

The Role of Strategic Flexibility on Business Survival

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Subject Area: *Strategic Management*

Abstract

The COVID-19 pandemic has had severe consequences across various aspects of life, significantly impacting the culinary sector, which is a crucial part of the tourism industry. Restrictions on dine-in services compelled businesses to adapt to take-out options, resulting in significant repercussions. To navigate these challenging times and ensure the survival and growth of the culinary industry, entrepreneurs and restaurant managers had to adopt innovative strategies. Income reductions affected nearly 43% of culinary businesses during this period. To investigate the dynamics further, the research conducted a PLS-SEM analysis, surveying 163 MSME owners or restaurant managers operating in the Surabaya city region, who had received government support and continued their business operations amidst the pandemic. The analysis revealed that strategic flexibility played a pivotal role in influencing marketing innovation and process innovation. However, the impact of marketing innovation on business survival was not direct, while process innovation significantly influenced business survival. Interestingly, the study observed that government support did not alter the relationships between marketing innovation, process innovation, and business survival.

Keywords: *Business survival; MSME; Restaurant industry; strategic flexibility.*

Background

The COVID-19 pandemic has caused significant disruptions in multiple spheres of society, most notably the economy, leading to far-reaching consequences. People from various backgrounds are grappling with fear and anxiety due to the pandemic's profound impact. Recent research has revealed that Indonesia's economic sector has contracted by 0.1%, indicating the severity of the economic fallout. Globally, the pandemic has unleashed widespread economic crises, characterized by reduced production, diminished public consumption, lowered economic confidence, and stock market declines in multiple countries. As a result, economic shocks and uncertainties have emerged, as reported by the Organization for Economic Co-operation and Development (OECD) (Nalini, 2021).

The COVID-19 pandemic's ramifications extend beyond the economy, affecting various aspects of society, including health, education, humanitarian endeavors, social interactions, and more. In response to this

crisis, the government has implemented a series of preventive, restrictive, consistent, and long-term measures aimed at mitigating the pandemic's impact and safeguarding public health and well-being. These measures seek to address the multifaceted challenges posed by the pandemic, promoting resilience and adaptability in navigating through these unprecedented times. Measures such as lockdowns, social isolation, and business closures have negatively impacted the country's economy (Messabia *et al.*, 2022).

To expedite economic recovery, the government has undertaken various initiatives, such as bolstering spending activities and establishing the Committee for Handling COVID-19 and National Economic Recovery. Additionally, the government is providing low-interest credit assistance and implementing programs to support the revival of micro, small, and medium-sized enterprises (MSMEs). Complementary measures include the creation of funds in banks and offering capital loans to cooperatives and companies (Nidya and Gewati, 2020). These comprehensive efforts are aimed at revitalizing the economy, facilitating business growth, and fostering financial stability during these challenging times of the COVID-19 pandemic.

The pandemic's impact on various commercial sectors has been profound, with accommodation, food and beverage, transportation, and warehousing, among others, experiencing significant repercussions. Among these sectors, the food and beverage industry has been particularly hard hit, witnessing a substantial decline of 92.47% in income. Supporting data from Smesco and OK OCE reveal decreased turnovers of 43.09% in the culinary business, 26.02% in services, and 13.01% in fashion. Given its significant contribution to the creative economy's GDP, the culinary sector accounts for 41.46% or 7.44% of the overall national economy (Kusumaningrum *et al.*, 2021).

These challenging statistics underscore the urgent need for attention and support to aid in the recovery of the food and beverage industry during these unprecedented times. In other side, the pandemic has had a significant impact on the restaurant industry, leading to closures and reduced operations in many countries, primarily due to a lack of government assistance. The continuous implementation of government regulations further exacerbates the challenges faced by the restaurant industry (Li *et al.*, 2021). As a crucial component of the national economy, the restaurant industry plays a vital role in driving economic activity (Ramadan *et al.*, 2021).

This study aims to assess the influence of strategic flexibility on marketing and process innovation, with firm survival as the ultimate outcome variable. Furthermore, the research will explore the role of government support as a moderating variable. The investigation will be conducted in the city of Surabaya, employing the PLS-SEM analytical method. The study's findings are expected to provide valuable insights for MSME restaurant owners in Surabaya on effective strategic management during the pandemic. Additionally, the research will contribute to the existing body of knowledge in this domain, shedding light on the importance of adaptability and innovation for the survival and success of the restaurant industry amid the challenging circumstances of the COVID-19 pandemic.

