

# The Digital Economy's Role in the Survival and Growth of Micro, Small, and Medium Enterprises in the New Normal Era

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## ABSTRACT

The new normal era is a time for the government and society to resolve economic issues at all societal levels. One of them is to revitalize the SMB sector, a pillar of the national economy that has been impacted by this pandemic. One of the initiatives is to capitalize on the digital economy. Consequently, the purpose of this study is to determine the impact of the Digital Economy on the Resilience and Growth of Micro, Small, and Medium-Sized Businesses in the New Normal Era. This study employs a qualitative, descriptive methodology. The results demonstrate that the digital economy plays a crucial role in the development of MSMEs in the new normal since it is very resilient during a recession. The role of the digital economy for micro, small, and medium-sized enterprises can be evident when they conduct e-commerce with cashless payments or use digital wallets to avoid government-prohibited face-to-face interactions. In addition, the role of the digital economy is extremely beneficial for MSME actors in terms of expanding the market, saving money, energy, and time, which will ultimately be to their advantage.

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## I. Introduction

Rapid advancements in Information and Communication Technology (ICT) have brought about profound changes and implications in human life. Rapid technological advancements propelled the industrial revolution. Multiple types of technology, such as Internet of Things (IoT) and Big Data & Advanced Analytic, are utilized extensively in a variety of fields [23]. [18], mention that IoT is a network consisting of physical devices and software that allows these devices to exchange data, while Big Data is a storage place that can accommodate very large data loads with certain formats that can be changed.

Tapscott [7] projected the impact of technological advancement on economic activity and coined the term digital economy as a new economic age. In the modern economy, information takes the form of digital bits. As information becomes digital and is transmitted via digital networks, new realms of possibility emerge. Massive quantities of data can be compressed and transferred at the speed of light [14]. Digital transmission can significantly improve information quality compared to analog transmission. Multiple types of information can be integrated, information can be instantaneously saved and retrieved from anywhere in the globe, and instant access can be gained to a wealth of information recorded by human civilization. New digital tools can be developed on an as-needed basis and have an impact on the majority of corporate and personal spheres [21].

E-commerce and financial technology are two areas of the digital economy that are seeing explosive expansion (fintech). E-commerce, also known as internet-based buying and selling, as well as the administration and processing of financial transactions, takes place over the internet [1]. Meanwhile, according to Leong and Sung (2018), fintech is a blend of many financial disciplines, technology, management, and innovation that can improve financial services by utilizing technology.

All countries in the world are affected by the COVID-19 pandemic. The COVID-19 pandemic that has occurred since 2019 until now still has a significant impact on the entire community. All existing sectors ranging from economic, social, political to religious must be able to adapt to new habits (new normal) [27]. Indonesia's economic activities have also been hampered due to Covid-19 which

ultimately has an impact on state revenues [7]. The economic impact doesn't just affect big business companies. Micro, Small and Medium Enterprises (MSMEs) in Indonesia have a large enough influence, so that during this pandemic, many negative impacts are felt [24]

In Indonesia, businesses that fall into the categories of "micro," "small," and "medium" (also abbreviated as "MSMEs") play a significant part in the rate at which the economy of the country progresses, particularly in terms of stabilizing the economy, alleviating poverty, and bringing in foreign exchange for the nation [31]. Micro, small, and medium-sized businesses (often referred to as MSMEs) are among the business types that have been particularly impacted by the Covid-19 pandemic. Not a few have succumbed to financial difficulties or shut their doors, which has resulted in a significant drop in income for a great number of people. Nevertheless, when the New Normal was established, the economy as a whole and particularly micro, small, and medium-sized businesses began to progressively improve and aggressively seek out new survival tactics [25].

