



## The Pressure of the Covid-19 Pandemic, Digitalization, and the Classic Problems of MSMEs in Indonesia

**Herispon and Saiful Anuar**

Sekolah Tinggi Ilmu Ekonomi Riau, Indonesia

E-mail: herisponpiliang@gmail.com

### ARTICLE INFO

Research Paper

#### Article history:

Received: 1 March 2023

Revised: 19 March 2023

Accepted: 29 April 2023



<https://doi.org/10.54099/aijbs.v3i1.531>

### ABSTRACT

This paper attempts to investigate the relationship between the COVID-19 pandemic and the digitalization of Micro, Small and Medium Enterprises (MSMEs), which is still widely discussed in various studies to date in the national economy. Using the method of literature study and descriptive analysis of the data collected. So in this study it can be shown that the covid 19 pandemic has relevance to accelerating the digitization of MSMEs, on the other hand MSMEs have difficulty getting away from problems with capital, location and place of business, business management, inconsistent behavior of MSMEs, marketing and target consumers, massive product innovation, scope simple thinking of MSMEs. The conclusion of the Covid 19 pandemic has accelerated the process of adopting digitalization or online services for MSMEs, so digitalization is crucial, especially during the pandemic

**Keywords:** Pandemic covid 19, Relevance, MSMEs, mature thinking, wise action

JEL Classification: D11, E25, M21

*This work is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License.*

### INTRODUCTION

In the last 25 years, MSMEs with all their shortcomings have become the basis of the national economy and a shield against the shocks of the crisis that occurred in Indonesia (cases; 1997, 1998, 1999 and 2008). Nationally data from [Kemenkop UKM & BPS \(2020\)](#) the MSME sector plays a role through unit growth of 64,194,057 units, employment of 121 million workers, and its contribution to Indonesia's GDP of IDR 8,400 trillion or 60 percent of total GDP. The results of the 2016 Organization of Economic Cooperation Development (OECD) survey, stated that MSMEs in Indonesia can absorb 70.3 percent of the total workforce in Indonesia ([Badan Pusat Statistik, 2020](#)). It is clear that on the one hand, MSMEs have contributed to the national economy, but on the other hand, MSMEs face many problems along the way, especially internal problems. MSMEs that have shown their contribution and existence in supporting the national economy, is proof that their existence in Indonesia cannot be ignored ([Herispon & Hendrayani, 2021](#)). The following is the condition of MSMEs in Indonesia, namely:

Table 1. Development of SMEs from 2010 to 2020

Year	Units (million)	Labor (million)	ADHB GDP (Rp Billion)	Non-Oil and Gas Exports (Rp Billion)	ADHB Investment (Rp Billion)
2010	52.8	96.2	2,969.3	162.3	781.4
2011	54.1	98.2	3,411.6	175.9	927.1
2012	55.2	101.7	4,321.8	187.4	992.2
2013	56.5	107.7	4,869.6	166.6	1,250.8
2014	57.9	114.1	5,440.0	182.1	1,655.2
2015	59.3	123.2	6,228.3	187.0	1,818.7
2016	61.7	112.8	7,009.3	255.1	2,058.0
2017	62.9	116.7	7,704.6	298.2	2,236.7
2018	64.2	117.0	8,573.9	293.8	2,534.5
2019	65.6	124.4	9,116.8	299.5	2,720.6
2020	67.0	127.4	9,817.4	316.9	2,947.9

Source: (Kemendag UKM & BPS, 2020)

A reality that was never expected before, the resilience of micro, small and medium enterprises (MSMEs) from December 2019 to January 2022, with events that shocked the world, namely; the outbreak and the covid-19 pandemic which paralyzed the joints of the economy in many countries in the world, including Indonesia. Previously, MSMEs were strong in facing the storm of crisis, when facing the Covid-19 pandemic, the MSME sector seemed to lose power, because what was paralyzed was demand, supply, physical activities of producers and consumers directly in the market or in the transaction process (Herispon, 2020).

The Covid 19 pandemic that has occurred in Indonesia for more than 2 years, has had an impact and pressure, especially on community economic activities from small, medium and large scale. Nationally, the economic impact of the Covid-19 pandemic has reduced sales turnover for medium and large businesses, and specifically for MSMEs and street vendors, sales turnover has fallen by 80 percent (goriau.com, April 2020). The Covid 19 pandemic is said to be the cause of the disruption of people's economic activities in almost all sectors, on the other hand most of the government funds are used to tackle the spread of the Covid-19 pandemic with various strategies, such as; Large-scale social restrictions (PSBB) or imposition of restrictions on micro-scale community activities (PPKM), implementing health standards (prokes) set by the government to be obeyed by all people, besides that the government is still making efforts so that the wheels of the economy can continue to spin.

