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### The Role of Local Government in Improving Resilience and Performance of Small and Medium-Sized Enterprises in Indonesia\*

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### Abstract

During the COVID-19 pandemic, several studies focused on financial programs and SMEs' performance, but research on the relationship between non-financial programs, resilience, and SMEs' performance is still sparse. This study fills the gap by analyzing the role of local government in increasing SME resilience and performance by purchasing products (through civil servants) from SMEs and by facilitating online training to SMEs. This study also investigates the role of the local government in strengthening the relationship between resilience and SME performance. Data was collected using an online questionnaire distributed to SMEs in Malang Regency. As many as 410 questionnaires were received and eligible for statistical analysis using WarpPLS. The results show that resilience is positively and significantly related to the performance of SMEs. The local government programs have been proven to improve SME performance directly and indirectly through resilience. Local government programs are not proven to strengthen the relationship between resilience and the performance of SMEs, indicating that the role of government in developing countries such as Indonesia is more appropriate to be "rowing rather than steering" not "steering rather than rowing".

Keywords: Resilience, SME, Local Government, COVID-19, State Civil Servant, Performance

JEL Classification Code: L210, L230, L250, L260, M21

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#### 1. Introduction

The COVID-19 pandemic has impacted all economic sectors and Small and Medium Enterprises (SMEs) are one of the most affected sectors (Masduki, 2020). This is understandable because SMEs cover 99.99 percent of total businesses in Indonesia, absorb 97 percent of the workforce, and contribute 61 percent to Gross Domestic Product/GDP (The Indonesian Central Agency of Statistic, 2020). The survey of The Indonesian Ministry of Cooperatives and SMEs (2020) showed that 50 percent of SMEs closed their businesses and the remaining half had to operate with a drastic decline in turnover in March and April 2020, 88 percent had no cash and savings during the pandemic, limited access to formal financing, and more than 60 percent cut workers. Their limited access to resources makes SMEs vulnerable (Eggers, 2020). This finding indicates the weak resilience of SMEs to external factors such as the COVID-19 pandemic. Resilience is the ability of an organization to anticipate, prepare for, respond to, and adapt to both incremental changes and sudden disruptions from an external perspective (Conz et al., 2017).

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The weak resilience of SMEs to the COVID-19 pandemic has led to a decline in SME business performance, which is indicated by, among other things, the number of sales and income. Research of the Ministry of National Development Planning and the Financial Service Authority (OJK-BCG, 2020) showed a decline in SME income ranging from 40-80 percent and more than 80 percent experiencing a decrease in turnover. Studies from various countries also show the impact of the pandemic on the decline in SME resilience and performance (Zutshi et al., 2021; Keogh-Brown et al., 2020; Juergensen et al., 2020; Razumovskaia et al., 2020; OECD, 2020).

To increase the resilience and economic recovery of SMEs, the national government launched various financial and non-financial stimulus policies aimed specifically at SMEs. Financial stimuli include moratorium in payment of loan principal and interest, interest subsidies, tax incentives, guarantees for working capital loans, and regional incentive funds, while non-financial stimuli include purchasing of SME products by civil servants as mandated by the government, cooperation with e-commerce for SMEs to go online, and SME training through webinars in various fields (The Indonesian National Development Planning Agency, 2020). The implementation of central government programs is carried out by local governments. The local government describes the program in accordance with the conditions and regional autonomy.

Many studies have been conducted on the relationship between financial stimulus and SME resilience and performance. Gunartin et al. (2021) concluded that financial support provides strength for SMEs to cover operational costs and survive in conditions of economic crisis. Lim et al. (2021) found that most SMEs welcome a six-month wage subsidy program, bank loan installment moratorium, and company tax deferment. Clement and Hansen (2003) found that incentives from the government enable SMEs to expand their operational activities, therefore financial stimulus can improve their performance. Agreeing with that, Ipinnaiye et al. (2017) affirmed that government support such as subsidies has a positive effect on the growth of SMEs.

