

## **Analysis of MSME Competitiveness in Denpasar During the COVID-19 Pandemic**

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### **Abstract**

*Micro, Small and Medium Enterprises (MSMEs) in Denpasar are important assets to strengthen the foundation of the regional economy. The MSME sector is currently one of the government's focuses being sought to quickly rise from the downturn due to the COVID-19 pandemic, which has a huge impact on all sectors of economy. Thus, MSMEs are expected to be able being highly competitive to encourage economic growth and people's income. The purpose of this research is to analyze the correlation between the variables of resource availability, business capability, and business performance that affect the competitiveness of MSMEs in Denpasar during the COVID-19 pandemic. This research analyze in Denpasar with a sample of 100 MSME units using the Accidental Sampling method. Data was collected using a survey approach through questionnaires and in-depth interviews. The rearch was conducted using Confirmatory Factor Analysis (CFA), to testing the suitability of the data in the field with the model formed using AMOS 21. The results showed that the three variables are interrelated with significant positive values and had an effect on the competitiveness of SMEs. Indicators on the factor of resource availability have the strongest influence on the competitiveness of MSMEs in Denpasar during the COVID-19 pandemic.*

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## 1. Introduction

Micro, Small and Medium Enterprises (MSMEs) are one of the leading driving forces in economic development (Sedyastuti, 2018). MSMEs are one of the driving forces for Indonesia's economic growth. In Indonesia, MSMEs have a strategic role in development, as indicated in the National Long-Term Development Plan (RPJPN) 2005-2025 which is stated to strengthen the nation's competitiveness. However, currently in Indonesia, the Province of Bali is one of the provinces whose economy has been severely affected by the COVID-19 pandemic. The COVID-19 pandemic has indeed caused severe paralysis in the economic sectors of the infected countries (Rincón-Aznar et al, 2020; Grima et al., 2020).

The COVID-19 pandemic has caused economic instability, especially for MSME actors who have experienced a direct impact in the form of a decrease in sales turnover due to the government's appeal to implement PSBB or PPKM so that many MSMEs have to stop temporarily (Prawoto et al, 2020). In general, the Balinese economy is feeling the impact of the COVID-19 pandemic, which can be seen from the large number of MSME players in table 1.

**Table 1. Number of SMEs Affected by COVID-19 in Bali Province**

No.	Country/City	Number of SMEs (units)
1	Denpasar	4.445
2	Karangasem	4.338
3	Klungkung	3.617
4	Bangli	2.464
5	Jembrana	1.064
6	Tabanan	1.011
7	Badung	509
8	Gianyar	401
9	Buleleng	113
<b>Amount</b>		<b>17,962</b>

*Source: Bali Province Cooperatives and SMEs Office, 2020*

Based on Table 1, the number of MSMEs affected by COVID-19 has reached 17,962 units, with the most dominant position being in Denpasar City as many as 4,445 units. Denpasar City is one of the areas in Bali Province which has a fairly high number and development of MSMEs every year. The MSME sector is currently one of the government's focuses to seek to immediately rise from adversity due to the COVID-19 pandemic by prioritizing its potential. This is because the sector that has been able to become a buffer against the economic crisis has actually become one of the sectors most severely affected.

The Ministry of Cooperatives and SMEs (2014), stated that MSMEs are able to absorb 97 percent of the total workforce in Indonesia. However, this high contribution of MSMEs has not made MSMEs in Indonesia have high competitiveness. It can be seen from the performance of MSMEs in general experiencing obstacles in various aspects, namely technology, human resources, institutional, managerial, promotion, and capital (Bappenas, 2014). These factors are determinants of the competitiveness of SMEs. The concept of competitiveness



has become very popular and has become a common language used at the business/economic level and related research. The concept of competitiveness is generally used to show the position or superiority of a region, country, institution, company, sector/business field, individual, and commodity compared to similar subjects. The diversity of competitiveness subjects causes there is no single indicator that can be used in general to measure competitiveness (Markovics, 2005).

