

Digital cultural transformation and tax incentive: the effect on business continuity of MSMEs during the covid-19 pandemic

Mei Rani Amalia¹, Yuniarti Herwinarni²

Faculty of Economics and Business, Universitas Pancasakti
Tegal, Indonesia^{1,2}

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Abstract

This research aims to determine the effect of digital culture transformation and tax incentive policies on the sustainability of small and medium micro enterprises in Tegal City during the Covid-19 pandemic. The population in this study is food MSMEs who already have an active Instagram social media, have P-IRT and halal MUI, and are under the auspices of the Tegal City Manpower and Industry Office obtained a sample of 60 MSMEs. The data analysis technique used is multiple linear regression analysis. The results showed a significant effect of digital culture transformation and tax incentives on the continuity of Tegal City Micro, Small, and Medium Enterprises during the Covid-19 pandemic, partially and simultaneously.

Keywords: Digital cultural transformation; tax incentive; MSMEs

¹ mei_rani@upstegal.ac.id

Introduction

The covid-19 pandemic that has hit the whole world has changed almost all aspects of life, including the prevailing culture in economic activities. Cultural transformation in economic activities that develop into a digital economy makes geographical boundaries blurred and unrestricted. The distance between economic activities in one group of business entities becomes meaningless. In addition, the era of globalization has caused rapid changes in the business that require organizations to adapt, have resilience, be able to change direction quickly, and focus on customers (Waluyo, 2018). That is, the advancement of information technology has played an essential role in changing the behavior and lifestyle of society (Ngafifi, 2014). Micro, Small, and Medium Enterprises (MSMEs), the backbone of the country's economy, must also be able to adjust to the shift in economic activities towards the digital economy if they want to survive in business competition.

The challenge for MSMEs in maintaining their business, especially during the Covid-19 pandemic and while transforming cultures to digital, is the willingness to change and learn to adapt to environmental changes. Organizational culture greatly influences organizational performance (Uha, 2014). This also applies to MSMEs, those who can transform the culture to adjust to environmental changes to improve performance and maintain the sustainability of their business. Organizational culture is a unit of norms consisting of beliefs, attitudes, core values, and behavior patterns carried out by people in the organization. Shared ideas, core values, and behavior patterns affect organizational performance, as described in figure 1. (Tan, 2002).

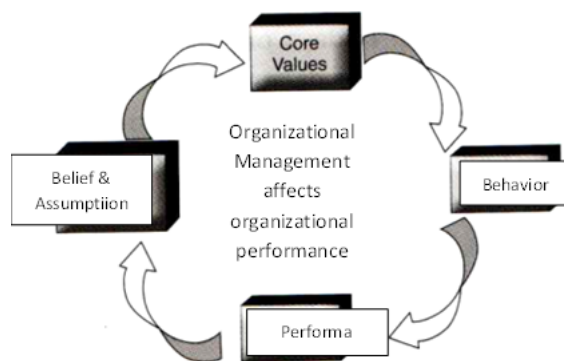


Figure 1. Corporate Culture Model

Source: Victor S.L. Tan Changing Your Corporate (2002)

An organization with confidence in the human potential that exists in it and core values for appreciation will have the desired pattern of behavior in maintaining human resources well (Uha, 2014). Innovative organizations tend to share a common culture of experimenting (Robbins & Judge, 2015). Research conducted by Jatmiko found that organizational culture positively and

significantly affects MSMEs' performance. Arianto (2021) defined that during the covid-19 pandemic, the digital-based food delivery service business increased. It means MSMEs will sustain their business if they transform conventional culture into a digital culture serving customers.

The challenge faced by MSMEs is not only about the transformation of digital culture but also the taxes that must be paid to the government. Rochet Soemitro SH (Mardiasmo, 2019) said that a tax is a people's contribution to the State treasury under the law (which can be imposed) with no lead services (counter merit) that can be directly demonstrated and which is used to pay general expenses". The primary function of taxes is in the budget function, which is one of the sources of government revenue to finance daily spending and development. Furthermore, the regular function of taxes as a tool for regulating and implementing government policies in the social and economic fields to achieve goals outside the financial sector which is community support on the social and economic side (Resmi, 2017). Tax revenue is one of the sources of state revenue that the state can use to finance national development. Still, when the Corona Virus Disease 2019 (Covid-19) pandemic became increasingly widespread and affected the national economy, the government issued several economic stimulus packages, including a fiscal stimulus package to relax Article 21 of the Income Tax (PPH). The fiscal stimulus in the relaxation of Income Tax Article 21 only applies to the income of workers or employees with specific criteria that have been stipulated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 44/ PMK.03/ 2020 concerning tax Incentives for taxpayers Affected by the Corona Virus Disease Pandemic 2019 (Covid 19).