The enactment of the PSBB and PPKM rules has caused people's mobility outside the home to decrease, and they spend more time at home, working from home (WFH), school/college from home (online), online shopping and some workers or employees are forced to be laid off by the company (PHK). The impact is; 1) there is an increase in the use of internet services by the public to fulfill all their needs. 2) the increasing presence of online shopping service providers, 3) the increasing growth of courier or freight forwarding services, 4) the development of the health service business sector, such as; pharmacies, medical devices, laboratory medical check-ups, fitness centers, and medicines and others.

Because most people make requests and transactions for daily and other needs from home, there has been rapid development in online services, although previously since 2010 online services in Indonesia have existed. It's just that the MSME sector has not made maximum use of online services in product sales and marketing. Precisely after the covid 19 pandemic occurred, it opened the eyes of MSMEs and became a stimulus for MSMEs to think and change product marketing strategies from direct marketing to indirect marketing, digital marketing (Herispon, 2020).

Based on the description above, the main objectives of this study are; i) reviewing the problems faced by MSMEs, ii) showing the estimation and contribution of MSMEs in Indonesia, iii) knowing the role of digitization for MSMEs, iv) knowing the obstacles MSMEs have in utilizing digitalization. Reflecting on the relevance of the Covid 19 pandemic, digitalization and the contribution of MSMEs, it is necessary to conduct a study and re-analysis of MSMEs. With the analysis of this study, it is hoped that it can contribute to the Government in assisting the development of MSMEs both through coaching and drafting regulations so as to protect and increase the contribution of MSMEs to the national economy.

## LITERATURE REVIEW

This study of MSMEs is based on “*Tesis Flexible Specialization*” which can apply to economic development and shown by the contribution of MSMEs to the economy of a country. According to [James & Bhalla \(1993\)](#) that; greater attention is needed from the government to MSMEs, especially in innovation and organizational reform, because MSMEs can be flexible in terms of production scale and technology adoption ([Ruchkina, Melnichuk, & Frumina, 2017](#)). Furthermore [Dijk \(1994\)](#) strong points of the concept *Tesis Flexible Specia* emphasizing the positive role of MSMEs. It emphasizes the importance of horizontal and vertical relationships in freedom of enterprise. MSMEs may be of different sizes, but they have multiple relationships with suppliers and forward-looking relationships with clients and cooperate and/or compete with each other on a regular basis ([Rifa’i, 2010](#); [Herispon & Hendrayani, 2021](#)).

On the other hand, the concept of digitization was introduced by Don Tapscott in 1995 through his book entitled “*The Digital Economy: Promise and Peril in the Age of Networked Intelligence*”. Thus the term digital has been known since 27 years ago, it is explained that MSME actors must be able to open their horizons to think, or adopt the use of technological or internet developments in their business, in order to improve business performance, currently known as e-business or e-commerce ([Wijoyo, 2020](#)). Digitization is the process of converting from analog to digital. With digitalization, MSMEs can further develop and will continue to survive in the current era of all-technology ([Prameswari, Suharto, & Afatara, 2017](#)). However, there are still many things that need to be prepared to enable Indonesian MSMEs to switch to the digital market, in addition to solving internal problems within the MSMEs themselves.

Studies which suggest that the problems faced by MSMEs in Indonesia from time to time are basically almost the same, put forward in this study ([Supriyanto, 2006](#); [Wijaya, Nurhadi, & Kuncoro, 2017](#); [Kemenkop UKM & BPS, 2020](#)), as summarized in table 2 as follows:

Table 2. Classical Problems faced by MSMEs in Indonesia

Author / Year	Problems Faced
(Supriyanto, 2006)	Capital, Business management capabilities, Quality of human resources for business actors, Low access to information, Low mastery of technology
(Sriyana, 2010)	Marketing, Capital and Funding, Innovation and utilization of information technology, Use of raw materials, Production equipment, Absorption and empowerment of manpower, Business development plans, Readiness to face the external environment
(Mongid & Notodihardjo, 2011)	MSME competitiveness
(Bigliardi, Colacino, & Dormio, 2011)	Low innovation
(Herispon, 2011)	Weak in organization, Weak in managerial, Low human resource skills, Weak in entrepreneurial spirit, Limited capital, resources,

