



## **An examination of the impact of entrepreneurial orientation on organizational performance**

**Maria Angela Diva<sup>1\*</sup>, Fransisca Desiana Pranatasari<sup>2</sup>**

<sup>1&2</sup> Fakultas Ekonomi, Universitas Sanata Dharma, Yogyakarta, Indonesia

\*E-mail korespondensi: [mariaangeladiva@usd.ac.id](mailto:mariaangeladiva@usd.ac.id), [fr.desiana@usd.ac.id](mailto:fr.desiana@usd.ac.id)

### **ABSTRACT**

One of the sectors that have been hit hard by the Covid-19 Pandemic is Micro, Small, and Medium Enterprises (MSMEs), which are the drivers of the Indonesian economy but also have a significant impact on the decline in the level of the national economy. A marketing strategy that is very possible to do is the use of technology which is also one of the important factors in MSME business activities. In the New Normal era, it is not only related to competitive advantages, lower costs, and efficiency but also how this social media can improve organizational performance for the sustainability of MSMEs. In addition, entrepreneurial orientation is very necessary for maintaining a business. This study aims to determine the effectiveness of using social media as a marketing strategy for entrepreneurial orientation and sustainability performance, especially in the MSME sector in Indonesia, this research was conducted with a quantitative design. Data collection technique using a self-administered survey by distributing questionnaires. The sampling technique used is purposive sampling. The sample in this study was 54 MSME owners. The data analysis method used to test the hypothesis is SEM analysis using the PLS approach. The results of this study show that the use of social media has a significant effect on entrepreneurial orientation and organizational performance.

**Keywords:** use of social media, entrepreneurial orientation, organizational performance, MSMEs

### **ABSTRAK**

*Salah satu sektor yang sangat terpuuk oleh Pandemi Covid-19 adalah Usaha Mikro, Kecil, dan Menengah (UMKM), yang merupakan penggerak perekonomian Indonesia namun juga turut memberikan dampak yang signifikan pada turunnya tingkat perekonomian nasional. Strategi pemasaran yang sangat memungkinkan dilakukan adalah dengan pemanfaatan teknologi dalam kegiatan bisnis UMKM. Di era New Normal tidak hanya berkaitan dengan keunggulan bersaing, biaya yang lebih rendah dan efisiensi namun juga bagaimana media sosial ini mampu meningkatkan kinerja organisasi untuk keberlangsungan UMKM. Selain itu, orientasi kewirausahaan sangat diperlukandalan mempertahankan bisnis. Penelitian ini bertujuan untuk mengetahui efektifitas penggunaan social media sebagai strategi pemasaran untuk orientasi kewirausahaan dan kinerja keberlanjutan terutama dalam sector UMKM di Indonesia*



*Penelitian ini dilakukan dengan desain kuantitatif. Teknik pengumpulan data menggunakan self-administered survey dengan menyebarkan kuisioner Teknik pengambilan sampel yang digunakan adalah purposive sampling. Sampel dalam penelitian ini adalah 54 pemilik UMKM. Metode analisis data yang digunakan untuk menguji hipotesis adalah analisis SEM dengan menggunakan PLS. Hasil dalam penelitian ini menunjukkan bahwa penggunaan social media berpengaruh secara signifikan pada orientasi kewirausahaan dan kinerja organisasi.*

**Kata kunci:** *penggunaan sosial media, orientasi kewirausahaan, kinerja organisasi, UMKM*

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are one of the drivers of the Indonesian economy. As the backbone of the national economy, the MSME sector contributes to economic growth, job creation, employment, the formation of gross domestic product (GDP), as well as non-oil and gas export sources. According to data from the Ministry of Cooperatives, Small and Medium Enterprises (KUKM) in 2018, the number of MSME actors was 64.2 million or 99.99% of the number of business actors in Indonesia. Meanwhile, the contribution of MSMEs to the national economy (GDP) was 61.1%, and the remaining 38.9% was contributed by large business actors, the amount of which was only 5,550 or 0.01% of the number of business actors. These MSMEs are dominated by micro-entrepreneurs totaling 98.68% with a workforce absorption capacity of around 89% (<https://www.djkn.kemenkeu.go.id>, accessed January 2022). The development of MSMEs in Indonesia in 2017-2018 increased by 2.02% or 1,271,529 MSMEs.