Research on the relationship between non-financial stimulus and the resilience and performance of SMEs is still limited. Many publications (Anggoro et al., 2020; Sunardi et al., 2020; Wijayanti et al., 2021; Kristanto et al., 2021) about non-financial programs related to online training in marketing, business or funding sources whose targets are very limited and do not analyze the effectiveness of the online activities. Rachman (2020) examined the webinar's implementation and stated that for the COVID-19 pandemic, SMEs require webinar activities related to coping mechanisms to get information, inspiration, and motivation to live during the pandemic. Purchasing SME products from the government is one of the non-financial stimulus strategies.

In April 2021, the Regent of Malang mandated that all state civil servants purchase at least Rp. 50,000 (about 3.5 \$ US) in SME products every month. However, no studies have been conducted to assess the policy's effectiveness. According to Islami et al. (2021), several government programs were not very effective in providing benefits to SMEs. The Indonesian National Development Planning Agency surveyed 2,535 SMEs in December 2020, finding that less than half of them were aware of the program.

This study fills in the gaps by looking at the role of local governments in enhancing SMEs' resilience to the COVID-19 pandemic and increasing SMEs' performance through a policy of state civil servants purchasing SME products and SMEs receiving online training. In addition, this study also investigates the relationship between resilience and the performance of SMEs, and the role of resilience as a mediator between local government and the performance of MSMEs in the COVID-19 pandemic.

### 2. Literature Review and Hypotheses Development

### 2.1. SME Resilience

Business resilience is the ability an organization has to quickly adapt to disruptions while maintaining continuous business operations and safeguarding people, assets, and overall brand equity. (Sauser et al., 2020). In relation to SME, we define resilience as SME's dexterity in managing disruption, surviving the turbulence, and maintaining its business. The disruption referred to the turbulence caused by the COVID-19 pandemic.

According to Lee et al. (2013), resilience is the ability of groups or individuals to control uncertainty. They categorize resilience into two dimensions, planned and adaptive. Planned resilience relates to the preparations made to deal with a crisis, while adaptive resilience is the reaction given in dealing with a crisis. Both planned and adaptive resilience are mutually reinforcing to each other, and both are very much needed for SMEs to face crises. Studies conducted by Corey and Deitch (2011) and Orchiston et al. (2016) concluded that resilience significantly affects the performance of an organization.

Many studies have been carried out to develop methods and indicators for measuring resilience. This article utilizes indicators used by Păunescu and Mátyus (2020) in their research, to measure SME resilience when dealing with the COVID-19 pandemic. The six indicators used in this research are (1) telework, (2) pay-cut, (3) new job, (4) supply chain shortening, (5) production shift, and (6) online platforms. Telework is quantified by the extent to which an enterprise organizes works or activities without meeting face-to-face. Pay-cut is a metric that measures how capable an enterprise

considers the payroll deductions of its employees to save its financial condition. The ability of a company to take advantage of changes brought on by a pandemic and create new jobs is measured. Supply chains shortening is measured by how an enterprise cuts its supply chain and shortens the path between producers and consumers. The ability of an enterprise to change its production to meet the needs created by the crisis is measured by looking at how capable it is of altering its production to meet the needs caused by the crisis. And the amount to which an organization uses online media as a marketing strategy is measured by online platforms.

### 2.2. SME Performance

The performance of SMEs has long been the object of research by many researchers. In general, performance is defined as the accomplishment or achievement of an activity. In a business context, business performance, which is closely tied to commercial effectiveness, is determined by the ability of a company to implement optimal organization with the aim of offering a product or service that meets the expectations of consumers and customers (Yildız et al., 2014). According to Wood (2006), business performance is evaluated by measuring the success or failure of an organization in achieving its objectives.