---

(Tambunan, 2011)	information and access, Low technology mastery and productivity, limited associations and information about MSME updates, MSMEs are more independent (not in business groups), business patterns are more informal and weak in coaching.
(Taiwo, Bako, & Ayodeji, 2012)	There are many MSMEs, productivity is still low, raw material prices, marketing difficulties, limited capital.
(Sitharam & Hoque, 2016)	Lack of financial support, poor management, corruption, lack of experience and training, poor infrastructure, thin margins, low demand for goods and services
(Ariani & Utomo, 2017)	Internal environment; business environment, management skills and competencies, limited financial knowledge, limited management training, technological capabilities. External environment; crime and corruption, labour, infrastructure and regulation.
(Suci, 2017)	Limited capital, Low knowledge of MSME actors, Availability of minimal facilities and infrastructure, External barriers (electricity), Low strategy, marketing systems and processes, Low knowledge of bureaucracy and information for business development, Ownership, low mastery of technology.
(Wijaya et al., 2017)	Lack of sources and access to capital, Lack of managerial ability in business operations, Limitations in marketing, Unfair competition, Economic pressure due to the demands of life.
(Prameswari et al., 2017)	External business; situation and condition, business location, business license, competition, business information. Internal business; business management, low skilled workers, marketing, capital, supply of raw materials for production
(Pham, 2017)	E-commerce and online shopping
(Ayandibu & Houghton, 2017)	Planning, business size; emotional trust, knowledge), access to bank loans; high guarantees provided, unfavorable interest rates, lack of business planning, limited network, lack of government support
(Ruchkina et al., 2017)	The importance of SMEs in local economic development
(Badan Pusat Statistik Provinsi Riau, 2018)	MSME regional innovation and development
(Kartika, 2019)	Lack of banking access; ability and knowledge of Human Resources (HR) which is still low; managed in a simple way; limited use of technology; most of the products are not export oriented
(Tambunan, 2019)	The influence of public policies/services, gross participation numbers, economic growth, and minimum wages on the development of micro and small businesses in Indonesia
	The importance of SMEs, the main obstacle to MSMEs, the importance of the existence of MSMEs, especially business opportunities for women, the increase in MSMEs is the spirit of entrepreneurship and can reflect poverty.

---

*Source: summarized from several studies*

MSMEs and contributions; MSME excellence has been shown in the Indonesian economy in the period 1997-1999 and 2008, namely; able to survive the storm of crisis for several reasons (Herispon, 2011; Ayandibu & Houghton, 2017). First, in general, MSMEs produce consumer goods and services that are close to the needs of the community. Second, MSMEs do not rely on imported raw materials and make greater use of local resources in terms of human resources, capital, raw materials and

equipment. Third, MSME businesses generally use their own capital or are not supported by loans from banks. Fourth, according to their characteristics, MSMEs can grow easily wherever they are. Fifth, MSME reincarnation is very fast, meaning that if one MSME goes bankrupt today, then another MSME will tomorrow. Sixth, MSMEs can be managed with a simple organizational or management pattern.

*MSME and Digitalization*; before the existence of the internet, business people carried out all activities in the conventional way, after the internet, business people could make online-based trading patterns and this has been started since 2010 (Afrida, Lestari, Lailiya, & Suwanan, 2021). On the other hand, internet users in Indonesia are estimated to be 175 million people or 64 percent of Indonesia's total population until 2021 (Herispon, 2021). This figure places Indonesia as one of the largest internet user countries, of course this is a potential opportunity for MSMEs to expand and optimize digitalization (Situmorang & Ginting, 2021).

The role of the community as internet and social media users has relevance to digitalization-based MSMEs, consumers who surf social media contribute to the continued growth of e-commerce and e-business (Luqman, 2015), because looking at the behavior of consumers in Indonesia who like online shopping it is estimated that there are as many as 45 percent, and this will continue to increase, this reflects that the behavior of Indonesian people leads to a digital lifestyle. Studies Luqman (2015), shows several advantages of using the internet and social media in carrying out business activities as follows:

1. Social Media provides information regarding age, activities, hobbies, location or anything else needed by entrepreneurs in determining market segmentation for products or services offered.
2. Can be accessed at any time, without having to set working hours like business actors in general
3. Able to keep costs as low as possible because there is no need to rent a place in the marketing process, because existing social media generally provides services for free.
4. Easy communication between entrepreneurs and consumers such as chatting or chatting, from here business actors can have feedback and input on the products or services offered.
5. Always connected with the intention without having to stay silent behind a desk, but can be done in an application that can be connected anytime and anywhere.
6. Promotional media that is easily accessible by all groups, so as to attract the attention of potential customers such as image appearance, promo/discount offer slogans and so on.
7. The use of social media for marketing a product and service is easier to do and more quickly recognized by consumers, a wider market share and reaches all regions in Indonesia and even to all countries in the world (Luqman, 2015; Wijoyo, 2020).

Digitalization plays a strategic role in providing goods and services in a practical, cheaper, faster, time-saving and labor-intensive way. The availability of products and services that use online services is in great demand by the public, both individuals and businesses. This is a driving force for MSMEs, during the Covid 19 pandemic, online services are a solution when people are bound by PSBB or PPKM rules, and encourage the MSME sector to think and act further, to take advantage of digital transactions and online services, especially in expanding marketing to increase sales volume (Herispon, 2020).

## METHODS

Data collection; This study uses secondary data with the following considerations: First, data and information are collected from certain agencies and institutions for data that have been published or are called literature studies. Second, the main technique used in collecting data is to order time series data in a certain period, then a descriptive analysis is carried out on the data collected (Frankel, Wallen, & Hyun, 2012; Aisyah, 2020).

