

# **Analysis of MSME Strategies in Responding to Crisis: A Case Study of MSME in Gunungkidul Regency**

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## **Abstract**

In recent years, the occurrence of crises caused by natural disasters such as floods and landslides, and the COVID-19 pandemic have significantly disrupted the distribution of goods and services, posing immense challenges for micro, small, and medium enterprises (MSMEs). Therefore, this study aims to find the best strategy for MSMEs to overcome the impact of the crisis. This study uses a qualitative descriptive method. The data was obtained from observations and interviews with 121 MSME players in Gunungkidul. This study applied the SWOT analysis to determine the best strategy for MSME, which was divided into two parts: External Factor Analysis Summary (EFAS) and Internal Factor Analysis Summary (IFAS). The results showed that the score for Strength was 2.15 and for Weaknesses was 0.7, indicating that internal factors for strengths are higher than weaknesses. The score for Opportunity was 1.85 and for Threats was 0.8, indicating that external factors for opportunities are higher than threats. The study concluded that the best strategy for MSME was to act aggressively by using their strengths, such as producing locally sourced goods, exploiting new business opportunities as the tourism sector reopens, and taking advantage of government policies.

## **Keywords:**

Crisis, disruption, MSME, strategy, SWOT analysis, risk

## **INTRODUCTION**

In recent years, there have been many crises caused by political and economic conflicts, armed conflicts, natural disasters, and global health emergencies. These crises have had wide-ranging impacts on various sectors, including the micro, small, and medium enterprises (MSMEs) sector. MSMEs are often the primary victims of various types of crises due to their limited resources and limited ability to cope with difficult situations. According to Miklian and Hoelscher (2020), both the Global Financial Crisis and the recently concluded COVID-19 pandemic have highlighted that MSMEs are the most susceptible to external shocks and disruptions. Disrupted supply and demand, business contraction and economic losses, limited access to financing sources, and physical restrictions are some of the impacts experienced by MSMEs as a result of external shocks.

In addition to global-scale crises, there are also crises that have a local impact. These crises are caused by various natural disasters such as earthquakes, volcanic eruptions, floods, and landslides. Among these natural disasters, floods and landslides are the most frequent occurrences. Floods and landslides have particularly caused infrastructure damage, displacement of people, significant property damage, and affected the supply of raw materials for micro, small, and medium enterprises (MSMEs) in the affected regions. MSMEs often operate within fragile supply networks and may require raw materials sourced from the impacted areas. Therefore, if access to those areas is disrupted, the supply of raw materials to MSMEs can be interrupted, disrupting their business operations. In the short term, disaster-affected MSMEs may experience a decline in sales and income, increased production and distribution costs, and even loss of customers. However, the impact of disasters on MSMEs may not be limited to the short term only but can affect the long-term sustainability of their businesses. Hajati (2021) stated that the average MSME profit has decreased. In addition, Hajati (2021) also found that MSMEs have difficulties in capital turnover, supply chain, and distribution to consumers. Widiastuti, et. al. (2021) state that MSMEs that cannot manage their business well will face a potential risk of (1) default, (2) bankruptcy, (3) declining demand and supply.

The research by Kurniawati and Siddiq (2020) showed that the COVID-19 pandemic is capable of changing transaction methods regardless of the education level. Another result is that the average income of MSMEs experienced a drastic decrease, especially during the implementation of the Large-Scale Social Restrictions (PSBB). Such a situation requires companies and the government to react quickly and accurately to restore economic stability. This is also echoed by Ajit Singh (2021) who stated that the COVID-19 pandemic is highly disadvantageous for MSME and the government must take measured actions to mitigate its impact. In 2021, the government has issued various policies to mitigate the impact of COVID-19 on the economy. These policies include continuing the national economic recovery program, accelerating vaccination, and promoting economic growth. In promoting economic growth, the government provides tax relief on luxury goods value-added tax for the automotive sector and PPN relief for the property sector. Additionally, the government provides credit restructuring for the hotel, restaurant and cafe industry. In relation to MSME, the government provides interest rate subsidies and increases loan ceilings. According to data from the Central Bureau of Statistics, this had an impact on the economy with growth of 3.69% in 2021.