Performance has many dimensions. The four operational dimensions that are most frequently cited are time, quality, flexibility, and finance. In addition to these four dimensions, customer satisfaction and human resources are also considered critical. Hudson et al. (2001) grouped terms that are often used in various studies to measure performance into six dimensions: product, performance, delivery reliability, waste, dependability, and innovation are terms that represent quality. Lead time, delivery reliability, process throughput time, process time, productivity, cycle time, delivery speed, labor efficiency, and resource utilization can be grouped in the time dimension. Manufacturing effectiveness, resource utilization, volume flexibility, new product introduction, computer systems, future growth, and product innovation are terms that represent flexibility. Finance is represented by cash flow, market share, overhead cost reduction, inventory performance, cost control, sales, profitability, efficiency, product cost reduction. Market share, service image, integration with customers, competitiveness, innovation, and delivery reliabilitys are terms that represent customer satisfaction. Lastly, employee relationships, employee involvement, workforce, employee skills, learning, labor efficiency, quality of work-life, resource utilization, and productivity are terms that are often used to replace human resources.

In this study, we use three indicators to measure SME performance. They are profit, turnover, and number of customers (Wood, 2006).

### 2.3. Government Role

The government plays an important role, especially when external factors such as the COVID-19 pandemic occur. In this condition, the market fails to allocate resources optimally. "The government can improve market output" (Mankiw, 2011) is one of the economic principles. According to Porter (1985), the government's proper function is to act as a catalyst, i.e., to strengthen or even encourage businesses to increase their competitive performance. Osborne and Gaebler (1992) emphasized the function of government as a catalyst as the first of ten principles that must be followed in the transformation of government administration procedures with an entrepreneurial spirit. The principle is "Catalytic Government: Steering rather than Rowing". The government's role is more as a facilitator than directly carrying out all operational activities. The role is carried out using methods such as tax incentives, subsidies, training, and so on. The role is clearly to show the position of the government role in this study as a moderator of the relationship between resilience and the performance of SMEs.

Actually, even without a crisis condition, according to several studies, the role of the government is an important variable for the development of resilience and performance. The government, according to Ndiaye et al. (2018), plays an essential role in boosting SME performance by enacting policies to improve infrastructure and energy services, stimulate formal registration of SMEs, and increase financial access for SMEs.

### 2.4. Resilience and Performance

Orchiston et al. (2016) found that resilience has an impact on performance. In the SME context and its response to the COVID-19 pandemic, Sobaih et al. (2021) confirmed that resilience directly, positively, and significantly influences performance. Thukral (2021) affirmed that greater resilience levels among SMEs will lead to better performance in the COVID-19 pandemic. Corey and Deitch (2011) also confirmed the key role of resilience for business performance. According to Akgün and Keskin (2014), organizational resilience may be defined as "a tool that leverages changing environments for profitability," which is a financial measure of business performance. Orchiston et al. (2016) also emphasized that building resilience requires good planning and problem solving, these aspects which then positively affect performance.

Mccann et al. (2009) investigated resilience in turbulence conditions. He found that even in crisis conditions, enterprises that are able to build agility and resilience will still be able to enhance their performance. Based on the significance of the effect of resilience on business performance, Jiang et al.

(2019) recommend enterprises to adopt resilience in their business. These arguments and the empirical evidence on the effect of resilience, lead us to the first hypothesis:

*H1:* Resilience is significantly and positively associated with SME performance.

### 2.5. Government Role, SME Resilience, and SME Performance

The COVID-19 pandemic has harmed SMEs' resilience and performance. Without the interference of authority, reviving these two features in SME will be extremely impossible. Hadi and Supardi's (2020) study on the revitalization of SMEs in Yogyakarta during the COVID-19 pandemic revealed that the Yogyakarta Government's measures were an important factor in accelerating the process of stabilizing SME companies. Similar action was taken by Saudi Arabia Government by announcing a set of urgent initiatives to assist enterprises. These measures result in an increase in the number of SMEs (Nurunnabi, 2020). Fernandes (2020) also highlighted the importance of government policies to resolve liquidity problems in SMEs during the pandemic.