The main problems faced by MSMEs towards digitalization are the low level of human resources and access to technology that has not been evenly distributed so that to face these challenges there must be assistance and education for business people who want change [11]. Efforts to realize MSMEs facing the digital era must have an empowerment movement. In general, empowerment means giving strength to others in mobilizing and asserting strength as a manifestation of the behavior of each individual as well as the resources of skills, attitudes, networks (social capital), materials and the roles of others to determine goals and follow up on them [19]

MSMEs can be used as partners to introduce digital economy services so that there is a novelty in accessing digital financial services (Banjarnahor et al, 2022). To connect e-commerce actors and start-up companies, a community that can provide social impact involves social and business activities in empowering MSME actors to provide independence and as a solution in facing existing social challenges [22].

The role of the digital economy provides hope in the midst of difficult conditions, and has strong resilience in times of recession. The transformation of the digital economy is an important thing to be done immediately. Mckinsey (2016), mentions that the digital economy has resilience, so that it can survive and avoid economic contraction and face heavy economic pressures during a recession and can continue to move forward, making a real contribution to economic growth. new business models as well as changes to existing business models in the sector. This can also be adopted for the MSME sector.

[15] further states that to win and capture opportunities in the digital era, the government and the MSME sector must act innovatively in order to create value in three dimensions, namely: 1) Products and services. Innovation to meet unmet or partially fulfilled customer needs, by creating new products or services using digital technology; 2) Business models. Transformation of customer experience, delivery model and value proposition, made possible by digital technology; 3) Business processes. Joint improvement of the value chain, using digital technology to increase efficiency, both in terms of process and time .

Based on the context described above, the problem to be studied in this study is to evaluate the role of the digital economy on the resilience and expansion of MSMEs during the COVID-19 pandemic to the traditional MSME sector based on a business model.

## II. Methods

This study employs a descriptive research strategy coupled with qualitative analysis. According to [17], qualitative research is research that seeks to comprehend a phenomenon based on what the research subject experiences. In this work, the source triangulation method and the triangulation method were utilized to examine the data. By comparing the outcomes of observations, interviews, and document analysis, this is accomplished. It is envisaged that the analysis's conclusion will be of high quality and validity. Triangulation is used to verify the veracity of data or information gathered from several sources and through multiple research techniques. According to [16], there are three steps in the analysis of the interactive model. Data reduction refers to the process of choosing, focusing, simplifying, abstracting, and changing raw data found in field notes. Data is a collection of organized information that permits the description of conclusions and the execution of actions. Withdrawing/verifying conclusions, where qualitative researchers decide the meaning of things,

identify regularities, patterns, explanations, probable configurations, causal flows, and hypotheses from the outset of data gathering. -proposition..

### III. Result and Discussion

#### A. Digital Economy

If we talk about the definition of the digital economy, it can be said as an economic activity that relies on the help of the internet or Artificial Intelligence (AI). With this type of economy, one can make money easily and flexibly. In addition to economic actors, the benefits of the digital economy can also be felt by consumers [26].

Tapscott (1998) initially developed the notion of the digital economy, describing a sociopolitical and economic system with intelligence space features, including information, diverse access to information instruments, and information processing and transmission capacity. Understanding the digital economy is a form of economic activity that employs the Internet and artificial intelligence or AI (Artificial Intelligence). Existence of a digital economy can facilitate general economic activity [9].

The digital economy changes business patterns, from what was originally done manually to become completely automated. Business people can rely on the system to run their business. Operational activities that normally require manpower can now be carried out by the system. For example, a change due to the digital economy is opening a shop without having to have a physical building. To have a business, one does not have to build a physical store because they can sell online. One of them, we can sell through the marketplace.

online-based transaction systems, payments are the same. Previously, the payment method was only face-to-face, but now, one can pay anything by using their mobile phone anytime and anywhere. The change in economic activity to become completely online is clear evidence of the development of the digital economy in Indonesia. Many startup companies continue to innovate in order to provide online services to their consumers.

There are several benefits of the digital economy that can be felt by the community, one of which is abundant employment. Along with this, the opportunity to open a business will also widen. Apart from individuals, the benefits of the digital economy can be felt by MSME business owners. With the digital economy, it is easier for MSMEs to penetrate the global market. Technological developments allow economic products to be marketed overseas.

