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# SMEs Creative Economy In The Covid-19

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**ABSTRACT**

**Small and Medium Enterprises (SMEs), which experienced a decline due to the COVID-19 pandemic, where MSMEs experienced a decline in terms of capital, marketing, labor, and their assets. MSMEs, which have been said to be productive economic enterprises that are quite strong, are powerless to face the crisis during the Covid 19 pandemic. The government has issued several policies related to decreased income due to the Covid-19 outbreak by providing incentives in the financial sector, namely debt relief for MSME players. The government also encourages MSMEs to innovate and be creative by taking advantage of this geographical advantage into opportunities. In addition, the government also needs to provide a stimulus to maintain people's purchasing power in the midst of this crisis so that the benefits provided to the economy can be felt.**

**Key Word:** SMEs, Covid-19, creative economy

## INTRODUCTION

Small and Medium Enterprises (SMEs) is one of the programs developed by the Indonesian government to help society's economy. The hope of the Indonesian government is that with the increasing number of SMEs, Indonesia's economic turnover will not be a problem because SMEs absorb labor and the unemployment rate decreases. The large numbers make SMEs one of the economic sectors capable of providing large employment opportunities. The existence of SMEs need not be doubted because they have proven to be able to survive and become an economic driver, especially after the economic crisis. Likewise, during the Covid-19 pandemic, SMEs experienced a very disruptive impact on their business sustainability [1].

As an economic unit whose distribution extends to almost all geographies, the existence of SMEs is very important in encouraging equitable regional development. In addition, the existence of SMEs in various regions has made various SMEs become the driving force for managing regional

superior products [2]; [3]. Many regional superior products are the result of SMEs creativity and innovation. SMEs that grow in villages generally receive support from sources of raw materials from surrounding villages. The availability of local raw materials in various villages in Indonesia makes various SMEs unique, because their activities are related to local raw material sources [4]. In addition to the distribution of raw materials, the many types of raw materials available in various villages stimulate SMEs to grow with distinctive local characters. The potential for developing locally-based SMEs characterizes the SME cluster in Indonesia [4]. Even though SMEs in many facts provide positive added value, SMEs face various obstacles. Obstacles that are often faced by SMEs include: limited working capital, low human resources, lack of knowledge and technology, limited market reach, and partnership problems. Another fact that emerges is that, even though the quantity of SMEs is greater than that of large businesses, in terms of competitiveness, SMEs are still very weak. SMEs that are able to penetrate the export market are still very limited, and are generally only concentrated on the island of Java. This reality means that in addition to networking, the weaknesses of SMEs appear in the innovation and managerial aspects of business, especially in business and managerial management [5].

In the midst of globalization and high competition, it is necessary to empower SMEs which are very important in facing global challenges, such as innovating and behaving creatively (creative economy) in improving products or services produced, developing human resources and technology, and expanding the marketing area [6]. The creative economy makes human resources (HR) the main capital in a development that starts from ideas, ideas and thoughts. In the future, it is hoped that these human resources will be able to turn low-value goods into high-value and marketable goods. A profession that requires a person to have high creativity is entrepreneurship. So the development of this creative economy indirectly directs and tries to create entrepreneurs who are reliable in various fields. The power of creativity must be based on an advanced way of thinking, full of new ideas that are different from existing ones.

Although various government efforts to build the competitiveness of SMEs have been carried out, including the provision of financial support, SMEs do not automatically grow and develop rapidly. There needs to be a touch from stakeholders to increase the strength of SMEs from various aspects. Collaboration in the form of Multi-Party Cooperation which provides space for various parties, or currently more commonly referred to as the Penta-Helix Model (Government, Academics, Private Sector, Community Groups and the Media in it as a unit), is able to provide energy for SMEs to grow and develop. Collaboration between these stakeholders allows SMEs to gain easier access, policy support and possible collaboration networks [7]; [8].

A change in the external environment in general will trigger the internalization of the business process, meaning that any changes in the external environment will be a source of internal changes in the company. Companies that are able and have internal strength, then any changes in the external environment will be "internalized" with the birth of new strategies and policies, and become a new source of strength. The concept of Blue Ocean strategy is essentially an embodiment of the ability of a business to produce new innovations, which are triggered by the movement of the external environment, so that business “newness” always appears amidst the turmoil of the external environment, both from competitors and newcomers [3]; [9]. Apart from the competitive environment, the phenomenon of the global economic crisis is one of the “enablers” that allows business actors to make improvements.

This paper specifically aims to reveal the essence of innovation and creativity of SMEs in the midst of pandemic era, as a "new" environment formed due to the corona outbreak. What must SMEs do to survive in the midst of corona? Will the innovations that have been initiated to survive in the midst of the corona will subside, along with the improving post-corona environmental conditions?