Specifically with regard to MSMEs, the most significant research results on the competitiveness of MSMEs were carried out by Man, Lau & Chan (2002) which combined the concepts of competitiveness and entrepreneurial competence. The results show that the MSME competitiveness model needs to consider the three dimensions of competitiveness as conceptualized by Buckley et al. (1988) namely potential, process, and performance. The purpose of research is to analyze the relationship between the variables of resource availability, business capability, and business performance that affect the competitiveness of MSMEs in Denpasar City during the COVID-19 pandemic. Based on the explanation on the background, the formulation of the research problem is how are the variables of resource availability, business capability, and business performance related to the competitiveness of MSMEs in Denpasar City during the COVID-19 pandemic?

## **2. Literature Review**

### **Competitiveness Concept**

According to the Regulation of the Minister of National Education No. 41 of 2007 concerning process standards, defines competitiveness as the ability to show better, faster or more meaningful results. Competitiveness models in the context of companies or SMEs need to consider three dimensions of competitiveness as conceptualized by Buckley et al (1988), in Man, Lau & Chan, (2002) namely potential, process, and performance. Based on the results of the Analysis of the Competitiveness of MSMEs in Indonesia (Bappenas, 2014), it shows that the competitiveness of MSMEs in Indonesia is influenced by:

- 1) The potential/input dimension variable is the availability of resources.
- 2) The process dimension variable is business capability.
- 3) The performance/output dimension variable is business performance

### **Resource Availability**

Herustiati and Junaidi (2002), state that the availability of inputs or resources can be one of the determinants of the competitiveness of SMEs. The variable availability of business resources describes the situation or main capital owned by a business in starting its business (Bappenas, 2014). resources according to Man, et al (2002), Wiyadi (2009) and Tambunan (2008), which explain that the availability of resources can be measured from; (1) education level, (2) working capital, (3) labor, and (4) input supply.

### **Business Ability**

Lantu, et al (2016), stated that business capability is one of the main variables that shape the competitiveness of MSMEs in a province. The business capability variable describes the extent to which the business being run is capable or able to



manage existing business processes both from a technical and managerial perspective (Bappenas, 2014). The concept of business capability according to WEF (2001) and Bappenas (2014) which explains that the ability of a business can be measured from; (1) innovation, (2) use of technology, (3) access to financial institutions, and (4) access to partnerships.

### **Business Performance**

According to Gal (2010), the increase in competitiveness can be measured in terms of performance. Performance variable is a measure of business performance, which consists of categories of internal performance, external performance, and business continuity (Bappenas, 2014). The concept of business performance according to Lee and Tsang (2001), Bititci, et al. (2000), Szerb (2009), Gal (2010), and Bappenas (2014) which explain that the performance of a business can be measured from; (1) business productivity, (2) business income level, and (3) business sustainability.

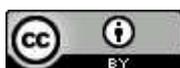
### **Concept of Micro, Small and Medium Enterprises**

The definition of MSMEs according to Undang-Undang No. 20 Tahun 2008 concerning MSMEs Chapter 1 Article 1, namely: Micro-enterprises are productive businesses that owned by individuals and/or individual business entities that meet the criteria for micro-enterprises. Small business is a productive business that stands alone, which is carried out by individuals or business entities that are not subsidiaries of companies that are owned, controlled, or become part either directly or indirectly of a medium or large business that meets the criteria of a small business. Medium-sized businesses are productive economic businesses that stand alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled,