Furthermore, for a company and the digital economy helps save on building rent because some activities can be done via the internet. The digital economy also allows companies to bypass the retail aspect and ship goods according to customer needs directly from the supplier or manufacturer's factory or warehouse, not from the store. This allows for lower costs and results in lower selling prices.

The Internet allows consumers to have more information and choices. In addition, they will also find it easier to find the best brand they want and compare prices from one store to another. Previously, if consumers wanted to buy office supplies, consumers had to go to the city to buy them. Now, orders and payments can be made from home and we just have to wait. This of course saves a lot of time and money.

Currently, almost all industrial sectors can benefit from advances in digital technology. The thing that needs to be done by SMEs as an entrepreneur is to choose the right service and best suit your business needs. There are several ways that can be chosen to maximize the digital economy, including:

1. Use applications to simplify operational activities. The existence of cashier applications, bookkeeping and delivery of goods can streamline operational activities.
2. Create a site to increase brand awareness. Having a site and its optimization will make it easier for people to find your business on the internet.
3. Provide delivery service. If your business can use a delivery service, immediately provide the product service to attract more customers.
4. Advertise products from social media. You can use social media or paid advertising on social media to reach more consumers.

The digital economy makes people's economic activities change, from what was originally all manual to all digital. So that various daily activities are now faster and more practical. In addition, the convenience offered in the digital economy automatically opens up broad business opportunities in various fields. So, it's time for MSMEs to seize business opportunities by digitizing their businesses.

#### *B. Micro, Small and Medium Enterprises (MSMEs)*

Small and medium-sized businesses dominate the economy of Indonesia. State Ministry of Cooperatives and SMEs and Bank Indonesia classify businesses as micro-enterprises if their total assets are less than Rp. 50 million and their yearly sales are less than Rp. Small firms are those with yearly sales between Rp.300 million and Rp.2.5 billion or net assets between Rp.50 million and Rp.500 million. Medium Enterprises are businesses with annual sales between Rp. 2.5 billion and Rp. 5 billion. Their net worth ranges between 500 million and 10 billion Rp [10].

In accordance with Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs):

1. Micro Enterprises are productive enterprises owned by individuals and/or individual business entities that meet the Micro Enterprise standards outlined in this Law.
2. Small Business is a productive economic business that operates independently and is carried out by persons or business entities that are not subsidiaries or branches of corporations that are owned, controlled, or become part of a medium-sized or big business that fulfills the Business criteria. Small, as defined by this Law.
3. Medium Enterprises are stand-alone productive economic businesses carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part of either directly or indirectly with Small Businesses or large businesses with total net assets or annual sales proceeds as defined in this Law.

About 108 million people are employed by Indonesia's 57 million MSMEs. [5]. The importance of micro, small, and medium-sized enterprises (MSMEs) is critical not only in Indonesia but throughout Asia. The Asia Development Bank (2019) found that MSMEs account for 96% of all enterprises in the region, growing at a rate of 5% annually on average.

Many people work for micro, small, and medium-sized enterprises (MSMEs) in Asia. On average, micro, small, and medium-sized enterprises (MSMEs) in Asia employ 62% of the region's workforce (Asia Development Bank, 2019). As much as 65.5% of Malaysia's workforce could be drawn to this sector in 2015. (Department of Statistics Malaysia, 2019). The small and medium-sized enterprise (SME) sector in Singapore is capable of employing 67 percent of the entire workforce (Department of Statistics Singapore, 2019).

MSMEs employ anywhere from 55 to 80 percent of the workforce across Asia, Europe, the United States, and Japan. The European Union also recognizes the importance of MSMEs in the employment market. Micro, small, and medium-sized businesses (MSBs) make up 99.8 percent of all European Union businesses, and up to a million new ones are started every year [13]; [28]. [8] discovered, through empirical study, that MSMEs are vital to the employment market. It's possible for many people to be employed by the large number of micro, small, and medium-sized businesses.

Micro, small, and medium-sized enterprises (MSMEs) don't just exist to provide jobs; they also have a responsibility to improve the local economy and quality of life. The collective wealth can be pooled to increase the buying power of the community as a whole. Because of this increase in disposable income, more goods and services will be manufactured. More manufacturing is needed to keep up with the growing demands of society, which will indirectly help a country's GDP.