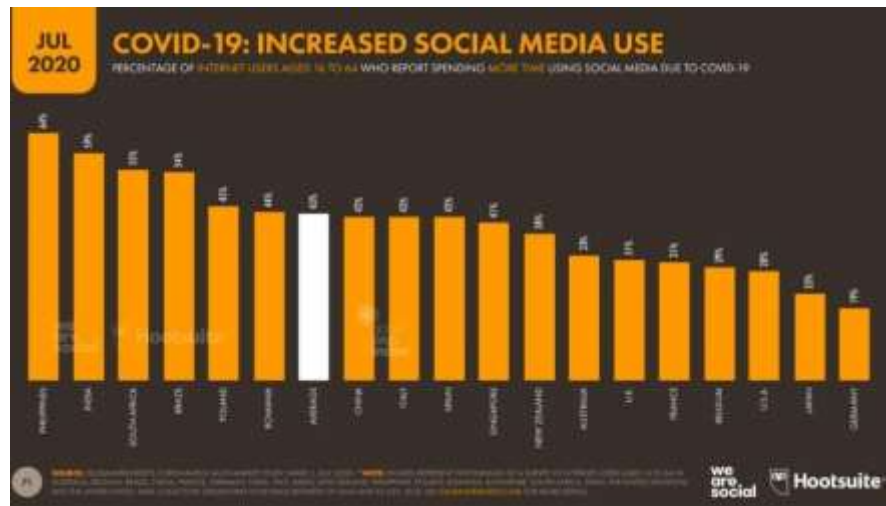
MSMEs, which are the drivers of the Indonesian economy but also have a significant impact on the decline in the national economic level, are one of the sectors that have been hit hard by the Covid-19 pandemic (<https://www.djkn.kemenkeu.go.id>, accessed in January 2022). Research conducted by Gourinchas et al (2020) found that at least MSMEs in 17 countries were affected by the Covid-19 pandemic. Many MSMEs are unable to maintain their performance in several sectors, resulting in business failure (MSMEs).

The Covid-19 pandemic situation can be said to be an uncertain situation. In previous studies, some experts suggested that this situation of uncertainty will have its impact and risks for economic actors (Hagen and Zucchella, 2018). In this regard, MSME actors need to have solutions and preventive measures to deal with this uncertain situation by optimizing marketing strategies to stabilize better long-term performance (Maria Angela Diva V.W, 2020). Currently, a very possible marketing strategy is the use of technology which is also one of the important



factors in business activities in Indonesia. The development of digital technologies such as cloud, smartphones, apps, data analytics, and social media has a great impact on consumers and businesses around the world (Deloitte Access Economics, 2015).

**Figure 1.** Covid-19 Increases Social Media Use



Source: Global Digital Overview July 2020, We Are Social, Hootsuite (2020)

Figure 1. Covid-19 increasing the use of social media shows that the Covid-19 Pandemic affects the increasing use of social media around the world. The Ministry of Cooperatives and SMEs noted that at least since the pandemic occurred, sales in e-commerce have increased by 26% or reached 3.1 million transactions per day (<https://www.kominfo.go.id>, accessed in January 2022). Therefore, the Ministry of Cooperatives and SMEs continues to encourage and accelerate MSMEs to go digital. In recent years, the use of social media for MSMEs has continued to increase. Social media opens up opportunities for business people, especially MSMEs, to increase innovation by sharing, collaborating, and co-creating (Choi et al., 2014). Social applications become a means of searching and exchanging information for consumers and businesses. In addition, for businesses, social applications help in marketing strategies to expand the network and reach allowing to expand the market, increase sales efficiency and establish an entrepreneurial orientation.

