

CHAPTER I

INTRODUCTION

1.1. Research Background

Indonesia is a country with the largest number of populations ranked 4th in the whole world behind China, India, and the United States. According to Kemenkop UKM (2021), there are approximately 64 million Micro, Small, Medium Enterprises (MSMEs) in Indonesia, which make up 99% of the total business units and employ 97% of the workforce. These businesses also contribute up to 60.5% of Indonesia's economy (Kementerian Koordinator Bidang Perekonomian, 2022). Despite their significant contributions to the economy, MSMEs face several challenges especially because of COVID-19 pandemic.

Ever since the COVID-19 pandemic, the situation in Indonesia has been more concerning. Throughout the year, numerous MSME have closed because they cannot survive the current situation. According to the survey that has been done by Bank Indonesia by 2021, there are approximately 77,95% experienced the negative impact of the pandemic in the form of decreased income and increased operational costs. Another research by Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) by 2021, approximately 37,000 micro, small, and medium enterprises (MSMEs) have reported being severely affected by the pandemic. The impact is evident through various aspects: around 56 percent reported a decline in sales,

22 percent faced financing issues, 15 percent experienced challenges in product distribution, and 4 percent encountered difficulties in sourcing raw materials. However, MSMEs are crucial for Indonesia's economy, contributing to Indonesia's gross domestic product for over 97% of businesses and contributing to more than 61% of employment (Indonesia Investments, 2022). Despite their significant role, MSMEs in Indonesia face various challenges, including limited access to finance, inadequate infrastructure, and low productivity (Yulisman, 2020). These challenges are compounded by the COVID-19 pandemic, which has disrupted supply chains and led to a decline in consumer demand.

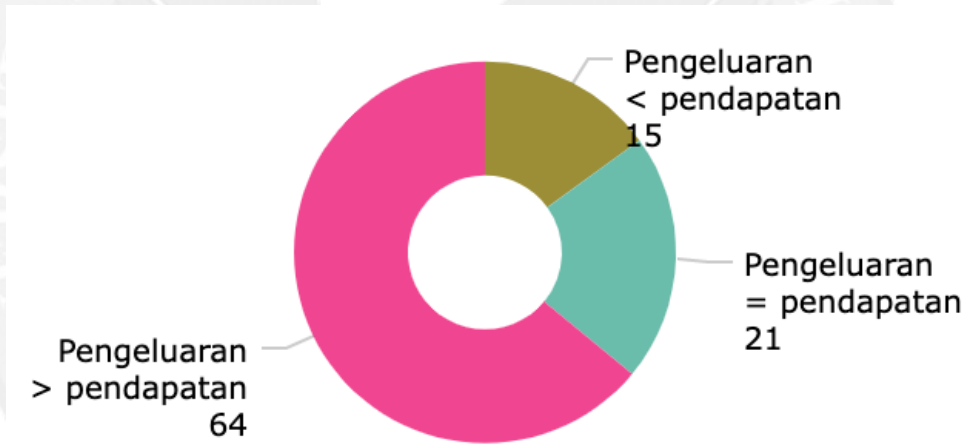


Figure 1. 1 Consumer Financial Condition during the COVID-19 Pandemic
Source: Pusparisa (2021a)

One of the prominent impacts of the COVID-19 pandemic is the significant shift in consumer needs. As reported by a survey conducted by Katadata in partnership with Cashpop (Pusparisa, 2021a), many consumers experience a larger expenditure compared to their income due to reduced salaries, business income, and job loss.

Increase in spending is also caused by the changing priorities of society towards essential needs, as illustrated in Figure 1.2 where daily necessities and health are the highest priority, while leisure activities such as travel are considered a lower priority (Pusparisa, 2021b).

Youswohady in Katadata (Pusparisa, 2021c) explained the biggest changes in consumer preference caused by the COVID-19 pandemic, including the shift to a stay-at-home lifestyle where activities such as work, worship, and learning are done at home as a way to anticipate virus transmission through social distancing, even though it is found that this led to a decrease of up to 50% in public place visitors compared to pre-pandemic times (Obie, 2021). The pandemic also changed consumers' basic needs, prioritizing necessities such as food, health, and internet, while shopping activities have shifted to online purchases with less frequent visits to offline stores than before the pandemic, and finally, there has been an increase in empathy towards those struggling due to the pandemic.