In addition to the government, of course, business players such as MSMEs must also make policies to mitigate the impact of the COVID-19 pandemic. Anatolijs Prohorovs (2020) in his research stated that companies must understand the crisis situation caused by this pandemic and try to quickly adapt to avoid suffering from large losses and try to find opportunities in that situation. Saleh and Nour (2021) stated that COVID-19 is capable of affecting the characteristics of a company which will ultimately affect the company's performance. Adaptation from this situation will change the characteristics of the company and eventually affect its performance. Ririn and Koe (2021) stated that to improve the performance of a company, the characteristics of the company's management must be forced to work hard in creating innovations that are appropriate to the pandemic conditions. MSME began to adapt by adding sales channels through marketplaces and replacing conventional promotional media with online marketing.

Small and medium-sized businesses (MSME) need to adapt to changes in the environment, technology, and new consumer habits in order to survive. Kusumaningrum, Hurdawaty, and Yenny (2020) state that MSME must be flexible with changes in consumer

habits during the pandemic in order to continue their business operations. In terms of technology and new consumer habits, MSME can utilize social media for promotions and sales. They can also add sales channels through marketplaces, as consumers now prefer shopping through e-commerce platforms. The relationship between technology utilization and increased revenue has been studied by Chasanah, Jahroh, and Dewi (2021), Rahmad (2021), Widnyani, Astitiani, and Putri (2021). These studies found evidence that the use of information technology by MSME has a positive impact on their revenue.

The key factors for MSMEs in facing disruptions are the ability to adapt, innovate, manage risks, and optimize resources. These factors will help SMEs survive the crisis. Resilient MSMEs are flexible and able to adjust their strategies, operations, and products/services in response to changes in the environment, technology, and consumer habits. MSMEs understand the importance of staying ahead of the curve and continuously innovating. They actively explore new technologies, processes, and business models to enhance efficiency, competitiveness, and customer satisfaction. Resilient MSMEs prioritize risk management practices to identify, assess, and mitigate potential threats to their business operations. They have contingency plans in place to minimize disruptions caused by unforeseen events such as natural disasters, economic downturns, or supply chain disruptions (Hudin et al., 2021; Hudin et al., 2015). Effective risk management allows MSMEs to navigate through challenges with minimal negative impact. Resilient MSMEs are adept at managing their resources efficiently. They optimize their workforce, finances, and technology to maximize productivity and minimize wastage. By effectively utilizing available resources, MSMEs can enhance their operational capabilities and maintain their competitiveness even during challenging times.

The uncertainty of the current environment needs to be well addressed by MSME. MSME need to analyze their internal and external environment to create a good strategy to adapt to the current situation. Hutahaeon (2020) and Imanuel (2021) stated that the internal environment includes the company's resources, capital, products, and organizational culture. Meanwhile, the external environment according to Siagian, Kurniawan & Hikmah (2019) includes the government, the global economic condition, society, and cultural and social aspects. A good analysis of these internal and external factors will result in ideas for the appropriate implementation of strategies for MSME.

In the realm of MSMEs, understanding the concept of a crisis and its potential impacts is crucial for ensuring business continuity and sustainability. A crisis can be defined as an unexpected and significant event or situation that poses a threat to the normal operations and stability of an organization. Various studies have explored the different types of crises that SMEs commonly face, such as economic recessions, natural disasters, political instability, and pandemics. John-Eke and Eke (2020) state that organizations that successfully survive crises with minimal losses are those that train employees to manage crises within a short period of time and adapt to changing environments. Alves et al. (2020) also suggest that short-term strategies in responding to crises involve transforming adversity into business opportunities. Almudallal, Ashary and Muktar (2016) found that one of the key factors for long-term sustainability is the ability of managers or business leaders to think strategically and develop strategies in a practical approach to prevent crises or minimize their negative impact. Santoro (2020) states that resilience has been indicated as an attribute to cope with crises. Business owners who have a strong tendency towards personal resilience have a positive relationship with coworker performance. Similarly, Liu et al. (2020) suggest that resilience and entrepreneurship are interconnected in facing an uncertain environment. Liu et al. (2020) and also states that capitalizing on opportunities can be one of the solutions in dealing with crises.

