*Research article*

# Reviewing the impact of COVID-19 on the performance of small industries in South Sumatra

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**Abstract:** Small industries in South Sumatra are one of the main players of development. Its socio-political function as one of the sectors of fulfillment needs for the community is again hit by the test by the outbreak of the Covid 19 virus. The South Sumatra government's large-scale social restriction policy to withstand the development of the virus, on the other hand, has a negatip impact on small industries. Small industry players find it difficult to obtain raw materials, make sales, and distribute goods. This makes small industry turnover decrease, efficiency is also lower, and economies of scale are increasingly difficult to achieve. In other words, Covid 19 has had an adverse effect on the performance of small industries in South Sumatra.

**Keywords:** Covid 19, Profir, Effiency, Ecomies of Scala, Raw Material

**JEL Classification:** L60

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**1. INTRODUCTION**

The development of small industries in South Sumatra is not separated from the factors that drive the growth of the small industry, such as the utilization of technology, information and communication facilities, ease of borrowing of venture capital, decreased final PPH rates. However, the growth is considered still slow because some of these factors are considered not very effective, one of which is in the business taxation section.

In the midst of its development, small industry in South Sumatra in early 2020 was again tested in the face of economic impact due to the spread of corona virus or Corona Virus Disease 2019 (Covid-19) and its impact is increasingly felt in the economy in a massif, especially in terms of consumption, corporations, financial sector, and small industry. Small industry players in South Sumatra have begun to face various business difficulties since the Covid-19 outbreak spread in the country. Based on info from the Indonesian Association of Small and Medium Enterprises (MSMEs), small industry turnover began to fall since February 2020. Even as of March 2020, there are a number of small industries that have no income at all. In fact, there are some small industries that are laying off their employees due to financial difficulties.

Emergency response status applied in some areas due to coronavirus outbreak, left small industrial workers out of work and forced to return home. The impact of the small industrial sector due to the Coronavirus outbreak has actually been predicted by the Lipi Economic Research Center (P2E LIPI). The slowdown in the global economy due to the Coronavirus outbreak will have a significant impact on the economic viability of the small industrial sector, especially on the food and beverage business unit. If not careful in its handlers, there could be many small industries that will close businesses, both temporary and even permanent. The role of small industry players in the midst of the outbreak to maintain growth is very important. Currently what the government needs to do is to contain the spread of COVID-19. Because, holding back the rate of COVID-19 spread will have an effect on the economy. The question is, how long can it last, and how many industry players can survive?. Therefore, the government needs to take real steps to protect small industries affected by Covid 19. As experienced by some small industries in America that have temporaryly closed businesses since the covid-19 covid-19 covid-19 and are still waiting for further policies from its government regarding subsidy policies to small industries affected by Covid 19 (Fairlie, 2020).

South Sumatra has several small industries that are dominant and are found throughout the district/city which is the scope of the administrative area. These small industry groups include small food industries (to know, crackers, chips); small industries and leather (convection), as well as small industries of chemicals and building materials (furniture). This small industry group does not escape the pressure of not being able to do business activities because there are no community activities. The problems facing small industries due to Covid 19 vary, ranging from falling sales turnover, raw material difficulties, falling demand, to difficulty distributing (Mukhlis, Robiani, Marwa, & Chodijah, 2017). This issue makes the ability to meet credit obligations impaired, not to mention to meet household needs, and salaries, as well as other costs. This will have a profound effect on the inerja of small industries.

However, there are several factors that make the small industry in South Sumatra still able to survive the Covid-19 outbreak. First, generally small industries produce consumer goods and services that are close to the needs of the community. The drastically declining public income does not have much effect on the demand for goods and services produced. Small industries can still move and absorb labor despite limited numbers and in covid-19 situations; second, small industries generally utilize local resources, both human resources, capital, raw materials, and equipment; and third, generally small industries are not supported by loans from banks, but rather from their own funds (Bartik et al., 2020).

Based on the phenomenon, this study will examine the effect of Covid 19 on the performance of small industries in South Sumatra. Performance indicators that will be used as a basis for study are economies of scale that will be calculated from several other indicators such as marketing costs, raw material and transportation costs, wages, and profits in small industries. In addition, it will try to formulate a proposed strategy that can be carried out by small industries in an effort to stay afloat during the covid-19 pandemic.