## LITERATURE REVIEW

The existence of SMEs needs to be supported by the creativity of the actors, which is commonly known as the creative economy. Economic activities that form a creative economy seek to create something new and innovate both from means, activities, models, products produced, strategies and techniques (methods). So that the creative economy is an industry by utilizing the skills possessed by individuals, as an effort to improve their welfare and employment [10]. The creative economy aims to take advantage of creativity and creativity as a capitalization of intellectuals (creativity), ideas, ideas that can be developed or enhanced into copyrights, brand patents or designs [11].

The creative economy is a new economic era that intensifies information and creativity by relying on ideas and stock of knowledge from human resources as the main production factor in economic activities. It is hoped that this human resource will be able to turn low-value goods into high-value and marketable goods. A profession that requires a person to have high creativity is entrepreneurship. So the development of the creative economy indirectly directs and tries to create reliable entrepreneurs in various fields. Creativity must be based on an advanced way of thinking, full of new ideas that are different from existing ones [12]; [8]. An SMEs actor certainly has the power to support the decision to take entrepreneurial action, the strength in question is intensity. The formation of an entrepreneurial strength or intensity is certainly motivated by several reasons. Some of the reasons that can form the entrepreneurial intensity of SMEs actors are: 1) inspiration, 2) rewards, 3) personality and 4) environment. [13].

The idea of a creative economy must be viewed and placed as a superior idea for a society that has advantages. Creative economic development implies that a society in which creative economy is developed is one who has or is willing to grow creatively based on the criteria for industrial or economic development. Creative practice arises from a system in which an individual is placed in a relationship with social and cultural factors that allow and limit creative opportunities. An examination that explains the close relationship between failure and success and how they are managed by players in the media and creative industries, is the basis for this paper. A theoretical discussion will illustrate the relationship between risk, failure and success and the proposition presented is that the media industry, operating through SMEs has become severely constrained and, thus, created conditions that limit creative opportunities[9].

The creative economy in Indonesia is stacked in 14 industrial sub-sectors. Among them are advertising, design, architecture, art and antiques, crafts, fashion, film, video, photography, interactive games, performing arts, publishing and printing, computer and software services, television and radio, and research and development. The latest development, the Ministry of Tourism and Creative Economy intends to include culinary in the category of creative economy. Business actors engaged in the creative economy are called creativepreneur [12].

One form of the SME development program in Indonesia is the Community Development program through SOEs, which is a form of concern for the surrounding community and long-term social investment [12]. Other government efforts in developing SMEs can be seen from the amount of assistance provided to SMEs [1]. Various government support for SMEs development also continues, and until now there are still a lot of assistance aimed at growing SMEs, including KUR (People's Business Loan) although the degree of effectiveness still needs to be improved [6]. The importance of government support in the development of SMEs is based on at least 3 main reasons, namely: 1) SMEs increase competition and entrepreneurship, therefore SMEs have a positive impact on broad economic efficiency, innovation and productivity growth. In this perspective, the development of SMEs will help the country exploit the social benefits of high competition and entrepreneurship. 2) SMEs in many cases, generally are more productive than those that fail, but financial markets and various other institutions do not always support the development of SMEs. So, government financial support for SMEs can increase economic growth and economic development. 3) The increase in SMEs has a greater impact than large companies because of their labor intensive nature.

## METHODS

The research aimed further identify to reveal the essence of innovation and creativity of SMEs in the midst of pandemic era, as a "new" environment formed due to the corona outbreak. The methodology of this research of qualitative research. Populations in this research were SMEs wich actively angaged in the creative economy in Malang. Data collection techniques, among other were literature study on creative industries, interview and observation. To easily understand this study, we propose analytical framework which is combined from several concept of creativity, innovation, economy and policy.

## RESULTS

Malang City is a potential area as a place to create and innovate for SMEs. Malang is one such city support MSME products widespread in the Malang area. Data development of the number of MSMEs in 2019 grade up because the data shows the composition most of them are currently in micro business. MSMEs upgrade because of data shows the most current composition still in micro business. Recorded the number of businesses micro Malang City as many as 99,213 businesses, with details in Kedungkandang District 21,045, Sukun District 20,251, Klojen District 17.034, District Blimbing 19,414 and 21,469 attempts located in Lowokwaru District.

The results of the study showed that Covid 19 had the greatest impact on the food and beverage business by 22.77%. Meanwhile, the influence of the Covid-19 virus on wood and rattan handicraft businesses was 19%. The magnitude of the impact of Covid 19 on the food and beverage business is because the majority of SMEs in Malang City are engaged in the food and beverage sector. They really feel the impact, because people are reluctant to shop offline.