## **3. Research Methods**

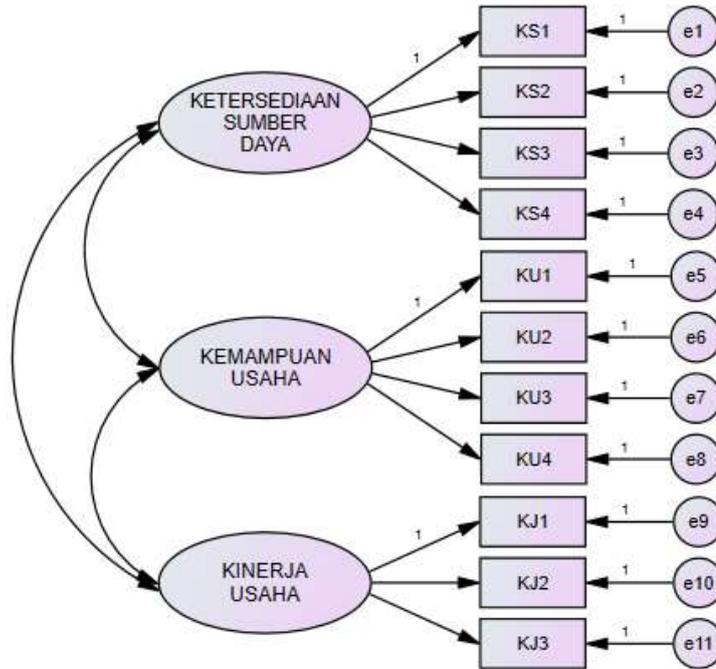
This research uses an associative quantitative approach, conducted in Denpasar City in four sub-districts. The object of this research is the availability of resources, business capabilities, and business performance SMEs in Denpasar City during the COVID-19 pandemic. The data collection methods used in this study were questionnaires and in-depth interviews. The research instrument used in this study was a questionnaire or ordinal scale questionnaire. Questions on the questionnaire use a Likert Scale with a scale of 1 to 5, namely 1 to strongly disagree, 2 to disagree, 3 to moderate, 4 to agree, and 5 to strongly agree.

The population in this study were all MSME actors affected by COVID-19 in Denpasar City in 2020, which amounted to 32,026 units, so that the determination of the sample based on the Slovin formula obtained 100 MSME units with an error rate of 10%. Furthermore, taking the number of research samples in each district is determined using the Accidental Sampling method which will be analyzed using the method *Confirmatory Factor Analysis* (CFA) which is to test the suitability of the data in the field with the model formed using AMOS 21. This study uses 3 latent variables and 11 indicators which can be seen in Table 2.



**Table 2. Latent Variables and Research Indicators**

No.	Latent Variable	Manifest/Indicator Variables	Reference Source
1.	Resource Availability (KS)	1. Education Level (KS1) 2. Business Capital (KS2) 3. Manpower (KS3) 4. Input Supply (KS4)	Man, et al (2002); Wiyadi (2009); and Tambunan (2008).
2.	Business Capability (KU)	1. Innovation (KU1) 2. Use of Technology (KU2) 3. Access to Financial Institutions (KU3) 4. Partnership Access (KU4)	WEF (2001); and Bappenas (2014).
3.	Business Performance (KJ)	1. Business Productivity (KJ1) 2. Total Revenue (KJ2) 3. Business Sustainability (KJ3)	Lee and Tsang (2001); Bititci, et al. (2000); Szerb (2009); Gal (2010); and Bappenas (2014).



**Figure 1. Confirmatory Factor Analysis Model**

## 4. Results

### Characteristics of Respondents

Respondents in this study were MSME actors in Denpasar City during the COVID-19 pandemic. This study used 100 respondents as a sample. The process of searching for data from respondents was carried out by filling out questionnaires distributed through online media. Furthermore, it will be explained in detail about the characteristics of respondents based on gender, age, latest education, type of work, line of business, business domicile, length of running the business, number of workers, initial business capital, business profits per month, and business status in Table 3.



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**Table 3. Characteristics of Respondents of SMEs in Denpasar**

No	Category	Number of Respondents		
		Person	Percentage	
1	Gender	Woman	63	63
		Man	37	37
		<b>Amount</b>	<b>100</b>	<b>100</b>
2	Age	< 20 years	3	3
		20 – 25 years	60	60
		26 – 30 years	4	4
		31 – 35 years	4	4
		35 – 40 years	6	6
		> 40 years	23	23
		<b>Amount</b>	<b>100</b>	<b>100</b>
3	Last education	Elementary School (SD)	1	1
		Junior High School (SMP)	1	1
		High School (SMA)	54	54
		College	44	44
		<b>Amount</b>	<b>100</b>	<b>100</b>
4	Type of work	Does not work	1	1
		Student/student	41	41
		Government employees	3	3
		Private employees	5	5
		Businessman	42	42
		Professionals	6	6
		Other	2	2
		<b>Amount</b>	<b>100</b>	<b>100</b>
5	Business fields	Culinary	41	41
		Fashion	19	19
		Automotive	1	1
		Agribusiness	6	6
		Education	2	2
		Service	13	13
		Other	18	18
		<b>Amount</b>	<b>100</b>	<b>100</b>
6	Business domicile	North Denpasar	22	22
		South Denpasar	22	22
		West Denpasar	24	24
		East Denpasar	32	32
		<b>Amount</b>	<b>100</b>	<b>100</b>
7	Long Running Business	< 1 year	14	14
		15 years	61	61
		6 – 10 years	8	8
		> 10 years	17	17
		<b>Amount</b>	<b>100</b>	<b>100</b>
8	Total manpower	< 5 people	84	84
		5 – 10 people	12	12
		11 – 20 people	1	1
		21 – 50 people	2	2
		> 50 people	1	1
		<b>Amount</b>	<b>100</b>	<b>100</b>



