more sustainable. Entrepreneurs in Bali

are advised to adhere to an entrepreneurial orientation that can improve the performance of their MSMEs.

1.3 Research Questions

Based on the explanations above since there are a lot of fluctuation on tourist visits in Bali that make the business in tourism sector become inconsistent and it really impacted the society of Bali. There must be a change on the strategy and orientation for the entrepreneurs in Bali. So, in order to make sure that it is correct and proven, the problems that need to be address in this research study are:

- What is the positive influence of entrepreneurship orientation on cost leadership strategy in tourism MSMEs in Bali post-pandemic?
- What is the positive influence of entrepreneurship orientation on differentiation strategy in tourism MSMEs in Bali post-pandemic?
- What is the positive influence of entrepreneurship orientation on performance in tourism MSMEs in Bali post-pandemic?
- What is the positive influence of cost leadership strategy on performance in tourism MSMEs in Bali post-pandemic?

- What is the positive influence of differentiation strategy on performance in tourism MSMEs in Bali post-pandemic?
- What is the positive influence of entrepreneurship orientation on performance that is mediated by cost leadership strategy in tourism MSMEs in Bali post-pandemic?
- What is the positive influence of entrepreneurship orientation on performance that is mediated by differentiation strategy in tourism MSMEs in Bali post-pandemic?

1.4 Research Objectives

On this research study, the objective or purpose is to analyze, examine, and identify the relationship between entrepreneurship orientation and performance, in order to really know if the strategy can properly work with entrepreneurship orientation to gain performance. The purposes include:

- To analyze the positive impact of entrepreneurship orientation on cost leadership strategy in tourism MSMEs in Bali post-pandemic.

- To analyze the positive impact of entrepreneurship orientation on differentiation strategy in tourism MSMEs in Bali post-pandemic.
- To analyze the positive impact of entrepreneurship orientation on performance in tourism MSMEs in Bali post-pandemic.
- To analyze the positive impact of cost leadership strategy on performance in tourism MSMEs in Bali post-pandemic.
- To analyze the positive impact of differentiation strategy on performance in tourism MSMEs in Bali post-pandemic.
- To analyze the positive impact of entrepreneurship orientation on performance that is mediated by cost leadership strategy in tourism MSMEs in Bali post-pandemic.
- To analyze the positive impact of entrepreneurship orientation on performance that is mediated by differentiation strategy in tourism MSMEs in Bali post-pandemic.

1.5 Significance of the Study

1.5.1 For the Researcher:

The purpose of this research is to understand and absorb knowledge from existing independent variables, dependent variables, and mediation variables. In addition, this research has an objective to find out how business owners in Bali know about cost leadership strategy and differentiation strategy with entrepreneurship orientation. To be able to further trigger entrepreneurs in Bali

to always improve their innovative work behavior in their respective businesses by learning from yesterday's pandemic. Another goal is to understand how aspects can increase the productivity and effectiveness of the tourism sector in Bali, such as the accommodation, transportation and other sectors.

1.5.2 For the Tourism Sector MSMEs Owner:

The purpose of this research is to help Tourism Sector SMEs in Bali to know and understand about entrepreneurial orientation, and two general strategies which are cost leadership strategy and differentiation strategy for them to use in their respective businesses to help and enhance their workplace innovation and creativity to use those strategies to make it sustainable for a long period of time and receive many benefits along the way. To realize that many opportunities that Bali's MSMEs has if it compares to another province.

1.5.3 For the Future Researcher:

This study can later help future researchers regarding the topics that will be discussed in this research. Information about the results of this research will make it easier for future researchers to get the desired results.

1.6 Organization of the Study

CHAPTER 1: INTRODUCTION

This chapter includes background of the study, research problem, research questions, research objective, significance of the study, and organizations of the study.

CHAPTER 2: LITERATURE REVIEW

For this chapter, it consists and identifies each the theories on each variable and finalize the conceptual framework that connect the independent variable, dependent variable, and mediated variable. This chapter also cover the hypothesis from the framework itself.

CHAPTER 3: RESEARCH METHOD

This chapter cover analysis method to make the research can be utilized on this study in regards on data, sources, and questionnaire that used to solve the case that are researched.

CHAPTER 4: DISCUSSION AND ANALYSIS

This chapter consists of result from the research, the accumulation of data that being done because of result of questionnaires. Data analysis also provided on this chapter to utilize the statistics calculation on the relationship of each variables and can give a great result to the hypothesis.

CHAPTER 5: CONCLUSION AND SUGGESTION

For this chapter, it will include the conclusion and final statement for this research study. It also provides the suggestions in regard to finding out problems and suggesting ways of alternatives through the result. It shows the results from the statistic calculation of the data that has been finished.