Social media is a place used by consumers to obtain information and as advice for the dissemination of information to build a market (Hsu, 2012). With the nature of interactive social media, organizations today must be able to build and select their social media publicly to improve their social networks and build good public relationships online. Indonesia is a very

large user of social media applications. The percentage of social media users in Indonesia includes Youtube as much as 88%, Whatsapp users as much as 84%, Facebook as much as 82%, Instagram as much as 79% of the total population (Global Digital Overview January 2021, We Are Social, Hootsuite, 2021). A statistical survey shows that 52% of organizations invest up to 20% of their marketing budgets in social business activities (Regus, 2011). Thus, the extent to which investment in business social networks through social media improves the organizational performance of the organization is increasingly important. However, it is not easy to prove the positive impact of this social media investment on organizational performance (Carmichael et al., 2011).

Organizations that utilize technology through social media can beat/ are superior to their competitors and have several advantages such as lower costs and increased efficiency (Harris and Rea, 2009; Eisenfeld and Fluss, 2009). Currently, it is not only related to competitive advantages, lower costs, and efficiency but also to how this social media can improve organizational performance for the sustainability of MSMEs. This shows the importance of seeing the effectiveness and specific impact of the use of social media on the performance of organizational sustainability is important. However, the increasing use of social media by MSME actors has not shown a significant influence on entrepreneurial orientation such as being innovative, proactive, and daring to take risks. Entrepreneurial orientation conveys a company's strategic orientation that describes certain entrepreneurial characteristics in approaches, techniques, and decision-making systems (Wiklund & Shepherd, 2005:19).

Social media has changed the way of doing business, allowing organizations to increasingly open communication that helps organizations understand consumer needs and motivates organizations to be more proactive in responding to consumer needs, especially in the era of the Covid-19 Pandemic. In addition, existing features in social media enhance and encourage innovation by monitoring opinions, feedback, and communication with consumers (Matuszak, 2007; Tapscott and Williams, 2006). The Ministry of Cooperatives and SMEs stated that during the pandemic, many MSMEs have stopped their business, around 30% which has an impact on the sustainability of MSMEs. However, MSMEs whose businesses have an impact but create creative innovations are around 50%-70% (<https://www.liputan6.com>, accessed January 2022). Innovation carried out through the use of social media is one of the keys to the sustainability of MSMEs. In addition, risk-taking is important in MSMEs, because the lack of



risk-taking can make companies perception of losing strength in the organization to survive (Korsten et al., 2013). The lack of a dimension of entrepreneurial orientation will make MSME actors lack important assets for organizations that compete in the digital era such as social media applications (Colton et al., 2010).

Previous research, relating to the influence of the entrepreneurial orientation of various aspects of technology (Elliot and Boshoff, 2005; Mostafa et al., 2006; Colton et al., 2010), the impact of Web 2.0 adoption (Lim and Palacios-Marques, 2011). However, comprehensive research on social media use in entrepreneurial orientation and organizational performance still needs to be carried out in a broader context (Parveen et al, 2016). Therefore, this study tries to answer these recommendations, related to the effectiveness of the use of social media as a marketing strategy for entrepreneurial orientation and sustainability performance, especially in the MSME sector in Indonesia.

## **LITERATURE REVIEW**

### **MSMEs in Indonesia**

MSMEs are one of the most significant GDP supports for the national economy. The total contribution of MSMEs to the national GDP is an accumulation of all sectors of the MSME economy. Based on data from Bank Indonesia (2015), the contribution of MSMEs to the national economy (GDP) was 61.1%, and the remaining 38.9% was contributed by large business actors. This means that the role of MSMEs is very important in maintaining the stability of our country's GDP. In 2018, the number of MSME players was 64.2 million (<https://www.djkn.kemenkeu.go.id>, accessed in January 2022).

Classification of types of economic activities that follow the concept of ISIC (International Standard Classification of All Economic Activities) which was revised in 1968 to become a sector classification to facilitate agile comparison of economic activity between various kinds of activities, namely agriculture, animal husbandry, forestry and fisheries; mining and quarrying; processing industry; electricity, gas, and clean water; building; trade, hotels and restaurants; transportation and communication; financial, rental and corporate services; and services. In Indonesia, the Law governing Micro, Small, and Medium Enterprises (MSMEs) is Law Number 20 of 2008. In the law, MSMEs are explained as: "A company classified as an



MSME is a small company owned and managed by a person or owned by a small group of people with a certain amount of wealth and income".