It is true that MSME are one of the largest contributors to GDP, but compared to large public companies, MSME have limited capital and resources. With relatively small resources, they are forced to survive any crises. To survive in the crises, MSME must have the right strategy in facing the obstacles and all its regulations. Thus, the purpose of this research is to find the right strategy applied by MSME in facing a crisis particularly the COVID-19 pandemic so that the MSMEs can survive and grow. The results of this research are expected to be a consideration for entrepreneurs and MSME managers in making the right business decisions.

## **METHODS**

The research method used in this study is qualitative method. Qualitative research method is a research method that will produce qualitative data in the form of words or descriptions of people or behaviors observed. The subject of this research is MSME in Gunungkidul Regency in 2020 and 2021. The data collection technique in this research used participatory observation technique. Participatory observation technique is a data collection technique by actively participating in the activities or activities being observed. The data sources in this research are primary and secondary sources. Primary data is obtained through interviews with MSME actors and also with the Gunungkidul Cooperative, Small and Medium Enterprise Agency. Interviews were conducted face-to-face and through WhatsApp calls, considering the pandemic situation. The sample selection technique used purposive sampling, which is a sample selection technique based on the researcher's consideration of which sample is the most representative and useful in the research. This sample selection technique will be used to determine which MSME to interview. Meanwhile, secondary data is obtained from journals, articles, websites, social media, marketplaces and others that are relevant to this research. The sample selection criteria for this study include identifying MSMEs that met the following requirements: Firstly, the selected MSMEs should have been in operation prior to the onset of the pandemic and have managed to sustain their operations throughout the COVID-19 pandemic and its aftermath. This criterion ensures that the chosen SMEs possess the necessary experience and resilience to navigate the challenges posed by the pandemic and continue their business activities. Secondly, the focus is on MSMEs that demonstrated financial success during the COVID-19 pandemic, specifically those that were able to achieve profitability despite the adverse economic conditions. Furthermore, these SMEs should have maintained their profitability in the post-pandemic period, indicating their ability to sustain positive financial performance. From the specified criteria, a sample of 121 SMEs located in Gunungkidul Regency was obtained.

## **RESULTS AND DISCUSSION**

The data collected from the Ministry of Industry, Cooperatives, Small and Medium Enterprises, and Labor showed an increase in the number of MSME from 2019 to 2020 by 2.6%. In 2021, there was also an increase although it was only 0.035%.

**Table 1 – MSME in Gunungkidul**

<b>Year</b>	<b>MSME</b>	<b>Growth</b>
2018	22,973	
2019	22,623	-1.52%
2020	23,209	2.59%
2021	23,217	0.03%

(Source: Department of Industry, Cooperatives, Small and Medium Enterprises and labor)

The increasing trend of MSME in Gunungkidul can be caused by several factors, such as job retrenchment that drives someone to start a business, or also due to the emergence of new opportunities during the COVID-19 pandemic. The increasing number of MSME is not always proportional to the level of community welfare. MSME must still have good strategies in facing the COVID-19 pandemic. This strategy planning uses SWOT (Strength, Weaknesses, Opportunities, Threats) analysis. This SWOT analysis is divided into two parts: External Factor Analysis Summary (EFAS) and Internal Factor Analysis Summary (IFAS). EFAS evaluates external factors, namely Opportunities and Threats, while IFAS evaluates internal factors, namely Strength and Weaknesses. The results of the asses can be seen from the table below.

**Tabel 2. Internal Factor Analysis Summary (IFAS) MSME in Gunungkidul**

No	Strength	Ratings	Weight	Score
1	Produce what consumers need	4	0.2	0.8
2	Local raw material	4	0.2	0.8
3	Local human resource	4	0.1	0.4
4	Low price	3	0.05	0.15
Total				<b>2.15</b>
No	Weaknesses	Ratings	Weight	Score
1	Purchasing power drop during COVID-19	1	0.2	0.2
2	Lack of capital	2	0.1	0.2
3	Low management skill	2	0.1	0.2
4	Low skill in using information technology	2	0.05	0.1
Total				<b>0.7</b>

(Source: Data Processed)