Actually, even without a crisis condition, according to several studies, the role of the government is an important variable for the development of resilience and performance. Han et al. (2017) and Songying et al. (2018) both found that government support has a significant impact on firm performance. Similarly, other studies on SMEs found that the government plays an essential role in enhancing SME performance by enacting policies to improve infrastructure and energy services, incentivize formal SMEs registrations, and promote financial access for SMEs (Ndiaye et al., 2018; Wei & Liu, 2015; Sheng et al., 2011).

Based on previous research, it can be stated that government programs have a significant role in closing the financial gap and improving the performance of SMEs. The necessity of government support for resilience in the face of the COVID-19 pandemic was also mentioned in Zutshi et al. (2021). Similarly, the International Trade Centre (2020) advocates for government assistance to help SMEs cope with the pandemic.

The Government of Indonesia through its policies also takes on the role to support SME resilience and performance during the pandemic. The Indonesian National Development Planning Agency (2020) in its review of the COVID-19 response policy stated that there are various financial and nonfinancial programs launched by the government to improve SME resilience and performance. There are three nonfinancial programs, namely (1) SME products purchasing by the government, (2) state-owned enterprise cooperation with e-commerce for SMEs going online, and (3) SME webinar training. Responding to the first nonfinancial programs, the Malang District Government issued a policy that requires civil servants in their territory, to set aside a minimum of Rp. 50,000 every month for SME products purchasing. This study tries to examine the effectiveness of this policy on SME resilience and performance enhancement. Based upon the prior reasoning, we hypothesize:

*H2:* The purchase of SME products by the local government is positively related to SME resilience.

H3: The purchase of SME products by the local government is positively related to SME performance.

In this study, we did not analyze the second non-financial program concerning the cooperation between state-owned enterprises and e-commerce for SMEs going online, because no adequate data was available. The third program on SME webinar training covered topics such as online marketing, business motivation, and financial resources. The federal government and local governments both offer online webinar training, but SMEs are more familiar with local governments.

Training refers to a systematic approach to developing human skills by developing their knowledge, skills, attitudes, and behavior (Aguinis & Kraiger, 2009). As one of the government's programs to deal with the pandemic, training is expected to increase the resilience of SMEs. Since the clarity in this relationship is lacking, this study works to reveal the correlation between the two variables. Rachman (2020) found that webinar activities related to coping strategies for the COVID-19 pandemic are needed by MSMEs to gain knowledge, inspiration, and motivation to survive during the pandemic.

Previous investigations carried out by Han et al. (2017) and Songying et al. (2018) suggested that there are two kinds of government support, financial form and non-financial form such as training programs. These two studies confirm that nonfinancial government support has a significant impact on enhancing firm performance. In line with those studies, Fajnzylber et al. (2009) claimed that training as a government program is an important factor in enhancing firm sustainable performance. We expect that this condition also applies to SMEs, therefore we hypothesize:

### H4: Local government-facilitated training is significantly and positively related to SME resilience.

**H5:** Local government-facilitated training is significantly and positively related to SME performance.

Government plays an important role in the recovery of the national economy. Not only government roles act as direct and indirect driving factors, but they can also act as moderating factors, enhancing the impact of other factors on SME performance (Shams & Hoque, 2018). Other than

as a supporting element, this research also examines the role of local government as a moderating variable between SME resilience and its performance. Some studies have been brought up this issue and looked into the government role as a moderating factor. Ibrahim and Mustapha (2019) proved that government policy moderates the relationship between entrepreneurial orientation and SME performance, they also established that government policy moderates the relationship between contemporary marketing and SME performance.

However, moderating effect of local government role on the relationship between SME resilience and performance is still largely undisclosed. Hence, we hypothesize:

**H6:** The purchase of SME products by the local government moderates the relationship between SME resilience and SME performance.