	< IDR 5,000,000	40	40
	IDR 5,000,001 – IDR. 10,000,000	24	24
	IDR 10,000,001 – IDR. 20,000,000	6	6
9	Start-up Capital	Rp 20,000,001 – Rp. 30,000,000	8
		IDR 30,000,001 – IDR. 40,000,000	2
		IDR 40,000,001 – IDR. 50,000,000	4
		> IDR 50,000,000	16
	<b>Amount</b>	<b>100</b>	<b>100</b>
	< IDR 2,000,000	23	23
	Rp 2,000,001 – Rp. 4,000,000	39	39
	Rp 4,000,001 – Rp. 6,000,000	12	12
10	Business Profit per month	Rp 6.000,001 – Rp. 8,000,000	6
		Rp 8.000,001 – Rp. 10,000,000	6
		IDR 10,000,001 – IDR. 20,000,000	8
		> Rp. 20,000,000	6
	<b>Amount</b>	<b>100</b>	<b>100</b>
11	Business status	The main job	45
		Side job	55
	<b>Amount</b>	<b>100</b>	<b>100</b>

Source: Primary data processed, 2021

### Model Fit

This study uses factor analysis with the software used for this research is IBM SPSS AMOS 24. Based on the results of confirmatory factor analysis using the AMOS analysis tool, it can be seen the model has values as shown in Figure 2.

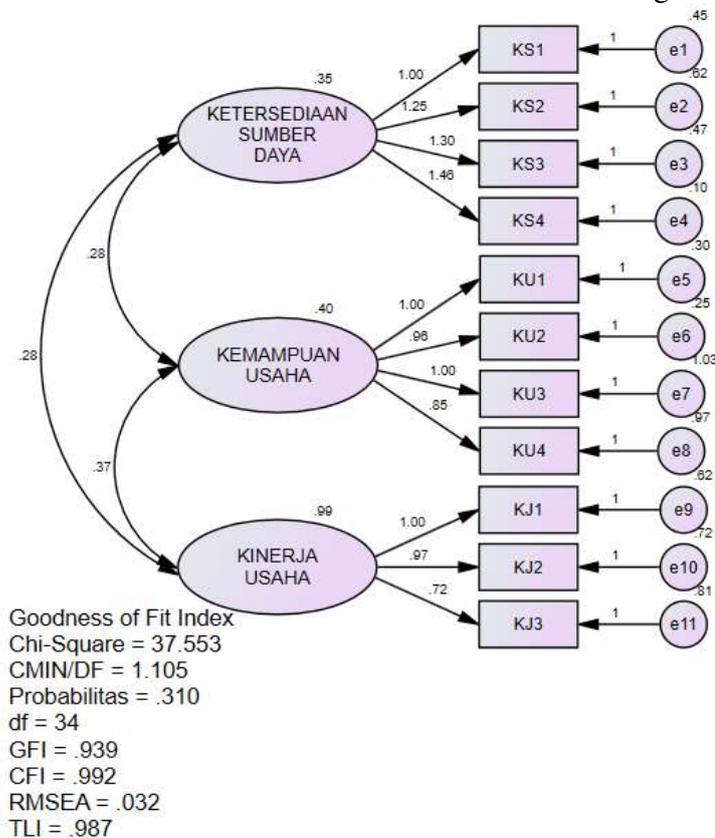


Figure 2. Output Diagram



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In this research the fit of the model is judged from Absolute Fit Test, Incremental Fit Test, and Parsimony Fit Test shown in Table 4.