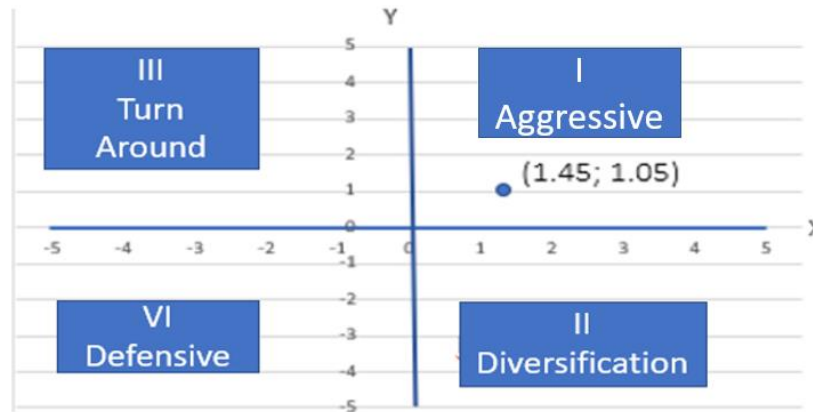
**Tabel 3. External Factor Analysis Summary (EFAS) MSME in Gunungkidul**

No	Opportunity	Ratings	Weight	Score
1	Online marketing and sales	4	0.2	0.8
2	Tourism reopened	3	0.2	0.6
3	Government support	3	0.1	0.3
4	Changing consumer habit	3	0.05	0.15
Total				<b>1.85</b>
No	Threats	Ratings	Weight	Score
1	Competition with other product and services	1	0.2	0.2
2	COVID-19 strikes again	2	0.1	0.2
3	Changes in business pattern	3	0.1	0.3
4	Global economic recession	2	0.05	0.1
Total				<b>0.8</b>

(Source: Data Processed)

Table 2 shows that the score for Strength is 2.15 while the score for Weaknesses is 0.7, which means that the internal factor for strength is greater than the weakness. Table 3 shows that the score for Opportunity is 1.85 while the score for Threats is 0.8, which means that the external factor for opportunities is greater than the threat. The results of the IFAS and EFAS analysis can be used to find the value on the X and Y axis on the SWOT matrix. The X-axis value is the total strength score 2.15 minus the total weaknesses score 0.7, resulting in a value of 1.45. The Y-axis value is the total opportunity score 1.85

minus the total threats score 0.8, resulting in a value of 1.05. The SWOT matrix from the IFAS and EFAS analysis is depicted below.



**Figure 1. Cartesian Diagram**

The Cartesian diagram shows that the coordinates of the point 1.45; 1.05 is located in quadrant I (Aggressive). Quadrant I is a favorable quadrant because in this quadrant the values of Strength and Opportunity are greater than the values of Weaknesses and Threats. Therefore, MSME should act aggressively in using their strengths to seize business opportunities that arise. The best strategy based on the Cartesian diagram is that MSME should use their strengths, which is to produce goods that are needed by the local community using local resources. In addition, MSME should also take advantage of opportunities to attract new customers when the tourism sector reopens. MSME should also take advantage of opportunities arising from government policies.

**Tabel 4. Strategies based on Strength and Opportunities**

No	Short term strategy	Medium-Long term strategy
1	Create competitive advantage through cost leadership	Establish cooperation between MSMEs for the supply of goods
2	Increase capital through soft loans provided by the government	Increase the absorption of local products
3	Use digital marketing to promote products and services	Improve the ability of MSMEs in the field of technology
4	Selling through the online system	Creating an MSME ecosystem that is able to maximize local resources
5	Open the economic and tourism sectors by implementing health protocols	

(Source: Data Processed)

Based on Table 4, the first short-term strategy that MSME can do is to create a competitive advantage through cost leadership. Creating a competitive advantage through cost leadership by utilizing local raw materials is one of the short-term strategies that MSME can do to improve their position in the market. Cost leadership focuses on creating products and

services at a lower price than competitors, while maintaining the same or better quality. By using local raw materials, MSME can reduce their production costs and create more competitively priced products and services. The utilization of local raw materials also helps build the local economy and drive the development of local resources. To create a competitive advantage through cost leadership by utilizing local raw materials, MSME must consider factors such as the quality and stability of the local raw material supply and ensure that the products and services offered meet the needs and expectations of customers.