Several studies have confirmed training as a moderating factor. Carlisle et al. (2019) proved that training moderated the relationship between work environment and task performance. Norfazlina et al. (2016) affirmed training is a moderating variable of the relationship between user satisfaction and task productivity. However, the effect of training as a moderating variable between SME resilience and SME performance is still largely unknown. We advocate that this correlation is needed to be established, therefore we hypothesize:

*H7:* The local government-facilitated training moderates the relationship between SME resilience and SME performance.

Based on our hypotheses, we conclude our theoretical framework as follows (Figure 1).

### 3. Research Methods and Materials

The research was conducted on SMEs in Malang Regency. This region was selected with the Malang Regent's policy in mind, as outlined in a Circular released on April 5, 2021, requiring all state civil servants to purchase SME products worth at least Rp. 50,000 (about 3.5 \$ US) every month. The SMEs' standards are established in Law No. 20 of 2008. Although data on the population of SMEs in Malang Regency is not accessible, it can be obtained through the Malang Regency Communication Forum for Small and Medium Enterprises (FKPU UKM).

Based on the research objectives, the variables studied are the resilience of SMEs to the COVID-19 pandemic, the performance of SMEs, and the role of the local government through the purchase of SME products by state civil servants and online training facilitated by the local government. The indicators of SME resilience were adopted from Păunescu and Mátyus (2020), namely: working from home arrangements, deductions from workers' salaries, creating new jobs, shortening supply chains, shifting or changing production, and building online platforms. SME performance is measured by the number of sales, profits, and the number of customers (Wood, 2008). The local government's role is measured by the perception of SME actors regarding product purchases by state civil servants and online training facilitated by the local government (The Indonesian National Development Planning Agency, 2020). All indicators were measured

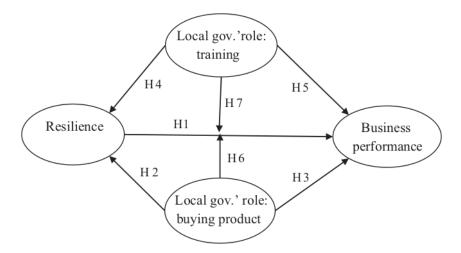


Figure 1: The Model Relationship Between Variables in this Study

using a Likert scale with 5 gradations from 1 (strongly disagree) to 5 (strongly agree).

Data was collected using an online questionnaire given through the SMEs association (FKPU) management in the third week of September 2021 and on October 8, 2021, with 410 questionnaires filled out and returned. This number is considered adequate for analysis and the results can be generalized. According to Memon et al. (2020), a sample of 100 can be considered large in research and very large samples for more than 400 (Zikmund et al., 2009). Respondents are SMEs' owners and managers who are considered to be the best informed about business resilience during the COVID-19 pandemic.

Data was analyzed using Warp Partial Least Square-Structural Equation Modeling (WarpPLS-SEM) software based on the following two considerations (Gentle et al., 2010; Sholihin & Ratmono, 2013; Hair et al., 2014). First, parameter estimation using WarpPLS-SEM is particularly efficient because it has higher statistical power than other covariance-based approaches, which are more likely to produce results that are consistent with population conditions. Second, WarpPLS-SEM can offer coefficients and *p*-values for models with moderating variables directly on the model. The fit and quality indices model (Hair et al., 2014) is used to evaluate the model, and the *t*-test is used to test the hypothesis (Hair et al., 2014; Sholihin & Ratmono, 2013).

### 4. Results and Discussion

### 4.1. Model Evaluation

Examination of the overall measure of a fit model is carried out by referring to the Model Fit and Quality Indices according to the WarpPLS 5.0 User Manual (Kock, 2015). Some of the indices referred to are Average Path Coefficient (APC), Average *R*-squared (ARS), and Average Adjusted *R*-square (AARS). A summary of the goodness of fit model is presented in Table 1.