**Table 4. Goodness-of Fit Statistics**

<b>Fit Size</b>	<b>Critical Value Limit</b>	<b>Output Results</b>
<b>1. Absolute Fit Measures</b>		
• Chi-Squares 2 (CMIN)	Small, 2 ; df	37,553
• Probability	0.05	0.310
• Chi-Squares 2 Relative (CMIN/DF)	2.0	1.105
• GFI	0.90	0.939
• RMSEA	0.08	0.032
<b>2. Incremental Fit Measures</b>		
• AGFI	0.90	0.906
• TLI	0.95	0.987
• NFI	0.90	0.946
• CFI	0.95	0.992
<b>3. Parsimonious Fit Measures</b>		
• PNFI	0 – 1.00	0.571
• PGFI	0 – 1.00	0.484

Source: Primary data processed, 2021

The feasibility of the model is assessed from Absolute Fit Test, Incremental Fit Test, and Parsimony Fit Test. Based on the three indices, it can be concluded that the model made is in accordance with the theory.

### **Confirmatory Factor Analysis**

After overall (overall) a structural model can be considered fit, the next process is to see if there is a significant and close relationship between latent variables and indicators. On Table 5. there are the results show that each indicator of each latent variable is above 0.5, which means that all indicators can explain the existing construct.

**Table 5. Outer Model Measurement**

	<b>Loading Factor</b>	<b>Average Variance Extracted</b>	<b>Construct Reliability</b>
Education Level (KS1)	0.704	60%	0.85
Business Capital (KS2)	0.709		
Manpower (KS3)	0.734		
Input Supply (KS4)	0.923		
Innovation (KU1)	0, 749	52%	0.74
Use of Technology (KU2)	0, 769		
Access to Financial Institutions (KU3)	0.521		
Partnership Access (KU4)	0.502		
Business Productivity (KJ1)	0.813	52%	0.76
Total Revenue (KJ2)	0.738		
Business Sustainability (KJ3)	0.600		

Source: Primary Data Processed, 2021



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Based on Table 5. showing the results of the standardized regression weight where the factor loading has the following results:

- 1) The resource availability construct, the most decisive indicator is the KS4 indicator with an estimate value of 0.923. Which means that the availability of resources is largely determined by the supply of inputs (goods/services) that are sufficient to run the current business.
- 2) Business capability construct, the most decisive indicator is the KU2 indicator with an estimate value of 0.769. Which means that the business capability factor is largely determined by the use of technology in doing business.
- 3) Business performance construct, the most decisive indicator is the KJ1 indicator with an estimate value of 0.813. Which means that business performance factors are largely determined by business productivity during the COVID-19 pandemic which is able to improving business performance.

On Table 5 also presents Average Variance Extracted (AVE) values, and reliability estimates. The calculation of Average Variance Extracted shows that all constructs meet the minimum cut-off value of 0.50 or 50%. This means that the measurement of this model has met the requirements of good factor extraction. Reliability test shows the extent to which a measuring instrument can provide relatively the same results when repeated measurements are made on the same object. The minimum reliability value of the dimensions forming the latent variable that can be accepted is 0.70. Judging from the reliability of the constructs, all constructs have met the minimum score of more than 0.7. This means that each construct is reliable or has met the requirements for measuring reliability.

### Discussion of Research Results

The results obtained will explain how the relationship between each factor can be seen in Table 6. This table shows that each factor is interconnected. Judging from discriminant validity, the constructs are completely different from one another. The AVE value in each construct must be greater than the squared correlation value. Because the AVE value in Table 5 is already greater than the correlation value in Table 5 squared, then there is no problem for discriminant validity in the model.

**Table 6. Correlation Between Constructs**

Construct Correlation	Estimates	Probability
Resource Availability <--> Business Capability	0.782	0.000
Availability of Resources <--> Business Performance	0.339	0.000
Business Capability <--> Business Performance	0.550	0.000

Significance level: = 0.05

Source: Primary Data Processed, 2021 (Appendix 6)

The relationship between each of the factors shown, specifically on the relationship between perceptions of resource availability and business ability, perceptions of resource availability and business performance, perceptions of business capabilities and business performance, shows a significant relationship between the estimated parameters with a probability of 0, 05.