The results show that in general, the characteristics of SMEs are identical to businesses that have significant obstacles in the managerial, operational, and network aspects. In general, the obstacles faced by SMEs during the COVID-19 pandemic were capital difficulties of 51.096%, marketing difficulties, 34.725%, raw materials 8.592%; workforce 1,093%; transportation difficulties 0.224% ;, others. 3.93%. The importance of the existence of SMEs on the one hand and the many problems it faces on the other hand, give importance to the development efforts made

by the government to ensure that SMEs continue to grow and contribute to the national economy. Even though the role of SMEs in the national economy is quite large, both in preparation employment and management of regional superior products, but the competitiveness of SMEs in general is still weak. Realizing the importance of SMEs and seeing their weaknesses, the role of government is very important in building the competitiveness of SMEs. Competitive SMEs will become the locomotive of the country's economy.

Based on the results of research on 5 groups of SMEs affected by covid 19 (craft, publishing and printing, culinary, music and advertising) it is stated that, in order to survive during a pandemic, innovation and creativity must be carried out in their business. The factors needed for innovation and creativity are: 1) mastery of technology 2) marketing operations. 3) change the business map, 4) financial arrangement.

## DISCUSSION

The impact of covid-19 is not only felt in large businesses, but the scale of micro-businesses is also affected by this outbreak. Many SMEs in the regions have not been able to survive even though government support through financial restructuring carried out by financial institutions (banks) is quite aggressive. Although most of the SMEs were affected extensively, the ability of SMEs to survive also showed its side. The prolonged period of Covid 19 has made the business environment change rapidly, including people's behavior in the economy. The changed business environment in the initial session of Covid 19 was a blow to SMEs, so that many SMEs were unable to continue their business. However, along with the passage of time and there are no signs of the end of Covid 19, this uncertain business environment becomes something "given". This condition must be addressed by SMEs to survive amid the pandemic. And it is in this position that creativity and innovation must be born from SMEs to grow and develop, with a "new normal" environment.

For SMEs itself, competitiveness must always be built through systematic and realistic efforts through various patterns, including proactively building strength in new segments, strengthening leadership, data-based decision making, understanding that risk is directly proportional to return, focusing on meeting needs customers, and not worried about past failures. Creativity and innovation of SMEs in the Middle of a Pandemic, Will it Continue? The process of continuous improvement (continual improvement) for every business is a necessity, including SMEs. A business environment that is always moving dynamically, requires that creativity and innovation are always carried out to build new strategic designs that build business competitiveness. Covid 19, which has changed the business environment in a short time, has made business people stagnant in the initial phase. The existence of PSBB rules makes all activities empty, and tends to stop. Most companies make operational adjustments through a rolling system, limiting working hours.

Covid 19 has had an impact not only on the health aspect. The snowball effect of Covid-19 has spread from health problems to economic problems. If at the beginning of its dissemination, the government's concern was more focused on the health aspect, but in the following period, it was more focused on the economic aspect. This is considering the widespread economic impact of the unresolved domino effect of the corona outbreak . Changes in the business environment will always create new barriers and opportunities. New opportunities will only emerge if business

actors are able to conduct environmental analysis, and with their internal resources are able to design appropriate strategies. This means that innovation and continuous improvement will be the answer to changes in the business environment.

The business environment determines the performance of businesses, both large and SME businesses. The environment is an important determinant that is taken into account in making a business strategy. The dynamics of the external environment in the form of threats of new entries, threat of substitute products, bargaining power of customers, bargaining power of suppliers, intensity of competitive rivalry, always have an impact on the internal conditions of the company. As a result, it is necessary to adjust the company's internal environment in the form of resource allocation, increasing capability, as well as building competitiveness through the creation and strengthening of core competences. In a different way, a resource-based view strategy will become a demand for business actors to be able to survive in the conjunction of the business environment.

Technology mastering is now a must for businesses, including SMEs. Access to technology that is getting cheaper and the reach of technology that has expanded in society has made market expansion through networks easier, more precise and efficient [2]; [1]. The use of technology for SMEs enables the achievement of global competitiveness through a reliable, balanced and high standard business operating system. . Utilization of the latest technology and expansion of market networks for SMEs in the long term will provide benefits for SMEs to develop innovation and ultimately have an impact on increasing competitiveness [14]; [6]. For this reason, according to building competitiveness, SMEs can be carried out in 3 patterns, namely: a) The existence of continuous technological innovation and improvement towards reducing costs; b) Development of the use of communication and information technology to increase productivity and save time, and c) Utilization of cooperative networks for broad market development. SMEs as economic institutions that operate at a lower level generally grow sporadically and even have no pattern. Some small businesses are clustered in certain geographic areas [15]; [16].