Based on the parameters presented in Table 2 and rule of thumb evaluation of the WarpPLS structural model and the WarpPLS 5.0 User Manual (Hair et al., 2014; Kock, 2015) the structural model is good. The Average Path Coefficient (APC) is significant at  $\alpha = 1\%$  indicating that the coefficient of the latent variable in the model is significant. The average *R*-squared (ARS) is also significant at  $\alpha = 1\%$ , which indicates that the exogenous latent variable has a significant relationship with the endogenous latent variable. This is further supported by the analyst model's high explanatory power, as evidenced by the big Tenenhaus GoF index (0.36). Other indices are also acceptable as long as the Average Full Collinearity VIF (AFVIF) exceeds the cut-off. The high value of AFVIF suggests that each major latent variable is fully collinear. As a result, the entire model can be considered to be suitable for testing the research hypothesis.

Goodness of Fit	Coeff. (p-value)	Cut-off	Information
Average Path Coefficient (APC)	0.179 ( <mark>0.001)</mark>	0.05	Significant (good)
Average R-squared (ARS)	0.265 (0.001)	0.05	Significant (good)
Average Adjusted R-squared (AARS)	0.257 (0.001)	0.05	Significant (good)
Average Block VIF (AVIF)	1.449	≤ <mark>5</mark> : acceptable ≤ <mark>3.3</mark> : ideal	Acceptable
Average full collinearity VIF (AFVIF)	1.696	≤ <mark>5</mark> : acceptable ≤ <mark>3.3</mark> : ideal	Marginal due to the relationship of all latent variables being significant
Tenenhaus GoF (GoF)	0.480	≥0.1: small ≥0.25: medium ≥0.36: large	Large
Sympson's paradox ratio (SPR)	0.857	≥0.7: acceptable 1: ideal	Acceptable
R-squared contribution ratio (RSCR)	1.000	≥0.9: acceptable 1: ideal	ldeal
Statistical suppression ratio (SSR)	1.000	≥0.7: acceptable	Acceptable
Nonlinear bivariate causality direction ratio (NLBCDR)	0.857	≥0.7: acceptable	Acceptable

Table 1: Evaluation of Goodness of Fit Model

### Table 2: Evaluation of Measure of Fit Measurement Model

Variables	Validity	Reliability		
Variables	AVE	Composite Reliability	Cronbach Alpha	
Resilience	0.536	0.818	0.732	
SMEs business performance	0.771	0.910	0.850	
Local government buys SME products	1.000	1.000	1.000	
Local government-facilitated training	1.000	1.000	1.000	

 Table 3: The Path Coefficient of the Relationship Between Resilience and SMEs Performance with Government's Role as the

 Moderation Variable

Independent and Moderating Variables	Dependent Variable: Resilience		Dependent Variable: Business Performance		Decision on the Null
	Coefficient	<i>p</i> -value	Coefficient	<i>p</i> -value	Hypothesis
Resilience			0.313	<0.001	H1: Rejected
Local government buys SME products	0.174	0.001			H2: Rejected
Local government buys SME products			0.212	<0.001	H3: Rejected
Local government buys SME products*resilience			0.031	0.299	H4: Cannot be rejected
The local government provide training to SMEs	0.359	<0.001			H5: Rejected
The local government provides training to SMEs			0.166	0.002	H6: Rejected
The government provides training to SMEs*resilience			-0.000	0.497	H7: Cannot be rejected

The measure of the fit model also demonstrates that the research instrument's validity and reliability match the statistical requirements (Table 3). The reliability is tested by the composite reliability and Cronbach Alpha, both of which are over the cut-off of 0.700. The validity is demonstrated by the Average variances extracted (AVE), which is above the cut-off (0.500) (Hair et al., 2014). Except, the validity and reliability of the variable local government buy SME products and local government-facilitated training is worth 1,000 because both variables are measured by one indicator. Hayduk and Littvay (2012) recommend the use of the best indicators, one or two indicators are often sufficient. More than three indicators are rarely warranted because additional redundant indicators provide less research benefit than single indicators of additional latent variables. Scales created from multiple indicators can introduce additional problems and are prone to being less desirable than either single or multiple indicators.