Literature Review

Business Survival

Business survival refers to the capacity of a business or company to navigate and adapt to challenging circumstances, showcasing its resilience in the face of adversity (Najib *et al.*, 2021). Various indicators can be used to assess business survival, including diversifying cash flows, implementing price reductions, boosting revenue generation, acquiring customer contacts, prioritizing marketing efforts, conducting employee training, and establishing contingency plans (Stanley, 2021). Research in this field emphasizes the importance of proactive measures and strategic decision-making to ensure the long-term viability and success of businesses (Sanchez, 1997). Moreover, studies have shown that businesses with a higher degree of strategic flexibility exhibit greater adaptability and resilience, enabling them to effectively respond to changing market conditions and external challenges (Omar Bouh & Ünlü, 2022). Consequently, understanding the factors influencing business survival and implementing appropriate strategies is crucial for enterprises, particularly in times of uncertainty such as the COVID-19 pandemic.

Strategic Flexibility

The term "strategic flexibility" encompasses the organizational or corporate capability to adeptly respond to evolving environmental factors. According to Sanchez (2021), this concept encompasses a diverse range of empirical studies that delve into demand volatility, aiming to enrich managers' understanding of their latitude in handling high-tech products. Strategic flexibility can be further classified into four dimensions: anticipation, formulation, accumulation, and operation.

Anticipation involves foreseeing and preparing for potential changes in the external environment, enabling organizations to stay ahead of emerging challenges. Formulation pertains to the strategic decision-making process, where companies design adaptable plans and approaches to navigate uncertainties effectively. Accumulation focuses on building and consolidating resources and capabilities that foster resilience and agility. Lastly, operation involves the implementation and execution of the formulated strategies, emphasizing the need for dynamic and responsive actions. The comprehensive exploration of these dimensions of strategic flexibility is crucial for organizations seeking to thrive amidst dynamic market conditions and ensure sustained success in the ever-changing business landscape.

Marketing Innovation

Marketing innovation, as described by (Omar Bouh & Ünlü, 2022), refers to the adoption of novel marketing approaches that result in significant changes to various aspects of the marketing mix. These changes can encompass modifications in product design, packaging, product placement, promotional activities, or pricing strategies. It involves the utilization of entirely new marketing strategies that have not been previously implemented. Organizations can develop innovative marketing practices internally or acquire them from external sources such as other companies or associations (Davenport, 1993). Marketing innovation holds significant importance in enabling businesses to maintain competitiveness and navigate changing market

dynamics effectively. Its implementation allows companies to distinguish themselves from rivals, enhance customer experiences, and expand their reach to capture new market segments. By adopting innovative marketing strategies, organizations can successfully engage their target audience, enhance brand perception, and foster business growth. Thus, embracing marketing innovation is a vital strategy for companies aiming to prosper in dynamic and fiercely competitive market landscapes.

Process Innovation

Process innovation involves the integration of business adoption processes and the utilization of essential operational procedures within an organization. Its main goals encompass cost reduction in production units, improvement of product quality, and the introduction of novel product enhancements (George and Merkus, 2021). Companies can enhance their competitiveness in the market by implementing process innovation, streamlining production procedures, optimizing resource allocation, and leveraging technological advancements (Hair et al., 2010). This may entail reengineering existing processes, adopting cutting-edge technologies, or implementing more efficient workflow systems to achieve these objectives. Embracing process innovation is crucial for organizations seeking to boost efficiency, reduce costs, and remain at the forefront of their respective industries. The ultimate aim of process innovation is to enhance operational efficiency, achieve cost savings, and deliver superior products or services to customers (Ghozali, 2013). Through continuous process improvement and innovation, organizations can stay ahead of market demands, adapt to changing customer needs, and drive sustainable growth (Davenport, 1993).

Government Support

Amidst the challenges posed by the COVID-19 pandemic, the Indonesian government has taken significant fiscal measures to bolster economic recovery, allocating 720 billion rupiah (USD 48 billion) for this purpose. A substantial portion of this funding, amounting to IDR 232 trillion (USD 27.3 billion), is directed towards enhancing the household sector. Additionally, the government is actively supporting micro, small, and medium-sized enterprises (MSMEs) through a comprehensive approach that encompasses financial support, technical assistance, and the formulation of favorable government policies. This multifaceted support aims to stimulate growth, stability, and resilience within the economy, ensuring the sustenance and progress of both households and MSMEs during these challenging times.