Many literacies explore the characteristics of MSMEs themselves. Bank Indonesia (2015) further explained that the characteristics of MSMEs themselves are factual traits or conditions inherent in business activities and the behavior of the entrepreneurs concerned in carrying out their business. This characteristic characterizes the distinction between business actors according to the scale of their business. According to the World Bank, MSMEs can be grouped into three types in terms of the number of employees :

1. Micro Enterprises (number of employees 10 people);
2. Small Business (number of employees 30 people); and
3. Medium Enterprises (number of employees up to 300 people).

**Table 1.** Criteria for MSMEs & Large Enterprises Based on Assets and Omset

Business Size	Criteria	
	Assets	Omset
Micro Business	Maximum 50 million	Maximum 300 million
Small Business	>50 million – 500 million	>300 million –2,5 billion
Medium Business	> 500 million –10 billion	> 2,5 billion– 50 billion
Large Business	> 10 billion	> 50 billion

*Source: Bank Indonesia (2015)*

### Optimizing the Use of Social Media Marketing for MSMEs

The use of social media has a very strong positive impact on organizational performance, in terms of cost reduction, improved customer relationships, and improved information accessibility (Parveen, et al, 2016). The use of social media is categorized into three sub-constructions such as:

1. use of social media for marketing,
2. the use of social media to build customer relationships, and
3. use of social media for information search.

The use of social media can be useful for managers to understand various things in the field of organizational performance that can be improved by the use of informational social media (Parveen, et al, 2016).





Entrepreneurs in this case are these MSME players, who tend to try innovative new ways to market their products and services through social media. Information that organizations obtain from social media about customers and competitors as well as feedback on their products and services immediately may influence organizations to proactively take some steps to solve problems or improve services (Parveen, et al, 2016).

The use of social media can also increase the tendency to take company risks. Organizations that use social media are more likely to change from the traditional way of doing business to the modern way. These changes may also affect organizational risk-taking tendencies (Parveen, et al, 2016). Therefore, The use of social media by organizations will have an impact on entrepreneurial orientation improving the proactive, risk-taking, and innovative characteristics of an organization.

### **MSMEs and the Importance of Entrepreneurial Orientation**

The important role of MSMEs in Indonesia has been realized by many parties so the government has begun to focus on developing the growth of MSMEs themselves. At least MSMEs have played a role in supporting the Indonesian economy and also play an active role in employment. MSMEs have also proven to be able to survive in difficult situations such as during the 1998 monetary crisis (Bank Indonesia, 2015). During the monetary crisis, many large companies collapsed and went bankrupt, so many workers lost their jobs suddenly. MSMEs became one of the solutions for citizens of productive age at that time to continue their lives. The ability to use resources dynamically due to small capital or limited resources is what makes MSMEs able to survive in difficult and uncertain situations such as the monetary crisis in 1998 or the Covid-19 pandemic situation.

The entrepreneurial approach is widely used by MSME business actors in looking for new opportunities based on limited resources to deal with this uncertain and even unreliable situation (Becherer et al., 2008; Fard and Amiri, 2018). Many literacies have already explained that the concept of entrepreneurship can be one of the foundations of a person's life. The concept of entrepreneurship can be seen more broadly, not only specifically for those who have a business, but it is indeed more widely perceived for those who have businesses such as MSMEs. Broadly speaking, this concept of entrepreneurship covers the entire life process of identifying, developing, and bringing visions to life in the form of innovative ideas, and the ability to see opportunities to run them in their daily lives.



In the context of the business environment especially electronic business, Parveen, et al (2016) formulated that entrepreneurial orientation is considered an important asset which is interpreted as the methods, practices, and decision-making styles that managers use to act entrepreneurially. This process includes experimenting with new technologies, being willing to take advantage of new product market opportunities, and having a tendency to do risky business. The key elements in question include innovation, proactiveness, and risk-taking (Parveen, et al, 2016; Fard and Amiri, 2018)

Innovation as a form of entrepreneurial orientation refers to efforts to embrace creativity, experimentation, novelty, technological leadership, and so on, both in products and processes (Parveen, et al, 2016). The element of risk-taking and capturing opportunities in the market, is a bold action and commitment to a large number of resources for business with uncertain results, in the hope of obtaining high profits. Other aspects are proactively looking for opportunities, forward-looking perspectives that involve the introduction of new products or services in front of the competition, and acting in anticipation of future demands to create change and shape the environment (Parveen, et al, 2016; Fard and Amiri, 2018).