### 4.2. Hypothesis Testing

The statistical analysis of the relationship between resilience and MSMEs performance with moderating the

roles of government policies is presented in Figure 2, while the path coefficients are presented in Table 3.

The results of the statistical analysis show that all the proposed hypotheses are accepted, except for the moderating variable. This means that there is insufficient evidence that the purchase of SME products by state civil servants and training online from the local government strengthens the relationship between resilience and SME performance.

### 4.3. Discussion

The results of the study prove that resilience has a positive and significant relationship with the performance of SMEs in the Malang Regency. The increasing resilience of SMEs is followed by an increase in their performance. The findings of this study strengthen previous studies during the COVID-19 pandemic (Sobaih et al., 2021). If the COVID-19 pandemic is a form of economic turbulence, this finding also strengthens the research conducted by McCann et al. (2009) the same as what was suggested by Jiang et al. (2019) for enterprises to adopt resilience in their business. The results of this study also strengthen the findings of Wibowo

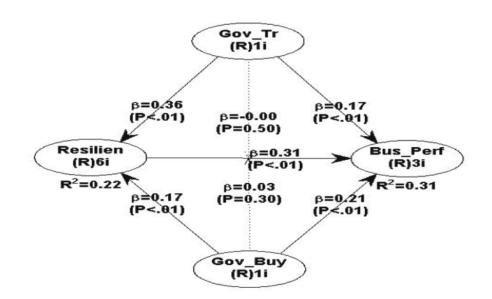


Figure 2: Relationship between Resilience and SME's Performance with Government Policy as the Moderating Variable

et al. (2021) that innovation capability influences SMEs' marketing performance because innovation is essential to SMEs' resilience and development.

Most of the SMEs studied were members of the Communication Forum for Small and Medium Enterprises. This forum plays a role in providing information related to business management. This strengthens the research findings of Akgün and Keskin (2014) that competence orientation and original/unscripted agility are positively related to firm product innovativeness. They also found that increasing levels of technological turbulence, original/unscripted agility, practical habits, and behavioral preparedness are positively associated with product innovativeness, whereas competency orientation is negatively related. Furthermore, they found that product innovativeness mediates the relationship between resilience capacity and firm performance.

The role of local governments is significant in increasing the resilience and performance of SMEs, both through purchasing SME products and facilitating training to SMEs during the COVID-19 pandemic. The local government's role in purchasing SMEs' products has a higher impact on enhancing SMEs' performance (path coefficient 0.21) than its role in increasing SMEs' resilience. This is clear because the purchase of SME products by civil servants directly increases sales turnover. The number of state civil servants in Malang Regency is around 11000, so the value of purchasing SME products is at least 550 million rupiahs per month. This is very meaningful for SMEs, especially during the COVID-19 pandemic. At the same time, the purchase of products by civil servants encourages SMEs to increase their resilience in the face of economic turbulence.

The findings also support Hadi and Supardi's (2020) research, who found that during the COVID-19 pandemic, the Yogyakarta Government's policies were an important factor in accelerating the process of stabilizing SME businesses. Similar action was taken by Saudi Arabia Government by announcing a set of urgent initiatives to assist enterprises during the pandemic period (Nurunnabi, 2020). The purchase of SME products by state civil servants helps to resolve liquidity problems in SMEs during the pandemic as highlighted by Fernandes (2020). The findings show that government initiatives have a direct and indirect impact on SMEs' performance through enhancing their resilience.

Local government-facilitated training for SMEs, on the other hand, has a stronger impact on boosting resilience (path coefficient 0.36) than on improving SME performance (path coefficient 0.17). The online training was focused on online marketing. Yang and Gao (2022) suggested that the government should provide diversified training programs in firm practices, managerial skills, and other areas. The limited ability to use technology is an impediment to implementing online training for SMEs (Akhmad & Purnomo, 2021). Hossain et al. (2022) found that perceived compatibility has a positive influence on e-commerce adoption and therefore they suggested that SMEs should hire skilled workers. Min and Kim (2021) emphasized the importance of digital transformation competence in empowering SMEs.