The measurements; The estimation of the development of MSMEs uses the Trend Least Square method with the consideration that over the last 20 years the development of MSMEs has followed a positive (linear) trend pattern, using the following equation: Trend using the formula:  $\hat{Y} = a + bX$ ,  $a = \frac{\sum Y}{n}$ ,  $b = \frac{\sum XY}{\sum X^2}$ . Research Methods;  $L_t = \frac{L_{tp} - L_{t-1}}{L_{t-1}} \times 100$  %. Contribute using the equation:  $K_n = \frac{D_n}{D_t} \times 100$  %. (Herispon, 2011; Herispon & Hendrayani, 2021).

## RESULTS AND DISCUSSION

### A. Classic problems faced by SMEs.

The problems faced by MSMEs are quite complex, however in this paper study, 7 basic things are stated that are experienced by the MSME sector, namely:

*Capital*; The main characteristics of MSMEs are small business capital; includes working capital, access to capital, equipment, limited means of production, as well as relying on capital turnover to support business activities, costs; including individual and family living costs are charged to MSME income (Herispon, 2011), this can happen, because there is no separation of business assets from non-business assets, causing relatively low sales turnover, resulting in low operating margins, ultimately difficulties in business development. On the other hand, MSMEs cannot be free and flexible to deal with banks according to their perspective (Pham, 2017), because of the many obstacles and challenges they have to go through if they want to get financing from financial institutions or banks (Herispon, 2011; Ariani & Utomo, 2017).

So it needs attention and assistance from the central and regional governments through assistance programs, such as; national economic recovery program (PEN), KUR, interest subsidies, placement of government funds in partner commercial banks to support expansion of working capital loans and restructuring of MSME credit, guarantee of MSME working capital loans, Productive Banpres for Micro Enterprises (BPUM), Cash Assistance for PKL and Warung (BT-PKLW), and MSME Final Income Tax incentives. Meanwhile, according to the Complaint Report to the Ministry of Cooperatives and SMEs as of October 2020, as many as 39.22 percent of MSMEs experienced difficulty with capital during the Covid-19 pandemic (Badan Pusat Statistik, 2020). So that the relevance of the COVID-19 pandemic to MSME capital is that online services can expand and increase customers and consumers, so that it is expected to increase MSME sales turnover.

*Location and place of business*; The location or place of business also determines the sustainability of the life of the UMKM itself, in big cities and small towns. MSMEs can grow anywhere, but they still need strategic places and locations, near markets, main roads or crowds. The problem is quite complicated, namely the place of business. It is known that 95 percent of MSMEs rent their business premises and only 5 percent do not rent. (Herispon & Hendrayani, 2021). Rent a place, such as; shophouses, shops, taverns, stalls and others, paid monthly or annually are a burden for MSMEs, if the income is not comparable to the rent of the place, plus other routine costs, it can be estimated that business operations will only spend the contract period. Then move and look for another place that is considered cheaper to rent. This is an obstacle for MSMEs in running their business. If the annual sales turnover shows a good trend, then the rental fee for the next period is increased by the landlord and this condition continues to repeat. (Herispon, 2011).

Therefore the covid 19 pandemic, gave a warning to MSMEs related to renting a place, MSMEs should be able to think further to find solutions, how to use internet technology so they can make sales from home, offering and marketing products from home, home production and others, finally the covid 19 pandemic forced MSMEs to use online services, then there is online shopping or e-commerce. Then MSMEs can avoid renting places that are always burdensome every year.

*Business management is still simple*; Description of duties and work jobs of the owner or worker, almost nothing is written down and nothing is made in an organizational chart, nothing is made in standard operating procedures (Sitharam & Hoque, 2016), so that the activities and work carried out are more based on the daily routine that has been carried out, and the rules are only given verbally. Therefore, the level of education, experience, and knowledge sharing about the business being run is a must for MSMEs (Tambunan, 2019).

Nearly 70% of the total MSME businesses do not have business legality, such as; operating business license, company registration certificate, business location permit and other documents (Herispon, 2011; Pham, 2017). On the other hand, human resources or labor are generally trained along with business activities, meaning that skills and experience are acquired while running the business. (Wijaya et al., 2017). The role of the government is needed, such as; how to manage a business organization, run a business, develop a business, foster a business, create a business network, market sustainable products, in accordance with the characteristics of the MSMEs themselves. This is done to avoid the ups and downs of MSMEs, meaning that when they receive government assistance, MSMEs grow, but when they do not receive road assistance on the spot. On the other hand, the relevance of the Covid 19 pandemic requires MSMEs to be able to learn more, find information about managing and organizing business in cyberspace or on the internet, so MSME references will increase and mindsets can change to find new breakthroughs.