### **Improving Organizational Performance Growth**

Organizational performance is a multidimensional construction. A measure of performance can also be said to be an entrepreneurial outcome in which entrepreneurs are oriented towards sales growth and an increase in market share and overall return on their investments for their willingness to bear risks (Becherer et al, 2012). The measure of success is the achievement of performance they usually have set at the beginning. Indirectly, performance achievement will build a comprehensive organization (Becherer et al, 2012). Therefore, there are different ways to measure business performance so previous studies focused on different aspects of performance (Fard and Amiri, 2018).

A business organization will not have a significant impact on the owner of the non-performance of his organization not experiencing growth. For this reason, it is considered very important for any company, even a startup company, to see aspects of organizational performance. Previous studies have illustrated the positive impact of internet use on organizations in various fields such as improving CRM practices (O'Leary et al., 2004); providing interactional and transactional benefits (Thao and Swierczek, 2008); providing strategic benefits such as cost reduction, revenue creation, and managerial effectiveness (Teo





and Choo, 2001); improving innovation (Andersen, 2001); reducing marketing costs; improving customer relationships; and improving the company's image and competitive position (Molla and Heeks, 2007). Many studies examined the use of information communication technology and its impact on organizations and found that the use of information communication technology is positively related to the company's satisfaction with the development of new market knowledge (Parveen, et al, 2016).

Social media allows it to be used as an integrated marketing activity with much less effort and cost than before (Kim and Ko, 2012). More specifically, social media helps organizations improve customer relationships and customer service (Parveen et al., 2016). Social media is a cost-effective method for marketing activities (Paridon and Carraher, 2009). Organizations can obtain more information about the market, competitors, and their customers and needs through social media. This will have an impact on improving the accessibility of information in organizations (Parveen et al., 2016).

### **Hypothesis Development**

Social media enables organizations to increasingly open communication, thus assisting organizations in understanding consumer needs and motivating organizations to be more proactive in responding to consumer needs. In addition, existing features in social media enhance and encourage innovation by monitoring opinions, feedback, and communication with consumers (Matuszak, 2007; Tapscott and Williams, 2006). In addition, risk-taking is important in a business organization because the lack of risk-taking can make companies the perception of losing strength in the organization to survive (Korsten et al., 2013), especially in situations of uncertainty that require business people to be able and courageous in taking risks for business continuity. The lack of a dimension of entrepreneurial orientation will make MSME actors lack important assets for organizations that compete in the digital era, such as social media applications (Colton et al., 2010). Based on the previous description, the hypothesis can be formulated as follows:

#### **H1: The use of Social Media affects Entrepreneurship Orientation**

Shuai and Wu (2011), stated that marketing carried out through the internet with a digital concept is positively related to company performance. In the context of social media, previous studies have investigated the use of social media organizations; However, few studies have examined more deeply the impact of the use of media morals on organizational



performance. For example, Ferrer et al. (2013) found that the use of social media technology has a positive impact on the social capital of the organization and therefore its performance. Similarly, Rodriguez et al. (2014) also found that the use of social media in an organization positively impacts customer-oriented processes, which in turn has an impact on organizational performance. Based on the previous description, then a hypothesis can be formulated as follows:

**H2:** The use of Social Media affects Organizational Performance

## RESEARCH METHOD

This research is quantitative, confirmatory, and cross-sectional research. This research was conducted by collecting and processing primary data sourced from respondents' answers through the dissemination of questionnaires and then interpreting the results of the study (Neuman, 2011: 344). The data collection method used in this study was a survey. Data collection techniques with surveys using self-administered surveys that are managed by distributing questionnaires and each questionnaire is filled directly by respondents (Cooper and Schindler, 2014: 255).