The second short-term strategy is to increase capital by taking advantage of soft loans from government programs. Soft loans are a type of loan that provides relief to the borrower in terms of interest rates, repayment terms, and requirements. This makes soft loans more accessible and affordable for MSME. By increasing capital through soft loans from government programs, MSME can expand their business, improve their management skills through training, strengthen their position in the market, and maintain their position during difficult times. This helps MSME increase their production capacity, expand their market reach, and increase their income.

The third short-term strategy is that MSME should do digital marketing to promote their products. Digital marketing is an effective short-term strategy for MSME to promote their products. Changes in consumer habits that are more geared towards online purchases must be accompanied by changes in MSME marketing strategies. MSME must place themselves in the digital arena and take advantage of technology to increase their visibility and promote their products. This can be done by creating a company website, utilizing social media, and running digital ads. Digital marketing helps MSME reach a wider market and improve their efficiency in promoting their products. It also makes it easier for consumers to find and purchase MSME products.

The fourth short-term strategy is online sales. Currently, consumers are already accustomed to purchasing goods and services through the online system. MSME must take advantage of this situation by selling through various online sales platforms, which can be from social media or marketplaces. Selling products through an online system can help MSME expand their market reach and make it easier for consumers to access their products. By using online platforms, MSME can introduce their products to more consumers and streamline the transaction process, thus speeding up sales. MSME can also use technology to market and brand their products through social media and online platforms. Therefore, selling products through an online system is an effective short-term strategy for improving MSME business.

The fifth short-term strategy is to open the economy and tourism sector by implementing health protocols. Opening the economy and tourism sector means that many consumers will come. An increase in economic and tourism activities also means that MSME revenues will increase, especially those directly related to these sectors.

The mid to long term strategy requires active government involvement to implement. The first mid- to long-term strategy is to establish cooperation among MSME for the provision of goods. This cooperation will help to create a strong and stable supply chain to face the COVID-19 pandemic. A strong supply chain will make it easier for MSME to access raw materials, allowing them to continue to provide products at fair prices to consumers. The second mid- to long-term strategy is to increase the absorption of local products. The use of local raw materials will reduce production costs as transportation and logistics costs become lower. Efforts to increase the absorption of local products must be supported by the government and industry associations. The government and industry associations must make

policies that support efforts to increase the absorption of local products.

The third medium to long term strategy is to enhance the capabilities of MSME in technology. Improving MSME capabilities in the field of information technology is crucial in competing in the digital age. Mastery of information technology will facilitate MSME in expanding their market reach, increasing efficiency and productivity, as well as simplifying business and marketing processes. Mastery of information technology will also make it easier for MSME to conduct financial analysis and financial reporting. To improve their capabilities in the field of information technology, MSME should attend trainings provided by the government, industry associations, or other training providers.

The fourth medium to long term strategy is to create an MSME ecosystem that can maximize local resources. A locally based MSME ecosystem must be built so that each region has a unique competitive advantage. By building a locally-based MSME ecosystem, MSME can create unique products and services that utilize local resources such as raw materials, human resources, and culture. This will help MSME differentiate themselves from competitors and strengthen their position in the market. The government can play a crucial role in helping to build a locally-based MSME ecosystem. The government can provide support through fiscal and non-fiscal incentives. MSMEs can work with the government and industry associations to ensure that they have access to the facilities and resources they need. Good cooperation between the government, industry associations, and MSMEs will be able to create a locally-based MSME ecosystem. This ecosystem will help build competitive advantages in each region and ultimately help build a stable and sustainable economy.

## **CONCLUSION**

The number of MSME in Gunungkidul from 2019 to 2021 experienced a slight increase. The cause is due to job loss and new opportunities arising during the pandemic. MSME must have good strategies in facing crises such as the COVID-19 pandemic, and identifying appropriate strategies should start with analyzing MSMEs' situations using SWOT analysis (Strength, Weaknesses, Opportunities, Threats). The analysis results show that MSME have a greater Strength than Weaknesses and Opportunities are greater than Threats. Based on the Cartesian diagram, MSME must act aggressively by utilizing their Strength to seize business Opportunities. The limitation of this research is the lack of depth in gathering information. Additionally, this research has not differentiated MSME based on their industry type. Further research is expected to be able to analyze the right strategy for each MSME sector industry.

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