The commitment demonstrated by the Indonesian government in providing substantial fiscal aid is pivotal in addressing the economic repercussions caused by the pandemic. The targeted allocation of funds towards the household sector underscores the significance of sustaining consumer confidence and spending to drive economic activities. Simultaneously, the comprehensive support extended to MSMEs acknowledges their integral role in the country's economic landscape and seeks to empower these enterprises through a combination of financial resources, technical expertise, and supportive policies. By adopting such measures, the government endeavors to create an environment conducive to recovery and growth, safeguarding the well-being of citizens and the overall economic health of the nation.

Methodology

Research Location & Sampling Criteria

The city of Surabaya has been designated as the central focus of this research investigation. The researcher collected data by sampling business owners of micro, small, and medium-sized enterprises (MSMEs) and restaurant managers from various regions within Surabaya, encompassing West Surabaya, North Surabaya, Central Surabaya, South Surabaya, and East Surabaya. Employing an explanatory research design, the study seeks to explore the underlying reasons behind phenomena when information is limited (George and Merkus, 2021).

Adopting a quantitative approach, the research utilizes PLS-SEM (Partial Least Squares Structural Equation Modeling) analysis as the chosen research methodology. Both primary and secondary data sources are employed, facilitating a comprehensive analysis of the research variables and their interrelationships. The sampling technique applied in this study is purposive sampling, wherein participants are selected based on specific criteria delineated by the researcher. The following criteria were utilized to select respondents for this study:

- 1) The respondents must be decision-makers, either business owners or managers of micro, small, and medium-sized enterprise (MSME) restaurants in Surabaya. The classification of MSMEs aligns with the guidelines outlined in PP No. 7 of 2021, which defines micro businesses as those with a maximum capital of IDR 1 billion, small businesses with a capital ranging from IDR 1 billion to IDR 5 billion, and medium businesses with a capital ranging from IDR 5 billion to IDR 10 billion, excluding land and buildings.
- 2) The respondents should be able to operate and sustain their businesses during the pandemic, indicating their resilience in navigating the challenging circumstances.
- 3) The respondents should have received government assistance as part of the support provided during the pandemic.
- 4) The location of the restaurants should be within the areas of West Surabaya, North Surabaya, East Surabaya, South Surabaya, and Central Surabaya.

By utilizing purposive sampling with these specific criteria, the study aims to ensure that the selected respondents represent MSME restaurant owners or managers in Surabaya who have actively continued their businesses during the pandemic and have received government assistance.

Figure 1
Research Framework

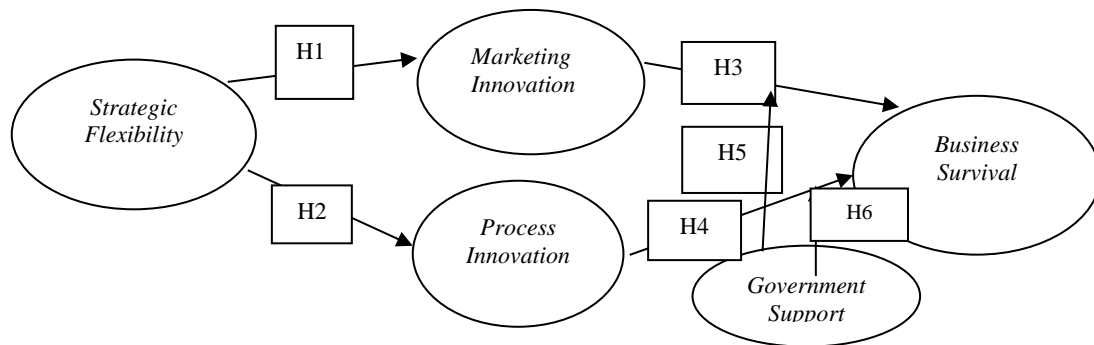


Figure 1 illustrates the conceptual model of this research, elucidating the connections among strategic flexibility, marketing innovation, process innovation, government support, and business survival. To enhance comprehension of the framework, the following research hypotheses are posited: H1: Strategic flexibility positively influences marketing innovation; H2: Strategic flexibility positively influences process innovation; H3: Marketing innovation positively influences business survival; H4: Process innovation positively influences business survival; H5: Government support moderates the positive relationship between marketing innovation and business survival; H6: Government support moderates the positive relationship between process innovation and business survival.