The sampling method is used nonprobability sampling. The sampling technique used is purposive sampling. Purposive sampling was used because the study sample had certain criteria required (Cooper and Schindler, 2014:1359), where each member of the population did not have an equal chance of being selected as a sample (Cooper and Schindler, 2014:152). The criteria used in sampling this study were:

1. MSME actors/owners in various business fields
2. According to the Criteria for MSMEs of Bank Indonesia (2015) & Business Based on Assets and Turnover, meeting the business size criteria can be in the form of micro, small or medium enterprises.
3. The business was established before the Covid-19 pandemic took place and still survives today.

In addition to the previously determined criteria, researchers determined the number of representative samples according to Hair et al. (2014: 20), the minimum number of samples needed is the number of pathways multiplied by 10. The samples in this study were 54 MSME.



This study is confirmatory. Researchers collect data using and processing primary data derived from respondents through questionnaires as research instruments. The questionnaire is a statement measured by a scale of 1 to 5 (1 = strongly disagree, 2= disagree, 3=neutral, 4= agree, 5= strongly agree). This respondent's answer will then interpret the results of the study (Neuman, 2011: 344). Data collection techniques with surveys using self-administered surveys that are managed by distributing questionnaires and each questionnaire is filled directly by respondents (Cooper and Schindler, 2014: 255).

The analysis method used to test the hypothesis is SEM (structural equation model) analysis using the PLS (partial least square) approach. PLS can work effectively with small sample counts and complex models (Hair et al., 2014:15). PLS-SEM analysis consists of two subsection models, namely the measurement model (measurement model) or outer model and the structural model (structural model) or inner model. After evaluating the measurement model, a structural model evaluation can then be carried out. Structural models using PLS can be seen from the value of the coefficient of determination or  $R^2$ , the size of the relative effect or  $f^2$ , and the path coefficient (Hair et al., 2014: 169). This study tested the hypothesis using a partial least square structural equation model. Hypothesis testing using the SmartPLS 4 program. Hypothesis testing is carried out through t-count and p-value tests.

## RESULT & DISCUSSION

### Result

In the early stages of research, it is necessary to test the validity and reliability of the research instrument. Evaluation of the measurement model was carried out to assess the validity and reliability of the model. The measurement model with reflective indicators is evaluated through the convergent and discriminant validity of the latent construct forming indicators and composite reliability for the indicator block (Chin, 1998 in Ghozali and Latan, 2015: 73). According to Hair et al. (2014:107), a good measurement model is a model that meets the criteria of validity and reliability. Convergent validity has an AVE value greater than 0.5 with a factor loading value that should be greater than 0.7. Discriminant validity is seen from the square root value of the construct AVE in one variable which is larger than the other variables.

The AVE value of each variable in this study has a value above 0.5, namely 0.540, 0.748, and 0.762. The loading factor value is above 0.7. In addition, the value of the square root



of the construct AVE is greater than that of other variables. Reliability is seen from the value of Cronbach alpha and the reliability value of the composite which should be greater than 0.6. However, according to Hair et al (in Sholihin and Ratmono, 2013:65), loading conditions above 0.70 are often not met, especially for newly developed questionnaires. Therefore, loading more than 0.60 should be considered to be maintained. The reliability test results in this study showed that the cronbach alpha value and the composite reliability value were greater than 0.7. Testing the measurement model showed that the instruments used in this study were valid and reliable.

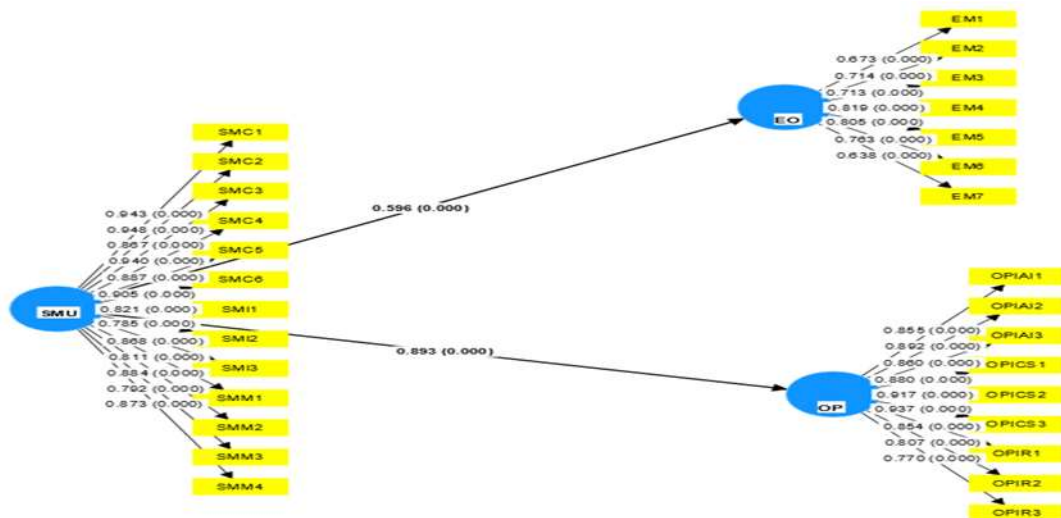
Structural model testing is reviewed from the coefficient of determination using R-squared which shows what percentage of endogenous construct variance (Y) can be explained by the hypothesized construct affecting exogenous (X).