*Inconsistent MSME behavior;* When the business has developed, there is disorientation or deviation from its original purpose, how this business should be able to achieve the goals set (Herispon, 2011; Ariani & Utomo, 2017). In certain cases, when some MSME actors receive capital assistance from the government, it should be used for business development purposes, but the reality shows different things regarding the use of assistance received. (Suci, 2017), that is, it is used for interests that are not related to business development, the actions of MSMEs are also common knowledge, that funds are used to buy household appliances (TV, Sofa, Refrigerator, entertainment and others) or buy a vehicle that is not used to support its business activities, in the end the assistance provided by the government is not effective in its use. Therefore the covid 19 pandemic has made MSMEs able to see the real conditions around them, when businesses are facing stagnation.

*Marketing and target consumers;* The problem that is often faced by MSMEs is product orientation, namely products produced for the basic needs of local communities. Few of the products produced are export oriented, so that the products are only more widely known in a limited environment (Prameswari et al., 2017; Suci, 2017; Situmorang & Ginting, 2021). The Covid 19 pandemic has stimulated MSMEs to change the marketing model from conventional to digital marketing, in other words MSMEs must carry out more complex marketing efforts, in e-business and e-commerce containers, including; online bidding, online marketing, online sales to be able to increase sales turnover (Prameswari et al., 2017; Afrida et al., 2021).

MSMEs must adopt the development of information and technology, to be able to increase the reach of community products, in a wider area. Consequently, MSMEs must have the ability to think, manpower and capital and be able to prepare their human resources to face these IT developments. Efforts that can be made by the government here are conducting training to create websites or business websites or anything related to the world of the internet or online marketing that suits the needs of the MSMEs themselves (Arianto, 2020).

*Massive product innovation;* Development and changes can be made in many ways, related to the business being carried out, such as the use of raw materials, production methods, product results; flavors, shapes, sizes, target consumers, and tools used in the production process. Innovation is expected to be carried out by MSMEs, but in reality it can be said that it is in a massive condition, and even tends to decrease (Ruchkina et al., 2017), generally the products marketed by MSMEs are products of daily needs in society, so that market absorption and product competitiveness depend on taste, quality, income and community needs (Wijaya et al., 2017).

Thus the business development and sales turnover of MSMEs also follow the rhythm and tastes that exist in society. Meanwhile, the economic value and added value of MSME products is relatively low, because the product orientation produced by MSEs is for the daily needs of the community, and very few products are produced with an export orientation. The covid 19 pandemic has challenged MSMEs to be able to utilize technology, develop minds, search for information about raw materials and products, create product creations, create taste creations, production methods, production processes, product

marketing and others. (Afrida et al., 2021). All of this can be obtained by SMEs from viewing and reading websites or websites on the internet from many parts of the world. This is done by SMEs to follow the trend of tastes, dynamic models apply in society.

*The scope of thinking of MSME actors is narrow*; MSMEs think more about how to sell more products today or how the products sold today can sell, without thinking about how to sell products for a long time using certain sales and marketing methods and strategies (Pham, 2017). So that sales volume becomes static from time to time, eventually business development is difficult to do. MSMEs ignore the methods and strategies regarding products so that they can be sold to a wider target market (such as inter-regional marketing), and the marketing system that is mostly carried out is direct marketing by MSME actors themselves (Kartika, 2019). The sad thing is the thought of the existence of MSMEs themselves, because the MSME sector is considered a small business, so MSMEs will forever be small, there is a possibility that SMEs can transform into large-scale businesses accompanied by the development of broader thinking about the business being carried out.

## B. Estimation of MSME Development in Indonesia.

Table 3. Estimated Development of MSMEs in Indonesia

Year	Business unit (million)	Labor Absorption	ADHB GDP (billion IDR)	Non-Oil and Gas Exports (billions of Rp)	ADHB investment (billion Rp)
2010	52,764,750	96,193,623	2,969,347	162,255	781,357
2011	54,114,901	98,238,913	3,411,575	175,895	927,117
2012	55,206,444	101,722,458	4,321,830	187,352	992,206
2013	56,534,591	107,657,510	4,869,568	166,626	1,250,802
2014	57,895,721	114,144,082	5,440,008	182,112	1,655,234
2015	59,262,772	123,229,387	6,228,285	186,975	1,818,749
2016	61,651,176	112,828,610	7,009,282	255,126	2,057,972
2017	62,922,437	116,673,416	7,704,636	298,209	2,236,740
2018	64,194,066	116,978,631	8,573,896	293,841	2,534,549
2019	65,596,109	124,426,382	9,116,856	299,472	2,720,619
2020	67,058,734	127,363,511	9,817,373	316,958	2,947,971
2021	68,521,359	130,300,640	10,517,890	334,444	3,175,323
2022*	69,983,984	133,237,769	11,218,407	351,930	3,402,675
2023*	71,446,609	136,174,898	11,918,924	369,416	3,630,027
2024*	72,909,234	139,112,027	12,619,441	386,902	3,857,379
2025*	74,371,859	142,049,156	13,319,958	404,388	4,084,731
2026*	75,834,487	144,986,281	14,020,470	421,880	4,312,082
2027*	77,297,113	147,923,410	14,720,986	439,366	4,539,434
2028*	78,759,738	150,860,538	15,421,503	456,853	4,766,785
2029*	80,222,363	153,797,667	16,122,020	474,339	4,994,137
2030*	81,684,989	156,734,796	16,822,536	491,826	5,221,489
	Average $L_t$ 2.21 %	Average $L_t$ 2.52 %	Average $L_t$ 9.18 %	Average $L_t$ 6.02 %	Average $L_t$ 10.18 %

