

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

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

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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

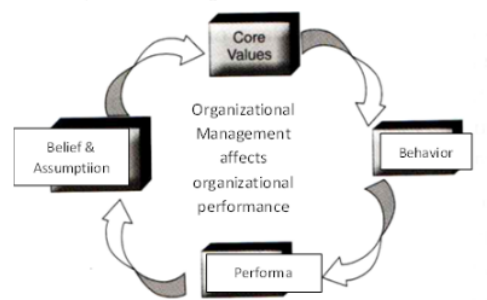
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Introduction

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, unrestricted, and the distance between economic activities in one group of business entities becomes meaningless. In addition, the era of globalization has caused rapid changes in 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 important role in changing the behavior and lifestyle of society (Ngafifi, 2014). Micro, Small and Medium Enterprises (MSMEs), which are 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 in the midst of transforming cultures to be all digital, is the willingness to change and learn to adapt to changes in the environment. Organizational culture greatly influences organizational performance (Uha, 2014). This also applies to MSMEs, those who can transform the culture to adjust to environmental changes, so that they will be able 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 (Tan, 2002). Shared beliefs, core values and patterns of behavior 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 was found that organizational culture has a positive and significant effect on MSMEs' performance. Arianto (2021) defined that during covid-19 pandemic there was an increase in the digital-based food delivery service business. It means MSME will sustain their business if they transform conventional culture into digital culture in 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. Rochmat 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 main 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 can be used by the state to finance national development, but when the Corona Virus Disease 2019 (Covid-19) pandemic is increasingly widespread and affects the national economy, the government issued several economic stimulus packages, including a fiscal stimulus package in terms of relaxing 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 certain 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 the field of taxation to recover the national economy is to impose a tax incentive policy. The tax incentive policy is carried out with the aim of helping 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). Indaryani et al. (2020) found that tax incentive has a significant and positive effect on SMES business sustainability, especially during covid-19 pandemic which hat many business include MSMEs. Tax is the main factor for national income, but if the condition do not allow to pay taxes in full, the existence of a tax incentive policy will greatly help MSMEs to 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 (Humas, 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 directing to transform to 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 easy, 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 a homework for us together to really educate that now we have entered the era of digitalization (Utha, 2022). MSMEs do a lot of business by 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 into digital. On the other hand, there are still many MSMEs affected by the Covid-19 pandemic who do not understand tax incentive policies so that they feel burdened and tend to neglect to report their taxes.

Method

This study was conducted to analyze ¹ 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. It is hoped that this research can contribute to MSMEs in Tegal city, especially in transforming their organizational culture towards digital and utilizing tax incentives provided by the government so that their business continuity can be maintained. 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 significance is 0.00 or below 0.05, it means digital ¹ cultural transformation, tax incentive policies variables have simultaneous effect on 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 government help them through tax incentive policy, they can maintain the 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. Pandemic Covid-19 has greatly affected the sustainability of MSME business (Andriyani Budiman et.al., 2022). Tax incentive policy launched by the government proved can help MSME in maintaining 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		

From table 1 above, it can be seen that partially the variables of digital cultural transformation and incentive policies affect business continuity with a significancy below 0.05. t-statistic of Digital Cultural Transformation variables is 2,283, higher than t-table, indicates that this variable has a positive and significant effect on business contiunuity. The results of this study are in line 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 (2022) research that digital transformation has significant on corporate sustainability. MSMEs will sustain their business if they can transform the culture into digital.

The table 1 shows that variable tax incentive policies has 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 an significancy level of 0,05. The results of this study is same as previous research conducted by Mamik 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 found reduction in the tax rate have a positive statistically and significant effect on MSME sustainability. Previously, the research conducted by (Julialevi et.al., 2022) also has same result. It found that tax incentive has positive significant effect on business continuity of MSME. Tax incentive policy is considered efficient and does not burden the players but helped respondents to continue their business during the pandemic (Julialevi et al., 2022). So, if the government apply incentive tax policies to MSMEs and they utilise it, their business continuity will be maintained well especially during the covid-19 pandemic.

Conclusions

The research carried out to MSMEs in Tegal City in examining digital cultural transformation and incentive policies; the effect on business continuity during covid-19 pandemic. The result of this research prove that partially digital cultural transformation and incentive policies have significant effect on business continuity variables of MSMEs in Tegal City during the Covid-19 pandemic. Simultaneously, both independent variables also has significant effect on dependent variable. It means that if MSME do transformation on their business culture into digital and utilise tax incentive policies from government, the business continuity will be maintained.

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