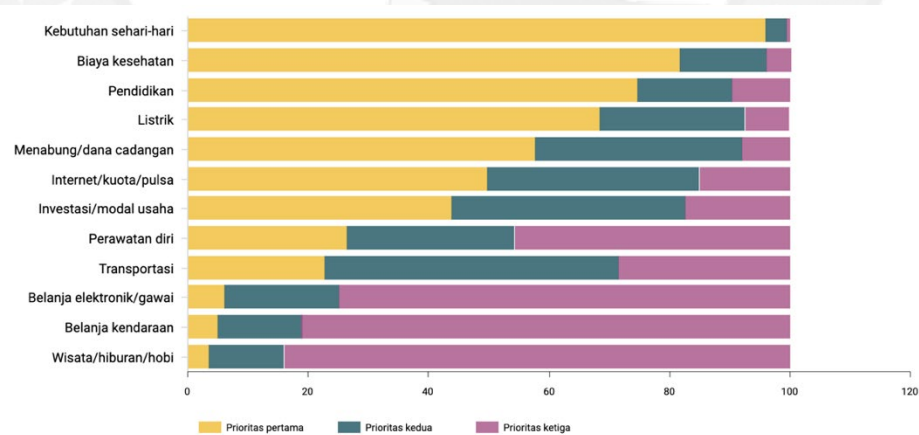


Figure 1. 2 Priority for Consumer Needs during Pandemic

Source: Pusparisa (2021b)

To face the pandemic effect in the business sector, it's important for business owners to adapt through innovation and explore new opportunities. Innovation is key to driving the economy and creating prosperity, as companies that prioritize innovation are more likely to survive challenging times and stay competitive (Bisnis.com, 2020). Adaptation and innovation are key to maintaining business continuity, which is especially important during the pandemic (CNBC Indonesia, 2021). Innovation is considered a key factor in dealing with the pandemic situation, but it also poses a challenge for business in addition to other challenges including maintaining their business, quality of human resources, company culture, utilizing technology and innovation, funding, and government policies (Ahdiat, 2022)

The pandemic has also driven the adoption of technology in the business sector to provide convenience for consumers and business owners. In terms of finance, technology can take the form of virtual payments that facilitate transactions in situations where mobility is restricted. Figure 1.3 shows that digital payments, such as electronic money transactions, digital banks, ATM cards, and QRIS, have seen an increase in volume, resulting in an increase in digital economic and financial transaction values.



Figure 1.3 Facts of Digital Economic and Financial Transactions in Indonesia
Source: bi.go.id (2022)

The pandemic has accelerated the adoption of technology in business, providing ease for both consumers and business owners in financial transactions, such as virtual payments, to facilitate transactions during mobility restrictions, and through the internet. The internet is an expansive network that encompasses countless computers and webpages, offering advanced tools for organizational development, while intranets, which are private networks utilizing web technologies, facilitate the distribution of data and information throughout an organization (Moussa, 2016). As shown in Figure 1.4, majority of businesses have implemented internet in their marketing. The utilization of the internet has a positive impact on sales to maintain the business and increase revenue (BPS, 2020). Despite the majority of companies taking advantage of online marketing, a significant number still do not utilize the internet for

marketing. This indicates that the full potential of technology has not been realized, as only a portion of companies are using it, even though it can positively impact business.

PERSENTASE PERUSAHAAN YANG MENGGUNAKAN INTERNET DAN TI UNTUK PEMASARAN VIA ONLINE

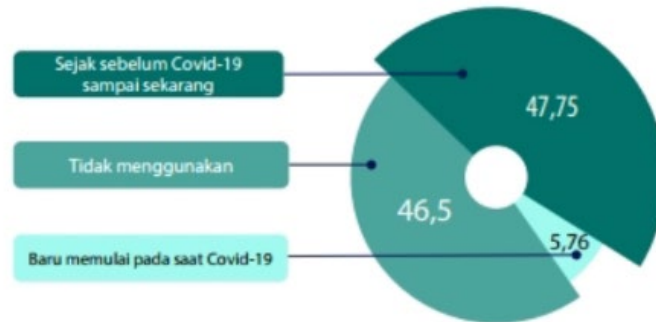


Figure 1.4 Percentage of Companies Using the Internet for Online Marketing
Source: BPS (2020)

The pandemic has had a major impact on businesses, resulting in reduced sales and increased risk of bankruptcy due to the various aspects of businesses that have been affected (LIPI, 2020). This research aims to investigate how the performance of MSMEs can be affected, particularly as a result of the pandemic. The study conducted by Alheet et al. (2021) highlights that business performance can be influenced by technological advancement, entrepreneurial orientation, and changes in consumer attitude. This research is employed to analyze the performance of MSMEs during the pandemic using the factors identified by Alheet et al. (2021). Therefore, some factors that can support business performance include technological advancement, entrepreneurial orientation, and changes in consumer attitude.