Source : *Kemenkop UKM & BPS (2020)*,

Notes: 1) Data is processed using the Trend Least Square method, 2) \*) From 2022 to 2030 is estimated data.

3)  $L_t$  = Annual growth rate



### *Digitalization for MSMEs,*

During the Covid-19 pandemic, the MSME sector that was able to survive was those that carried out online marketing and online sales. Study [Yuliana \(2019\)](#) and [Aisyah \(2020\)](#) explained that digitalization for MSMEs had been started since 2019 by the Ministry of Cooperatives-UKM, which launched an 8 million MSMEs program to go-online, this means that long before the covid 19 pandemic, there had been government efforts to socialize, and embrace MSME actors to take advantage of technological developments. On the other hand, the government is also empowering MSME product standardization, increasing human resources, and access to financing through Integrated Business Service Centers (PLUT) spread across several provinces. One of the activities carried out by PLUT is fostering MSMEs and cooperatives in utilizing digital media.

Even though the impact obtained by utilizing digital marketing requires quite a long time, namely one to three years, during the waiting period it is necessary to improve the quality of human resources, provide the necessary tools along with digital marketing. This solution is one of the closest MSME empowerment to overcome the reduction and helplessness of MSMEs by the Covid-19 pandemic ([Herispon, 2020](#)).

In the end, the role of digitization for MSMEs can be seen in the conditions experienced and gone through by the MSMEs themselves, namely; the use of labor can be reduced; place of business can use their own house, and can avoid renting a place of business which is a burden for MSMEs; saving on advertising and promotion costs because it is done digitally; expanding consumer services and reach, regionally, nationally, even internationally; there are more innovation opportunities about products, methods, production processes, because it's easy to find references digitally; can share knowledge about business profiles, business analysis, business problems with known and unknown partners.

### *C. Barriers to MSMEs in utilizing digitalization.*

There are two types of obstacles faced by MSMEs, namely managerial barriers (obstacles from operating processes and business planning) and non-managerial obstacles. ([Dayaqarsa.com, 2022](#)). This obstacle was caused by the COVID-19 pandemic which limited people's mobility so that it changed people's behavior and habits, and everyone is required to practice digitization including MSMEs in order to make it easier to manage business processes, find information regarding sources of financing for business capital, to expand market reach in order to obtain maximum benefits ([Ayandibu & Houghton, 2017](#)). The obstacles that are often faced by SMEs are:

#### **1. Managerial Barriers**

- a. Employee management (human resource management). MSMEs have difficulty handling data related to employees, payroll systems, attendance systems, attendance, and tracking the performance and productivity of their employees.
- b. Operating system. Business operations related to administrative issues, such as planning, inventory management, logistics management, and supplier record keeping often take up a lot of time so that MSME business processes become inefficient.
- c. Finance and funding. MSMEs often experience difficulties in expanding their market reach. This is what causes MSMEs to experience financial problems due to the small amount of incoming income.

- d. Marketing and sales. If you don't have a marketing and sales strategy that is good and right on target, then the MSME business can experience financial and funding problems. MSMEs often have limited knowledge in terms of marketing and sales. This can provide an opportunity for MSMEs to increase business profits.

The obstacles above cause MSME business processes to be inefficient and can make business people not right on target and fail to make decisions.

## 2. Non-Managerial Barriers.

In addition to experiencing managerial obstacles, MSMEs also often experience obstacles caused by motivational factors/business goals and human resource skills. However, these non-managerial barriers are more common in micro and small business actors, such as;

- a. Business motivation is driven by needs and opportunities. Many micro-enterprises, especially in developing countries, have low levels of productivity (Ayandibu & Houghton, 2017). Their motivation in building a business is often due to the need factor so that ambitions in growing the business and maximizing profits tend to be low (Ariani & Utomo, 2017).
- b. Low-skilled/low-educated offenders. Another factor that hinders MSMEs in growing their business is the limited skills and knowledge of human resources due to low digital literacy.

To overcome the MSME obstacles above, business people can take advantage of digital technology opportunities by switching to the digitalization process. This means that MSMEs use technology and digital data in their business processes to earn revenue and improve business performance.

## CONCLUSION

The covid 19 pandemic occurred for almost 2 years (early 2020 to early 2022) putting pressure on the MSME sector to adopt digitalization more quickly, and be able to face business challenges, especially after the covid 19 pandemic, so that digital services are important.