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### **Correlation between Resource Availability Factors and Business Capability**

The estimated parameters for the analysis of the resource availability factor with the business capability factor in Table 6 show a significant positive value, namely 0.782 with a probability of 0.00. The number 0.782 indicates a close relationship (because it is above 0.5), while the direction of a positive relationship indicates that the relationship is in the same direction. Thus, the factor of resource availability with the business capability factor has a strong correlation in influencing the competitiveness of MSMEs. The perception of the availability of large resources in doing business will contribute to the score of business ability in influencing the competitiveness of MSMEs. Based on the results of factor analysis, the variable availability of resources is largely determined by the supply of inputs (goods/services), while the variable of business capability is largely determined by the use of technology. This means that the greater the input supply of a business, the use of technology tends to increase.

Supply of inputs in this case such as energy and raw materials needed by businesses, as well as technology used in production such as information technology, use of computers, machines, and others. However, the current COVID-19 pandemic has prompted business actors to adopt a more flexible and responsive way of operating in processing supply chains. Business actors need to find ways to obtain more up-to-date information technology systems and more accurate data and coordinate the use of the system in managing the supply chain as a whole. According to Srinivasan, et al (1994), information technology supports business operations internally in the supply chain. By using information technology companies can share data to manage the supply chain as a whole. This is supported by research by Tripathy et al (2014) which states that information technology has a positive effect on supply chain competitive advantage, meaning that better information technology will increase supply chain competitive advantage. By looking at this phenomenon, it can be concluded that MSMEs in Denpasar City will have high competitiveness if they are able to increase the supply of inputs for the use of technology during the COVID-19 pandemic.

### **Correlation between Resource Availability Factors and Business Performance**

The estimated parameters for the analysis of the availability of resources and business performance in Table 6 show a significant positive value of 0.339 with a probability of 0.00. The number 0.339 indicates a fairly close relationship, while the direction of a positive relationship indicates the relationship is unidirectional. Thus, the availability of resources has a correlation with business performance factors in influencing the competitiveness of SMEs.

Based on the results of factor analysis, the variable availability of resources is largely determined by the supply of inputs (goods/services), while the business performance variable is largely determined by business productivity. This means that the greater the input supply of a business, the productivity of the business will increase. By looking at this phenomenon, it can be concluded that MSMEs in Denpasar City will have high competitiveness if they are able to increase the supply of inputs to their business productivity during the COVID-19 pandemic.



The same thing is also shown by research conducted by Toyib (2017), which states that company resources have a significant influence on the performance of small and medium enterprises in Manokwari district. This study found that the company's resources have a very big influence on the success of a company in obtaining profit, sustaining business and competing with other companies. This finding indirectly strengthens previous studies, including those conducted by Sunata (2007). The results of this study indicate that business resources have a positive and significant influence on the performance of small and medium enterprises.

### **Correlation between Business Capability Factors and Business Performance**

The estimated parameters for the analysis of business capability and business performance factors in Table 6 show a significant positive value of 0.550 with a probability of 0.00. The number 0.550 indicates a close relationship (because it is above 0.5), while the direction of a positive relationship indicates that the two are in the same direction. Thus, the perceived business capability factor has a strong correlation with business performance factors in influencing the competitiveness of MSMEs.

Based on the results of factor analysis, it is stated that the business capability variable is largely determined by the use of technology, while the business performance variable is largely determined by business productivity. This means that the greater the use of technology in a business, the productivity of the business will increase. The use of current business technology can be in the form of digital marketing through advertising on social media and online shopping sites to increase brand awareness of a business. Thus, digitizing micro, small and medium enterprises (MSMEs) is a must during the COVID-19 pandemic. Digitalization is even considered the most qualified strategy to help MSMEs survive and rise during the COVID-19 pandemic. By looking at this phenomenon, it can be concluded that MSMEs in Denpasar City will have high competitiveness if they are able to increase the use of technology for their business productivity during the COVID-19 pandemic.