These hypotheses serve as guiding statements that will be tested and analysed within the research study. They indicate the expected relationships between the variables under investigation, aiming to provide insights into the influence of strategic flexibility, marketing innovation, process innovation, and government support on the survival of MSME restaurants in Surabaya during the pandemic.

Result and Discussion

Data Collection

In this research, data collection was carried out using an online questionnaire distributed from November 2022 to January 2023. The questionnaire was directed at MSME restaurant owners or managers located in different regions of Surabaya, namely West Surabaya, East Surabaya, Central Surabaya, North Surabaya, and South Surabaya. To be eligible for participation, respondents needed to have operated their restaurant business during the pandemic and received government assistance. A total of 163 respondents completed the questionnaire; however, after conducting a thorough screening process, 159 respondents met the required criteria and were included in the final analysis. Four respondents did not meet the screening requirements and were consequently excluded from the study.

In determining the minimum target respondents for this research, it is advisable to have a sample size that ranges from 5 to 10 times the number of variables being studied. This approach ensures a sufficient and robust dataset to yield meaningful and reliable results for the analysis (Tenenhaus *et al.*, 2005). In this research, the variables of strategic flexibility, marketing innovation, process innovation, government support, and business survival were examined. To ensure a statistically significant sample size, the study aimed to collect a

minimum of 125 to 50 respondents, based on recommended guidelines. Remarkably, the research successfully exceeded this minimum target by obtaining a sample size of 159 respondents. This larger sample size facilitates a robust analysis and offers an adequate number of data points to draw meaningful conclusions regarding the interrelationships among the variables under investigation. As a result, the study is well-equipped to provide valuable insights into the dynamic interactions between strategic flexibility, marketing innovation, process innovation, government support, and business survival in the context of MSME restaurants in Surabaya during the pandemic.

Outer Model Analysis

The findings from the outer model analysis reveal that no variables were eliminated, as all indicators, including Average Variance Extracted (AVE), Cronbach's Alpha (CA), and Composite Reliability (CR), exceeded their respective minimum thresholds. Specifically, the data in this study met the criteria of Outer Loadings values ≥ 0.7 , Average Variance Extracted (AVE) ≥ 0.5 , Cronbach's Alpha (CA) ≥ 0.6 , and Composite Reliability (CR) ≥ 0.6 , as illustrated in the table 1 and table 2. These results demonstrate the soundness and reliability of the data, ensuring that all variables are adequately represented and contribute effectively to the overall analysis.

Table 1
Outer Model Result

Latent Variable	Indicators	Outer Loadings	AVE	CA	CR
<i>Cut-off value</i>		$\geq 0,7$	$\geq 0,5$	$\geq 0,6$	$\geq 0,6$
<i>Strategic Flexibility</i>	SF1	0,762	0,561	0,804	0,865
	SF2	0,766			
	SF3	0,762			
	SF4	0,749			
	SF5	0,704			
<i>Marketing Innovation</i>	MI1	0,789	0,631	0,853	0,895
	MI2	0,871			
	MI3	0,806			
	MI4	0,715			
	MI5	0,783			
<i>Process Innovation</i>	PI1	0,747	0,588	0,826	0,877
	PI2	0,781			
	PI3	0,774			
	PI4	0,759			
	PI5	0,773			
<i>Government Support</i>	GS1	0,813	0,660	0,871	0,906
	GS2	0,736			
	GS3	0,871			
	GS4	0,835			
	GS5	0,801			
<i>Business Survival</i>	BS1	0,789	0,704	0,895	0,922
	BS2	0,848			
	BS3	0,840			
	BS4	0,834			
	BS5	0,882			

Note: As in PLS-SEM the Outer Loading test are used for validity and reliability test, it can be concluded that all the indicators is valid and reliable.