**Table 2.** R Square Value

Entrepreneurial Orientation	Orgnizational Performance
0.596	0.893

Source: Primary Data Processed (2022)

In the table, it can be seen that the R-squared value of Entrepreneurship Orientation is 0.596 which means that 59.6% of entrepreneurial orientation is influenced by the use of social media while 40.4% is influenced by other variables outside this research model. The R-squared value of Organizational Performance is 0.893 which means that 89.3% of organizational performance is influenced by the use of social media while the remaining 38.3% is influenced by other variables outside this research model. The test results of the structural model are presented in Figure 2. Figure 2 shows the results of estimates in the form of path coefficients and the degree of significance on each path. The results of hypothesis testing showed that H0 was rejected and HA was accepted because the p-value was  $< 0.001$  or less than 0.05. Thus, it can be concluded that the use of social media affects the orientation of entrepreneurship and organizational performance.



Source: Primary Data Processed (2022)

## Discussion

Based on data analysis, the results were obtained that the influence of the use of social media on entrepreneurial orientation and organizational performance showed a p-value (0.003)  $< \alpha$  (0.05), which can be interpreted to mean that the better the use of social media in MSMEs, the higher the entrepreneurial orientation and the better the organizational performance. The lack of a dimension of entrepreneurial orientation will make MSME actors lack important assets for organizations that compete in the digital era, such as social media applications (Colton et al., 2010). This means that the entrepreneurial orientation of MSME actors is an important aspect for organizations to compete in the digital era through the use of social media. This study results's show that the use of social media affects the orientation of entrepreneurship which is an important asset of organizations in the digital era.

Marketing carried out through digital concepts is positively related to company performance (Shuai and Wu, 2011). This is in line with Rodriguez et al. (2014) also found that the use of social media in an organization positively impacts customer-oriented processes, which in turn has an impact on organizational performance. The higher the use of social media in MSMEs, the better the organization's performance will have an impact.

## CONCLUSIONS & RECOMMENDATIONS

### Conclusions

MSMEs, which are the drivers of the Indonesian economy but also have a significant impact on the decline in the level of the national economy, are one of the sectors that have been hardest

hit by the Covid-19 pandemic. The Ministry of Cooperatives and SMEs continues to strive to encourage and accelerate MSMEs to go digital to remain "survival" or even develop in the digital era. For this reason, MSME actors must be able to carry out marketing strategies through social media for business sustainability during the digital era. Effective and efficient use of social media is very much needed to achieve entrepreneurial orientation and MSME sustainability performance in the digital era. The results of this study indicate that the use of social media affects the entrepreneurial orientation of MSMEs and the performance of MSMEs. The higher the level of use of social media used by MSMEs, the higher the entrepreneurial orientation of MSMEs and the better the organizational performance.

### **Recommendations**

Comprehensive research on social media use in entrepreneurial orientation and organizational performance still needs to be carried out in a broader context (Parveen et al, 2016). About the challenges of effective measures in the use of social media, entrepreneurial orientation, and organizational performance in the digital era that still need to be developed, future research is recommended to use different instruments. This research only focuses on MSMEs in the context of the New Normal after the Covid-19 Pandemic, further research is recommended to expand the research context with specific types of MSMEs to be compared.

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