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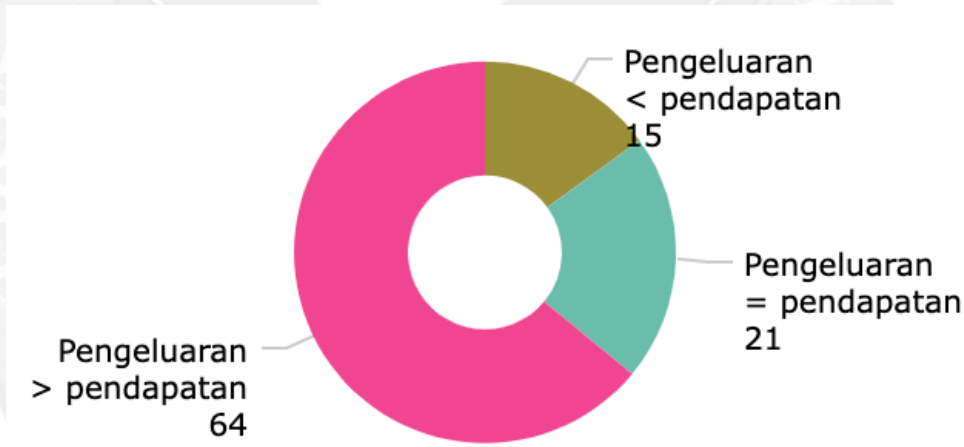


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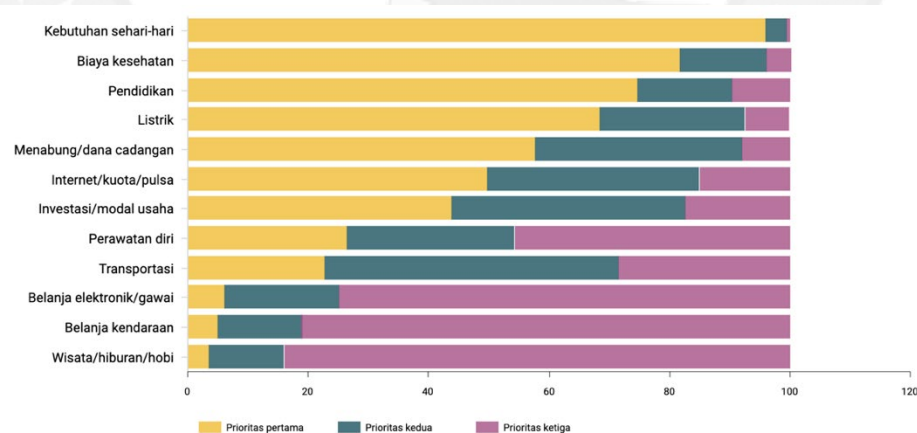


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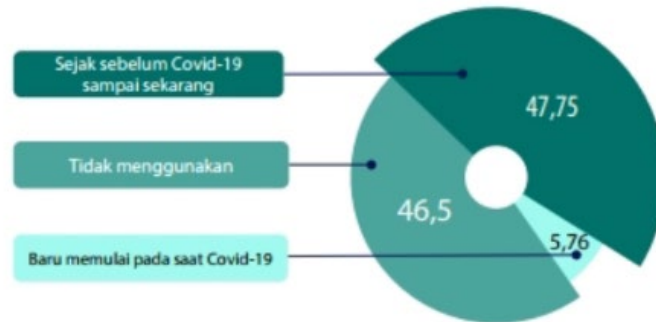


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To remain competitive, MSMEs in Indonesia need to adopt technology, to improve their knowledge on marketing skills through digital technology, strengthen

their quality, and to expand to the global export market (Fardah, 2021). However, technology adoption in Indonesia is still low, especially among MSMEs, who often face significant barriers to adoption, such as limited financial resources, inadequate infrastructure, and low technology literacy (Rofik, 2019).

Entrepreneurial orientation refers to an organization's strategic focus on identifying and exploiting new business opportunities through innovation, risk-taking, and proactive decision-making (Wiklund & Shepherd, 2016), which is a critical factor that can drive MSMEs' performance. In highly uncertain business conditions, entrepreneurship plays a crucial role in achieving successful business performance (Cho Hee & Lee Heon, 2018).