Digital services can encourage several things for the development of MSMEs, namely: 1) Comprehensive innovation, namely; changing minds from pessimists to optimists, from small capital to sizable capital, changes in production methods, changes in the tools used, creativity in creating flavors, colors, shapes, sizes and packaging, changes in marketing models from conventional to digital marketing models; 2) Improving business organization, meaning that MSMEs can learn a lot from the profile, business management, and experience of business people who have fallen up and down to achieve success; 3) Location, place of business, the existence of digital services no longer requires MSMEs to rent shop houses, shops, and others with a solution, selling for home can be done, opening a shop at home (online shopping); 4) Strengthening business networks through cooperation, business partners, or sharing experience and knowledge about business (knowledge sharing). Finally, the Covid-19 pandemic has made the MSME sector more mature in thinking and wise in acting.

## REFERENCE

- Afrida, D. K., Lestari, E. W. P., Lailiya, F., & Suwanan, A. F. (2021). Peran Digitalisasi Koperasi Sebagai Pendongkrak UMKM Dalam Pengembangan Ekonomi Wilayah Kota Surabaya. In *Prosiding Seminar Nasional Ekonomi Pembangunan* (Vol. 1, pp. 151–158).

- Aisyah, S. (2020). *Dampak Pandemi Covid 19 Bagi UMKM Serta Strategi E-Marketing UMKM di Indonesia*.
- Ariani, & Utomo, M. N. (2017). Kajian Strategi Pengembangan Usaha Mikro Kecil dan Menengah (UMKM) di kota Tarakan. *Jurnal Organisasi Dan Manajemen*, 13(2), 99–118.
- Arianto, B. (2020). Pengembangan UMKM Digital di Masa Pandemi Covid-19. *Jurnal Administrasi Bisnis*, 6(2), 233–247.
- Ayandibu, A. O., & Houghton, J. (2017). The Role of Small and Medium Scale Enterprise in Local Economic Development (LED). *Journal of Business and Retail Management Research*, 11(2), 133–139.
- Badan Pusat Statistik. (2020). *Statistik Indonesia 2010-2020*.
- Badan Pusat Statistik Provinsi Riau. (2018). *Potensi Usaha Mikro Kecil Provinsi Riau*. Pekanbaru: BPS Provinsi Riau.
- Bigliardi, B., Colacino, P., & Dormio, A. I. (2011). Innovative Characteristics of Small and Medium Enterprises. *Journal of Technology Management & Innovation*, 6(2), 83–92. Retrieved from <http://www.jotmi.org>
- Dijk, M. P. Van. (1994). Flexible Specialisation, The New Competition and Industrial Districts. *Economic Faculty Microeconomics and Economic System Erasmus University Rotterdam*, 7(March), 15–27. <https://doi.org/10.1007/BF01074313>
- Frankel, J. R., Wallen, N. E., & Hyun, H. H. (2012). *How To Design and Evaluation Research in Education* (Eighth Edi). New York: McGraw Hill. Retrieved from <https://saochhengpheng.files.wordpress.com/>
- Herispon, H. (2011). Kontribusi Usaha Mikro Kecil dan Menengah (UMKM) Dalam Penyerapan Tenaga Kerja di Propinsi Riau. *Jurnal Eko & Bisnis: Jurnal Ekonomi Bisnis*, 2(1), 33–43. [https://doi.org/DOI: https://doi.org/10.36975/jeb.v2i1.156](https://doi.org/DOI:https://doi.org/10.36975/jeb.v2i1.156)
- Herispon, H. (2020). Dampak Ekonomi Pembatasan Sosial Berskala Besar Terhadap Masyarakat kota Pekanbaru di Provinsi Riau. *Jurnal Eko Dan Bisnis (Riau Economics and Business Review)*, 11(2), 164–173. <https://doi.org/https://doi.org/10.36975/jeb.v11i2.269>
- Herispon, H. (2021). Keterlibatan Media Sosial Dalam Kegiatan Konsumsi Rumah Tangga. *Eko Dan Bisnis (Riau Economics and Business Review)*, 12(4), 491–504. [https://doi.org/DOI: https://doi.org/10.36975/jeb.v12i4.364](https://doi.org/DOI:https://doi.org/10.36975/jeb.v12i4.364)
- Herispon, H., & Hendrayani, H. (2021). Kontribusi dan Eksistensi Usaha Mikro Kecil dan Menengah di Indonesia. *Jurnal Daya Saing*, 7(1), 44–56. [https://doi.org/DOI https://doi.org/10.35446/dayasaing.v7i1.633](https://doi.org/DOIhttps://doi.org/10.35446/dayasaing.v7i1.633)
- James, J., & Bhalla, A. (1993). Flexible Specialization, New Technologies and Future Industrialization in Developing Countries. *Journal FUTURES*, 25(6), 713–732.
- Kartika, M. (2019). Public Service and Micro-Small Enterprise Developments in Indonesia. *Integrated Journal of Business and Economics*, 1(January), 108–115. <https://doi.org/10.33019/ijbe.v3il.103>