The resilience of SMEs during the COVID-19 pandemic has also shown that purchasing SME items by state civil workers and training facilitated by local government can considerably improve their performance. To put it another way, resilience is a mediator between government programs aimed at increasing SMEs' performance during a pandemic and SME performance. This indicates that to increase business performance, government programs must be accompanied by one or more measures of resilience, such as working from home arrangements and moving or changing production. In conditions of turbulence, the principle of "Catalytic Government: Steering Rather than Rowing" by Osborne and Gaebler (1992) does not work and even more precisely, the government should act as "rowing rather than steering". Because SMEs are badly affected by the COVID-19 pandemic, without government intervention SMEs will not be able to survive long through the pandemic (Razumovskaia et al., 2020). Therefore, the government is the driver for improving SMEs' performance and resilience.

However, the role of local government through the purchase of SME products by state civil servants and online training does not significantly moderate the relationship between resilience and the performance of SMEs. In an effort to strengthen the resilience and performance of SMEs during the COVID-19 pandemic, the government's role as a catalyst, according to Porter (1985) and Osborne and Gaebler (1992), has not been proven. The local government buys SME products to improve the relationship between resilience and SMEs' performance, but only insignificantly. Since the initiative allowing civil servants to purchase SME items only lasted four months at the time the research was conducted, not all SME players were aware of it. A total of 33 respondents, or 8.0 percent of the total 410, were unaware of the state government's program to buy SMEs' products.

Although it is not significant, an interesting finding is that training-facilitated by the local government to SMEs weakens the relationship between resilience and the performance of SMEs during the COVID-19 pandemic. Interviews with several SME association managers provided interesting information. They revealed that online training was carried out by many regional offices such as the Industry and Trade Office, Cooperatives and SMEs, the Communication and Information Office, the Tourism and Creative Economy Office, the Agriculture Office, and others. Many SME managers have participated in online training several times because they received invitations from these agencies. As a result, operational working time in their business is reduced which in turn reduces business performance.

### 5. Conclusion

The importance of SMEs in the Indonesian economy is undeniable, but they remain vulnerable to external threats like

the COVID-19 pandemic, which has a negative impact on SME performance. The role of government policy through the purchase of SME products by state civil servants in Malang Regency and online training facilitated by the local government has been proven to improve SME performance directly or indirectly through resilience. In comparison to SMEs' resilience, civil servants' purchases of SME products have a stronger impact on enhancing performance. On the other hand, online training provided by local governments has a greater impact on increasing SMEs' resilience to the COVID-19 pandemic. The economic principle that "government can occasionally improve market results" has been demonstrated, particularly in situations where markets have failed owing to external forces such as the COVID-19 outbreak.

In emerging countries like Indonesia, the government must play a more active role as a catalyst for SMEs. It is evident that the role of local governments (through product purchases or online training) as a moderator between resilience and SME performance is not significant. Thus, in conditions of economic turbulence, the government's role is more appropriate as "rowing rather than steering" not "steering rather than rowing".

This study has several limitations. To begin with, there are around 1000 brands of products sold by SMEs and available for purchase by civil servants in Malang Regency. This study does not distinguish between products that are in high demand and those that are less attractive to buyers, especially civil servants. Thus, the product purchase program by civil servants does not necessarily improve the performance of all SMEs. Therefore, further research can examine SME products that are in great demand and less attractive to buyers. Second, there are indications that online training facilitated by the government weakens the relationship between resilience and the performance of SMEs, although it is not statistically significant. Further research, especially with a qualitative approach, can be carried out to explain the mechanism of the role of online training in weakening the association between resilience and SMEs' performance.

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