As a form of business that grows naturally in a group of communities, there are also relatively many weaknesses that surround SMEs. The approach to developing SMEs with various characteristics and scattered locations is not easy. Clusters are therefore a relatively effective approach. This approach allows for the "homogeneity" of the character of SMEs, at least in the regional aspect, so that the treatment provided by the government and other stakeholders will be more focused on building SMEs competitiveness. Provision of supporting facilities and institutions will accelerate the growth of competitiveness of SMEs in the cluster [17]; [15].

This operating strategy aims to reduce the level of risk of the spread of Covid-19 on the one hand. From a business perspective, this limitation on operating hours is actually an adjustment effort so that the company can maintain its operations at a minimum level, which can cover operating costs in the short term. This is in line with the findings that SMEs at least carry out a process of innovation on aspects of finance, marketing and management issues. In essence, the COVID-19 pandemic requires a redesign of new strategies that can revive businesses in the short and long term [1]; [18]; [19]. Technically, marketing innovation is carried out not only now (during a pandemic period), to solve problems for a moment, but can also be used to overcome similar crises that will occur in the future. The same thing was explained [20], that the Covid 19

pandemic not only had an impact on the broadest natural marketing aspect, but also marketing in a strategic sense. At the practical level, marketing innovations that are mostly carried out by SMEs can be in the form of e-commerce trading, doing digital marketing, improving product quality and adding services as well as establishing and optimizing customer marketing relationships. Other findings also emphasize the importance of reducing cost burdens in the distribution system, which means that companies need to reduce costs borne by customers as well as those borne by the company [9].

Using product delivery services is an alternative. Covid 19, which changed the business map in a short time, forced business people to reformulate their business, including the development of new businesses, whether they had previous product lines or not. This illustrates that SMEs business people have a high degree of flexibility in carrying out product design and design according to market needs. Several health products (masker, PPE) are produced by SMEs previously engaged in the culinary sector, and other sectors that are not related to medical devices are clear examples of product innovation that are not in one line [1]. In addition, innovation related to product lines is still possible, because during the pandemic, people's consumption behavior has also changed. The restaurant industry can develop food seasoning products as derivative products from similar industries (one line). Product innovations that are not related to previous experience illustrate strong entrepreneurial spirit of SMEs business actors.

This entrepreneurial power makes MSME players dare to take risks, the ability to adapt quickly and be able to read opportunities when the phenomenon of environmental changes rapidly [7]. To be able to maintain the SMEs business amid Covid, the strength of the domestic market must be strengthened. This means that there is a need for cohesion between domestic business actors, amidst a weak foreign trade climate. From the aspect of financial behavior, there is a need for strengthening through financial resolution, which is nothing but redefining the degree of priority, in a measured and realistic manner [21]. At the final level, the human resource aspect must be a short-term priority for SMEs to remain gradual amid the pandemic. The phenomena of layoffs and laying off employees are part of the efforts made by SMEs to survive amid the pandemic.

From the aspect of manpower and human resources, cash subsidies for workers are one of the short-term alternatives that allow business actors to avoid layoffs. To maintain continuity of production, the government through the State Minister for Cooperatives Small and Medium Enterprises (SMEs) conducts various activities to monitor the availability of raw materials, design assistance, capital assistance and marketing facilitation. With this pattern, SOEs become facilitators for SMEs to carry out business processes online with a platform developed by SOEs [6]. This pattern means that internally SMEs traders carry out various innovations with their own resources, and externally the government creates space for SMEs to have convenience in business development amid the COVID-19 pandemic, through various policies, strategies, and facilitation.

## CONCLUSIONS

Based on the exposure and reality analysis, some final conclusions can be drawn as follows: 1) Covid 19 has changed the fabric of life, both from health and business perspective, which has an impact not only on large businesses, but also on SMEs. 2) Covid 19 has created a very fast economic environment conjunction, so that in the short term SME entrepreneurs are stagnant for

a moment, then redesign their business strategy. 3) The technology that is currently developing has become a source for SMEs to carry out business innovation, so that the acceleration of SMEs innovation is supported by the current development of digital technology . 4) SMEs innovation to survive Covid 19 includes all aspects of the management function, namely product innovation, innovation in marketing, innovation in the financial system and innovation in human resource management. 5) Covid 19 became a trigger for SMEs innovation and will remain a strength of internal business in the "new normal" and post-Covid era in the future, and become part of business strategies in similar environments in the future. 6) Government policies in economic recovery through various stimuli and facilitation, creating an external environment that accelerates the success of internal innovation in maintaining the SME business.

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