It is generally recognized that technology can help organizations improve performance and further achieve competitive advantage. Technology also creates barriers for competitors in the competitive arena. In general, the findings of previous studies tend to indicate that technology has a positive effect on company performance (Ellitan, 2003). This is supported by a study conducted by Sakakibara et al. (1997) showed that the use of technology is very potential for a business in improving quality, productivity, reducing lead-time, speeding up processing time, and responsiveness to consumers.

### **Implications of Research Results**

The development of economic activity in Bali Province is currently encouraging the community to be able to survive in the era of the COVID-19 pandemic, after the tourism sector as the main component of contributors to regional original income fell down and did not move due to the pandemic. The Covid-19 pandemic has also had a negative impact on the development of MSMEs, where outdoor



community activities tend to decrease and make the incomes of MSME actors decrease. Despite the decline in MSME income over the last two years, business actors still have to survive. Micro, Small and Medium Enterprises (MSMEs) are currently an important element to boost the national economy during the Covid-19 pandemic. The development of Micro, Small and Medium Enterprises (MSMEs) is very strategic, because of its great potential in driving community economic activities.

In this study, it can be seen that the implications for business competitiveness are the ability of a business to be able to adapt to conditions and maintain the ability to compete with each other to achieve a profitable competitive position. The availability of resources and optimal business capabilities will increase business competitiveness, because the availability of sufficient raw materials for the development of SMEs and access to raw materials as input factors in production are important factors for the success of SMEs (Toyib, 2017). This is evident from the high value of the correlation between the availability of resources and business capabilities on the competitiveness of MSMEs in Denpasar City in particular. With indicators on the factor of resource availability having the strongest influence on the competitiveness of MSMEs in Denpasar City during the COVID-19 pandemic.

Currently the development of MSMEs is being pursued by the Denpasar City Government through the Denpasar City Cooperatives and SMEs Service by continuing to optimize the utilization of resources owned by both human resources and the quality of local products developed. As for one of the strategies to increase SME competitiveness by digitizing MSMEs. If digitization is massive, then MSME actors should use technology to market their products. However, there are three obstacles faced by MSMEs, namely limited human resources in digital literacy, determining digital platforms, and digital marketing strategies. Thus, the government's role in boosting the economy through empowering MSMEs is very necessary in order to support development, the economy and improve the quality of human resources (HR) and community welfare during the COVID-19 pandemic.

## 5. Conclusion and Suggestion

The results showed that Most of the respondents are between the ages of 20-25 years, the majority are women. This age is a productive age at work that triggers an entrepreneurial spirit to start or carry out business activities. This study also shows that factors of resource availability with business capability factors, resource availability factors with business performance factors, and business capabilities factors with business performance factors are interconnected with significant positive values and affect the competitiveness of SMEs. The model made meets the goodness-of-fit criteria by looking at the Absolute Fit Index, Incremental Fit Index, and Parsimony Fit Index.

*Factor loading* each variable meets the estimated number  $> 0.3$  and is significant, which means that the correlation between each variable and each factor has well represented each construct. In terms of resource availability, the most decisive indicator is the supply of inputs (goods/services). Then, on the business capability



factor, the most decisive indicator is the indicator of the use of technology. Furthermore, on business performance factors, the most decisive indicator is business productivity. The concept of developing small and medium enterprises is needed as a driver of the community's economy in Denpasar City which focuses on developing company resources through the availability of cheap raw materials, easy access to capital, increasing the capacity of MSME actors through increased entrepreneurship training, to prepare and encourage MSMEs so that small businesses and Medium-sized businesses in Denpasar City can continue to grow, survive and survive the current COVID-19 pandemic.

The government must ensure that there is ongoing support, both in terms of financing, as well as sales strategies with digital marketing education so that MSME products are competitive. In terms of licensing, it is necessary to give affirmation so that MSMEs get legality, as well as business credit guarantees. Make it easier for MSMEs to access various assistance provided by the government by transforming into the formal sector. MSMEs are also increasingly providing optimal support for state revenues, as well as welfare guarantees for their workers.

## 6. Acknowledgement

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