Table 2
Hypothesis Testing

Hypothesis		Path Coefficient	T-statistics	P-Value	Objective	Result
H1	<i>Strategic flexibility marketing innovation</i> ->	0,496	5,149	0,000	Significant	Accepted
H2	<i>Strategic flexibility process innovation</i> ->	0,468	5,424	0,000	Significant	Accepted
H3	<i>Marketing innovation business survival</i> ->	-0,007	0,054	0,957	Not significant	Rejected
H4	<i>Process innovation business survival</i> ->	0,550	5,846	0,000	Significant	Accepted
H5	<i>Government support business survival</i> ->	0,274	3,041	0,003	Significant	Accepted

Hypotheses Test

Based on the results of the PLS-SEM analysis, the hypothesis concerning the relationship between strategic flexibility and marketing innovation exhibits a significant p-value of 0.000, a t-statistics value of 5.149, and a path coefficient value of 0.504. The effect size test further supports this relationship, with a substantial effect size value of 0.327, categorized as large, affirming the acceptance of the hypothesis. These findings align with previous research by Cingöz and Akdoğan (2013), which also demonstrated that strategic flexibility positively influences innovation. Consequently, it can be concluded that the ability to adapt to uncertain and rapidly changing business circumstances has a significant impact on marketing innovation within a business context. Thus, the MSME restaurant owners in Surabaya City have successfully adapted to the uncertain business landscape, resulting in improved marketing innovation in their respective establishments.

Based on the findings of the PLS-SEM analysis, the second hypothesis regarding the relationship between strategic flexibility and process innovation demonstrates a significant p-value of 0.000, a t-statistics value of 5.424, and a path coefficient value of 0.468. The effect size test further supports this relationship, indicating a moderate effect size value of 0.281, leading to the acceptance of the hypothesis. These results align with the research conducted by Malekakhlagh et al. (2022), which also confirms that strategic flexibility positively influences process innovation.

Based on the research results, the correlation between marketing innovation and business survival does not exhibit a significant impact, as evidenced by the p-value of 0.957, t-statistics value of 0.054, and path coefficient value of 0.066. The effect size test further reinforces this lack of significant influence, with a value of 0.000, leading to the rejection of the third hypothesis. This study contradicts the findings of (Najib *et al.*, 2021). which showed that marketing innovation has a positive effect on business survival. The rejection of this hypothesis can be attributed to the limited proactive approach of MSME restaurant owners in Surabaya City towards implementing marketing innovations, such as introducing new products. Additionally, the data collection period coincided with a period when the COVID-19 pandemic had subsided, diminishing the relevance of the relationship between marketing innovation and business survival. During this time, restaurants

prioritized other aspects of their operations over marketing innovations as they focused on recovering from the pandemic's immediate impact.

The research findings support the acceptance of the fourth hypothesis, indicating a positive relationship between process innovation and business survival. The statistical analysis reveals a p-value of 0.000, a t-statistics value of 5.846, and a path coefficient value of 0.553, providing evidence for this relationship. The effect size test further confirms the significance with a value of 0.214, signifying a moderate impact. This study corroborates the findings of previous research (Najib *et al.*, 2021) that also established a positive effect of process innovation on business survival.

The results of the PLS-SEM analysis support the acceptance of the fifth hypothesis, demonstrating a positive relationship between government support and business survival. The statistical analysis indicates a p-value of 0.003, a t-statistics value of 3.041, and a path coefficient value of 0.258, providing evidence for this relationship. Additionally, the effect size test reveals a value of 0.057, indicating a small yet significant impact. This finding is consistent with prior research conducted by Le *et al.* (2020), which also found a positive and significant association between government support and business survival.

Table 3
Moderation Effect Testing

Hypothesis		Path Coefficient	T Statistics	P Values	Objective	Result
H6	<i>Government Support => Marketing Innovation – Business Survival</i>	0,076	0,477	0,634	Not Significant	Rejected
H7	<i>Government Support => Process Innovation – Business Survival</i>	0,072	0,559	0,577	Not Significant	Rejected

Based on the findings presented in Table 3, the research hypotheses H6 and H7 were rejected, as indicated by the path coefficient values of -0.043 for H6 and 0.114 for H7, t-statistics values of 0.477 for H6 and 0.559 for H7, and p-values of 0.634 for H6 and 0.577 for H7. The results reveal that government support does indeed moderate the relationship between innovation and business survival, which aligns with the conclusions drawn by Adam and Alarifi (2021) in their study where the hypothesis was accepted.

However, the study did not find evidence of the moderation effect of government support on the relationships between marketing innovation and business survival, as well as process innovation and business survival. This outcome can be reasonably attributed to the data collection period, which coincided with a decline in the COVID-19 pandemic. During this time, government support may have become less crucial for MSME entrepreneurs in Surabaya, as customers returned to restaurants, leading to increased revenue for MSME restaurants. The results indicating the absence of moderation for these latent variables can be considered positive, suggesting that MSME restaurant owners in Surabaya effectively utilized the government support they received.