- Kemenkop UKM, & BPS. (2020). *Perkembangan Data Usaha Mikro, Kecil, Menengah (UMKM) dan Usaha Besar (UB) di Indonesia Tahun 2010-2020*.
- Luqman, N. R. (2015). Perkembangan ekonomi digital di Indonesia. In *Ekonomi Digital* (pp. 1–8).
- Mongid, A., & Notodihardjo, F. S. (2011). Pengembangan Daya Saing UMKM di Malaysia dan Singapura: Sebuah Komparasi. *Jurnal Keuangan Dan Perbankan*, 15(Mei), 243–253.
- Pham, H. D. (2017). Determinants of New Small and Medium Enterprises (SMEs) Access to Bank Credit : Case Study in the Phu Tho Province, Vietnam. *International Journal of Business and Management*, 12(7), 83–99. <https://doi.org/10.5539/ijbm.v12n7p83>
- Prameswari, N. S., Suharto, M., & Afatara, N. (2017). Developing E-Commerce for Micro Small Medium Enterprise (MSME) to Cope with Cultural Transformation of Online Shopping. *Jurnal Dinamika Manajemen*, 8(2), 188–198. <https://doi.org/10.15294/jdm.v8i2.12759>
- Rifa'i, A. (2010). Peran UMKM Dalam Pembangunan Daerah: Fakta di Provinsi Lampung. *Jurnal Ilmiah Administrasi Publik Dan Pembangunan*, 1(2), 133–143.
- Ruchkina, G., Melnichuk, M., & Frumina, S. (2017). Small and Medium Enterprises in the Context of Regional Development and Innovations. *Journal of International Studies*, 10(October), 259–271. <https://doi.org/10.14254/2071-8330.2017/10-4/20>
- Sitharam, S., & Hoque, M. (2016). Factors Affecting the Performance of Small and Medium Enterprises in KwaZulu-Natal, South Africa. *Journal Problems and Perspectives in Management*, 14(2), 277–288. [https://doi.org/10.21511/ppm.14\(2-2\).2016.03](https://doi.org/10.21511/ppm.14(2-2).2016.03)
- Situmorang, M. K., & Ginting, A. (2021). Dampak Pandemi Covid 19 Bagi UMKM Serta Strategi E-Marketing UMKM di Indonesia. *Regionomic*, 3(2), 11–22.
- Sriyana, J. (2010). Strategi Pengembangan Usaha Kecil dan Menengah (UKM): Studi Kasus di Kabupaten Bantul. *Fakultas Ekonomi Universitas Islam Indonesia, Yogyakarta*, 1(1), 79–103.
- Suci, Y. R. (2017). Perkembangan UMKM (Usaha Mikro Kecil dan Menengah) di Indonesia. *Jurnal Ilmiah Cano Ekonomos*, 6(1), 51–58.
- Supriyanto. (2006). Pemberdayaan Usaha Mikro, Kecil, dan Menengah (UMKM) Sebagai Salah Satu Upaya Penanggulangan Kemiskinan. *Journal Ekonomi & Pendidikan*, 3(1), 1–16.
- Taiwo, M. A., Bako, Y. A., & Ayodeji, A. (2012). Impact of Small and Medium Enterprises on Economic Growth and Development. *American Journal of Business and Management*, 1(1), 18–22. <https://doi.org/10.11634/21679606170644>
- Tambunan, T. (2011). Development of Micro, Small and Medium Enterprises and Their Constraints : A Story from Indonesia. *Gadjah Mada International Journal of Business*, 13(1), 21–43.
- Tambunan, T. (2019). Recent Evidence of the Development of Micro, Small and Medium Enterprises in Indonesia. *Journal of Global Entrepreneurship Research*, 4(18), 1–15. <https://doi.org/10.1186/s40497-018-0140-4>

- Wijaya, T., Nurhadi, & Kuncoro, A. M. (2017). Exploring The problems Faced by Practitioners of Micro, Small, and Medium Enterprises (MSMEs) in Yogyakarta. *Jurnal Manajemen Dan Kewirausahaan*, 19(Maret), 38–45. <https://doi.org/10.9744/jmk.19.1.38>
- Wijoyo, H. (2020). *Digitalisasi umkm*. (R. Aminah, Ed.) (Cetakan Pe). Solok, Indonesia: ICM Publisher.
- Yuliana, R. R. D. (2019). Sinergi Lembaga Teknologi Finansial dan Koperasi Dalam Pemanfaatan Teknologi Finansial Oleh Usaha Mikro, Kecil dan Menengah di Nusa Tenggara Barat. *Jurnal Ekonomi Dan Pembangunan*, 27(1), 53–66.