#### *C. The Role of the Digital Economy on the Resilience and Growth of MSMEs in the New Normal Period*

The existence of the COVID-19 pandemic forces MSME actors to be able to set the best strategy to maintain their business. MSMEs are trying a lot offline, online or a combination of the two. Various ways have been done to get through the pandemic with businesses that are still running. However, it turns out that the efforts made by MSME actors are not supported by good internet access and the readiness of MSME actors to switch to digital mode is still very low.

By selling their wares online, micro, small, and medium-sized enterprises (MSME) can reduce costs in the traditional manufacturing, distribution, and retail markets, a key component of their Covid-

19 strategy. This is where the creativity of MSME actors is needed in utilizing technology. MSME actors are encouraged to learn to understand the characteristics of consumer actors towards the digital market by marketing MSME products through digital technology. This is the urgency of selling MSME products by utilizing digital marketing that has a positive impact so that MSMEs can continue to run and generate economic value.

According to [20] argues that the impact of the Covid-19 pandemic has changed consumer behavior and the development of e-commerce. It is estimated that there have been an addition of 12 million new e-commerce users since the pandemic. There is a preference for payment methods with the increasing use of digital wallets (e-wallet). There is a growing trend of social commerce, with the increasing use of whats up, facebook and instagram, which in turn will increase the number of transactions in the digital economy sector and increase the income of companies based on e-business models. With the increasing income of online or internet-based companies, it will provide business continuity and business resilience. On a macro level, companies with internet-based business models will provide economic resilience so that the wheels of the economy can continue to run.

In this study, the role of the digital economy is to maintain and grow MSMEs in the midst of the Covid-19 Pandemic. Recommendations are provided for conducting e-commerce trade, conducting digital marketing, improving product quality, adding customer service, and optimizing customer marketing relationships. In the ecosystem of the digital economy, consumers are more discerning when selecting the goods and services they require; this diminishes consumer confidence in the goods and services given by vendors, particularly during the current pandemic. In order to increase consumer confidence in the items or services they trade, MSMEs must be able to improve product quality as a result of a decline in direct consumer purchasing activity. Periodically, these enhancements can be made by modifying consumers' demands, expectations, and wants.

In addition, MSME actors must be able to improve the quality of their services by providing consumers with other types of services, such as message services between products or services through online media or other conveniently accessible special services. Small- and medium-sized enterprises (SME) must also strengthen their service standards by focusing on the cleanliness of their products and online communication so that they are more effective and businesses can function as they should. Good service quality will inspire consumer confidence in company actors, resulting in consumer satisfaction with the given services. During the present COVID-19 pandemic, customer confidence is a crucial component of internet commercial activity.

Social media such as online communities, blogs, and groups can help micro, small, and medium-sized enterprises (MSMEs) network with customers, suppliers, and other business allies. One of the main advantages of using social media for business is, according to [12], that firms may attract the attention of a huge number of consumers at a relatively low cost compared to traditional media. The biggest advantage social media may offer business owners, especially those with limited means, is the opportunity to reduce overhead costs. Some have even said that websites and social media are the most important devices for developing relationships with clients and other businessmen because of how easy and accessible they are to utilize. Therefore, the foundation of a small business' competitive advantage is its relationships with external parties, especially consumers.

#### **IV. Conclusion**

The MSME sector is affected by the instability of the Indonesian economy brought on by the COVID-19 pandemic. A fall in consumer purchasing power has a severe negative effect on MSME actors. Especially in government laws that restrict social connection outside the room or at home, the digitization of MSMEs will force them to adapt to existing realities. The role of the digital economy in the COVID-19 epidemic is to awaken MSME actors through the use of applications to facilitate operational activities, the creation of sites to enhance brand awareness, and the provision of delivery services and social media product marketing. In addition to the role of the digital economy, MSME actors can expand their businesses by focusing on product quality improvement, customer service expansion, and customer marketing relationship optimization..

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