In addition to entrepreneurial orientation, changes in consumer attitudes can also significantly impact MSMEs. In recent years, there has been a shift in consumer behavior in Indonesia, with consumers increasingly using digital channels to purchase goods and services (Nurchayadi, 2021). MSMEs that fail to adapt to these changes risk losing their market share to more technologically savvy competitors.

Performance measurement is crucial for effective management of a firm. One of the measurements that can be used is how the company perform by looking through the sales. Performance measurement enables firms to develop a better understanding of their capabilities and helps them to control and organize their resources effectively. Measuring performance allows firms to analyze and identify their management strategies, predict future internal and external situations, monitor progress towards their objectives, and make necessary decisions at the right time (Taouab & Issor, 2019).

Therefore, it is essential to examine the impact of technology advancement, entrepreneurial orientation, and changes in consumer attitudes on Indonesian MSMEs performance after the pandemic of COVID-19. This study aims to provide insights into which factors changed after the pandemic, analyze what can drive and which increase the most potential of MSME's technology adoption in Indonesia, entrepreneurial orientation skills, and changes in consumer attitudes on MSMEs'.

In summary, MSMEs are critical for Indonesia's economy, but they face various challenges, including limited access to finance, inadequate infrastructure, and low productivity. Technology adoption can enhance MSMEs' competitiveness, but barriers such as limited financial resources and low technology literacy often hinder adoption. Entrepreneurial orientation is critical for driving innovation and adaptiveness among MSMEs, while changes in consumer attitudes can impact MSMEs' sales. This study seeks to examine which is more impactful to Indonesian MSMEs, with the aim of informing strategies to promote MSME growth and development in Indonesia.

1.2. Research Questions

1. Does technological advancement positively affect firm performance?
2. Does entrepreneurial orientation positively affect firm performance?
3. Does change in consumer attitude positively affect firm performance?

1.3. Research Objectives

1. To identify whether technological advancement positively affects firm performance
2. To identify whether entrepreneurial orientation positively affects firm performance
3. To identify whether change in consumer attitude positively affects firm performance

1.4. Research Contribution

The researcher hopes that this research may add theoretical contribution and practical contribution, which can be articulated as follows:

1.4.1. Theoretical Contribution

This study is anticipated to offer theoretical advantages by discussing a bound variable, namely firm performance, that is affected by the independent variables, such as, technological advancement factors, entrepreneurial orientation factors, and change in consumer attitude. Additionally, it is expected to make a theoretical contribution by serving as a point of reference for future research on variables that affect business performance, particularly in the context of MSMEs in Indonesia.

1.4.2. Practical Contribution

The objective of this study is to yield practical advantages by identifying the factors that have the potential to affect the performance of MSMEs after the pandemic.

The factors being examined include entrepreneurial orientation, technological advancement, and changes in consumer attitude. This study is also expected to contribute by providing ideas and recommendations to business owners and other stakeholders for generating innovative strategies to address performance issues that may arise due to the aftermath of the pandemic.

1.5. Research Problem Boundaries

There are several limitations to the research of study that should be acknowledged. One major weakness is the challenge of measuring performance, which can be difficult to define. While financial data is often used as a measure of performance, it was not accessible. Instead, the researcher relied on self-reported questionnaires for secondary data analysis, which may reduce the objectivity of the findings. However, the researcher uses questionnaires by researching through three factors and performance, the impact of implementing technology, the efficiency and innovation of entrepreneurial orientation strategy, and how change in consumer attitude may affect the employee's performance. Another limitation is that the researcher does not have enough time and budget to research throughout Indonesia. Therefore, the researcher focuses on MSME based on the researcher's location, in Tangerang.

1.6. Research Outline

CHAPTER 1: INTRODUCTION

The first chapter of this thesis is segmented into six sections: background, research question, research objectives, research contribution, and research outline. These sections provide an overview of the study and outline its structure.

CHAPTER II: LITERATURE REVIEW

Chapter two of this thesis is focused on the literature review. This section discusses the research variables and theoretical underpinnings that are relevant to the study, drawing from prior research. Additionally, the chapter establishes the initial hypothesis of the study by elucidating the relationship between the variables and presenting them through research models.

CHAPTER III: METHODOLOGY

The chapter on research methodology outlines the methods employed to test the variables. It covers topics such as the population and sample used in the study, the units of analysis, conceptual and operational definitions, testing procedures, and pre-test definitions.

CHAPTER IV: RESULTS AND DISCUSSION

The chapter on research results presents the outcomes of the data processing procedures. The processed data is organized and then examined through descriptive data analysis and interpretation.