The research demonstrates that government support does moderate the relationship between innovation and business survival, but the moderation effect was not observed for the relationships between

marketing innovation and business survival and process innovation and business survival. The study suggests that this lack of moderation in the latter relationships may be attributed to improved business conditions due to the decline in the pandemic and the successful utilization of government support by MSME restaurant owners in Surabaya.

Discussion

The research findings offer several theoretical implications for the fields of strategic management, innovation, and business survival, particularly concerning Micro, Small, and Medium Enterprises (MSMEs) in the restaurant industry. The following are some of the theoretical implications derived from the results: First, Importance of Strategic Flexibility: The acceptance of Hypotheses 1 and 2 indicates that strategic flexibility plays a crucial role in driving marketing innovation and process innovation. This underscores the significance of fostering strategic flexibility within organizations, particularly MSME restaurants. By cultivating the ability to adapt to dynamic and uncertain business environments, these restaurants can effectively foster innovation, ensuring long-term sustainability and success. Second, Process Innovation and Business Survival: The validation of Hypothesis 4, which demonstrates the positive impact of process innovation on business survival, emphasizes the importance of continuous operational improvements. MSME restaurants should prioritize ongoing innovation and optimization of their operational processes to enhance their capacity for survival and prosperity, especially in challenging circumstances such as a pandemic. These theoretical implications offer valuable insights for MSME restaurant owners and managers in Surabaya and beyond. Embracing strategic flexibility and process innovation can enhance their competitiveness and resilience, allowing them to navigate through uncertainties and thrive in today's ever-changing business landscape.

Regarding the relationship between marketing innovation and business survival, although Hypothesis 3 was rejected in the specific context studied, this outcome does not diminish the significance of marketing innovations. The result could be attributed to the timeframe and circumstances of the research. Conducting further studies in different contexts or timeframes might yield diverse results. Regardless, businesses should not disregard the importance of marketing innovation, as it remains critical for ensuring long-term growth and competitiveness. On the other hand, the acceptance of Hypothesis 5, which demonstrates the positive effect of government support on business survival, underscores the role of external factors in influencing business outcomes. Policymakers and government institutions should continue to provide support and create a conducive environment for MSME businesses, especially during times of economic uncertainty, to promote business resilience and survival. The significance of context is highlighted by the differences observed in the results of Hypotheses 3 and 5. This indicates that the impact of certain factors on business outcomes can be shaped by the unique circumstances, market conditions, and external support experienced by businesses. Hence, businesses should consider their specific contexts when devising strategies and making decisions to achieve sustainable growth and success.

Conclusion

Theoretical implications can also pave the way for future research prospects. For example, there is an opportunity for in-depth investigations into the reasons behind the non-significant impact of marketing innovation on business survival in this study, despite its acknowledged relevance in contemporary business practices. Researchers can explore the influence of additional variables that were not considered in this study and examine potential moderating factors that may affect the relationships under scrutiny. By doing so, a deeper understanding of the intricate dynamics that influence business survival and innovation in the context of MSME restaurants can be attained.

In future research, it is important to strive for a more balanced and representative distribution of respondents, particularly targeting medium-level MSMEs, which were underrepresented in the current study. This would enable a more comprehensive understanding of the dynamics and challenges faced by different types of MSMEs in the restaurant industry. Additionally, incorporating qualitative research methods, such as direct interviews, can enhance the validity and accuracy of the data collected. Qualitative research allows for in-depth exploration and understanding of the experiences, perspectives, and motivations of MSME owners and managers, providing valuable insights that quantitative data alone may not capture.

To capture the latest developments, it is recommended to conduct further research focusing on the post-pandemic era. This approach would provide valuable insights into the changing dynamics of the restaurant industry and shed light on the strategies, innovations, and challenges encountered by MSMEs as they navigate the recovery phase. Expanding the research scope to encompass MSME restaurant businesses across different provinces or regions in Indonesia would yield more diverse and comprehensive data. This broader approach would offer a deeper understanding of the variations and nuances in the industry, enabling a comprehensive assessment of the factors influencing MSME performance and survival. Additionally, future research could explore and expand upon the hypotheses related to the relationship between strategic flexibility and business survival variables. By refining and extending these hypotheses, the study would yield more robust and valid results, facilitating a thorough examination of the overall relationship between the variables of interest.

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