One of the government's efforts in taxation to recover the national economy is to impose a tax incentive policy. The tax incentive policy is carried out to help to move the wheels of the country's economy, which has experienced a rapid decline due to the Covid-19 pandemic. The tax incentive policy is contained in the Regulation of the Minister of Finance Number 86 of 2020. The regulation is a revision of the previous PMK, namely PMK Number 44 of 2020, concerning tax incentives for taxpayers affected by the Covid-19 pandemic (Mardiasmo, 2019). Indrani et al. (2020) found that tax incentive significantly and positively affects SMEs' business sustainability, especially during the covid-19 pandemic, which has many businesses, including MSMEs. Tax is the main factor for national income. Still, suppose the condition does not allow them to pay taxes in full. In that case, a tax incentive policy will significantly help MSMEs survive and carry out their obligations as taxpayers.

The economy of Tegal City was also affected by the Covid-19 pandemic, which caused many small businesses to slump (Humans, 2021). To increase the economy of people affected by the Covid-19 pandemic, various efforts have

been made by the government, including relaxation, capital assistance, training, and direction to transform into a digital system (Utha, 2022). Digitalization for MSMEs may still be a new thing for MSME players; it cannot be denied that the introduction of digitalization for MSME actors is not accessible; they are not all technologically literate on average and willing to accept changes; there must be an element of awareness, or forced to become accustomed to it. It becomes homework for us to educate that we have now entered the digitalization era (Utha, 2022). MSMEs do a lot of business offline, online, or a combination of the two. Various ways are being done to get through this pandemic. However, internet access and the digital readiness index of these business actors show that these MSMEs are not fully prepared to switch to digital. On the other hand, many MSMEs are still affected by the Covid-19 pandemic and do not understand tax incentive policies, so they feel burdened and tend to neglect to report their taxes.

Method

This study was conducted to analyze the effect of digital cultural transformation and tax incentive policies on business sustainability in Tegal City MSMEs, especially since the emergence of the Covid-19 pandemic, which threatens business continuity in Tegal City MSMEs. This research contributes to MSMEs in Tegal city, especially in transforming their organizational culture towards digital and utilizing tax incentives provided by the government to maintain business continuity. Panel data regression follows equation (1). BC is Business Continuity, DCT is Digital Cultural Transformation, and TIP is Tax Incentive Policies.

$$BC = \alpha + \beta_1 DCT_1 + \beta_2 TIP_2 + \epsilon \quad (1)$$

Empirical Result

We confirm that the model is free from multicollinearity and heteroscedasticity. The research instrument used in this study is valid and reliable. Based on Table 1, the F-statistic value is 17,171, and the significance is 0.00, or below 0.05, it means digital cultural transformation and tax incentive policies variables have a simultaneous effect on the business continuity of MSMEs in Tegal City during the covid-19 pandemic. It indicates if the owner of MSMEs can transform their culture into digital and the government help them through a tax incentive policy, they can maintain business continuity. The development of information technology makes it possible to carry out various activities faster, more precisely, and more accurately so that performance and productivity are expected to be improved (Darby et al., 2019); finally, it can help corporate to maintain their business continuity. The COVID-19 pandemic

has dramatically affected the sustainability of the MSME business (Andriyani Budiman et al., 2022). Tax incentive policy launched by the government can help MSMEs maintain their business continuity.

Table 1. Regression result

Variable	t-statistic	t-table	Sig.
DCT	2.283	2.002	Significant
TIP	3.478	2.002	Significant
F-Count	Sig.		
17.171	0.000		

Table 1 shows that the variables of digital cultural transformation and incentive policies partially affect business continuity with a significance below 0.05. t-statistic of Digital Cultural Transformation variables is 2,283, higher than the t-table, indicating that this variable has a positive and significant effect on business continuity. The results of this study align with previous research conducted by Firmansyah (2021), which said that digital transformation has a positive and significant effect on the sustainability of MSME businesses. This result also supported Zhang, Chen, & Hao's (2022) research that digital transformation has influential on corporate sustainability. MSMEs will sustain their business if they can transform the culture into digital.

Table 1 also shows that variable tax incentive policies have a positive and significant impact on economic growth; this is indicated by the t-statistic value of tax incentive policies of 3,478, which is greater than the t-table value of 2,000 with a significance level of 0,05. This study's results are the same as previous research conducted by Indaryani et al. (2020), which stated that tax incentives have a positive and significant influence on the continuity of MSME businesses. This result is also in line with the research conducted by Deyganto (2022) that a reduction in the tax rate has a positive statistical and significant effect on MSME sustainability. Previously, the study conducted by (Julialevi et al. 2022) also had the same result. It found that tax incentive has a significant positive effect on the business continuity of MSME. Tax incentive policy is considered efficient and does not burden the players but helps respondents to continue their business during the pandemic (Julialevi et al., 2022). So, if the government utilizes incentive tax policies for MSMEs, their business continuity will be maintained exceptionally during the covid-19 pandemic.

Conclusions

This research proves that partially digital cultural transformation and incentive policies significantly affect the business continuity variables of MSMEs in Tegal City during the Covid-19 pandemic. Simultaneously, both independent

variables also considerably affect the dependent variable. It means that if MSMEs transform their business culture into digital and utilize tax incentive policies from the government, business continuity will be maintained.

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