Crick & Crick (2020) in his study of the collaborative marketing stretagi of the pharmaceutical industry in Canada in the Covid 19 pandemic crisis, found: 1) co-marketing can be an effective business-to-business marketing strategy in a pandemic and has the potential to benefit organizations involved in partnerships; 2) koopetisi activities consist of cooperative and competitive forces, where decision makers must be careful with which competitors they collaborate with, as there can be adverse results on their performance; and 3) after the COVID-19 outbreak ends, there are questions about whether this existing co-optasi strategy will continue, or be discontinued in the future.

Other research on the decision to reopen businesses and confirm demand during the Covid 19 pandemic by Balla-elliott, Cullen, Glaeser, & Stanton (2020), against small business owners in the United States found that the reopening of small companies was more driven by their economic need to survive than by their concerns about public health. Several other findings underscore that the reopening decision is closely related to expectations about future demand. If the downstream business is not opened, this will affect the performance of their business.

Kawaguchi & Kodama (2020), in its review of the short- and medium-term effects on small businesses in Japan as a result of the Covid 19 anti-ulran policy found that: 1) anti-contagion policies in Japan have decreased sales turnover by 5 points each month; 2) government assistance improves the prospects for small businesses to survive, but small industries do not yet expect to use short-term employment compensation, which requires additional review, time, and cost; and 3) business owners expect a medium-term recovery from their business performance and rely heavily on when the infection will end. Thus, strict short-term anti-contagion policies can complement long-term economic goals.

On the other hand, the study of how to help small businesses to survive Covid 19, conducted by Baker & Judge (2020) small businesses in the United States. Small businesses are among the business groups hardest hit by Covid 19. Government intervention is necessary to assist small businesses by cooperating and coordinating with other relevant parties/ institutions to provide full access to adequate financing for small businesses to survive the shock of the Covid 19 pandemic.

Papadopoulos, Baltas, & Elisavet (2020), discussed the use of digital technology by small and medium-sized businesses during Covid 19. The role of digital technology has an important role in improving productivity and performance in Small and Medium Enterprises (SMEs). The benefits of digital technology will secure business continuity during extreme disruptions and shocks to the global community.

Other research conducted by Humphries et al., (2020), about new evidence of how small business owners are affected by COVID-19, and how these effects have evolved since the restrictions took effect. Found a few things: 1) at the time of the restrictions, small business owners surveyed were already severely affected by COVID-19-related disruptions, and most business owners had laid off at least one worker; 2) negatip expectations from the owner about the period of expiration of the pandemic period because it is difficult to predict; 3) the smallest businesses have the lowest awareness of government assistance programs, the slowest growth of awareness after the authorization of restrictions by the government; and 4) small businesses have lost initial funding of the Salary Protection Program due to low basic awareness and different access to information towards larger companies.

Fairlie (2020) in his research on small business owners after the first three months of the enactment of social restrictions in Massachuset, found that most small businesses temporarily shut down their businesses and insanized considerable losses in their business activities. If left behind will have a permanent impact on small businesses and will affect macroeconomic growth.

On the other hand S. R. Baker, Davis, Terry, & Bloom (2020), in their study of economic uncertainty as a result of the Covid pandemic, it found about half of the expected output contraction reflected the negative effects of the uncertainty caused by Covid. The Covid-19 pandemic has created a huge shock of uncertainty, even greater than the financial crisis of 2008-09 and more akin to the increased uncertainty during the Great Depression of 1929-1933.

Bartik et al., (2020) in its study of how small businesses are adjusting in the Covid-19 era to 5,800 small businesses in the United States found: 1) Mass layoffs and closures have occurred. In our sample, 43 percent of businesses closed temporarily, and businesses - on average - reduced their number of employees by 40 percent compared to January; 2) many small businesses are financially vulnerable; 3) businesses have very diverse beliefs about the possible duration of Covid-related disruptions; and 4) the majority of businesses plan to seek funding through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but are still constrained by bureaucracy and difficulty meeting collateral.

**2. RESEARCH METHODS**

Research focused on the impact of the Covid 19 pandemic on the performance of small industries in South Sumatra is reviewed from economies of scale. Next is to formulate a simple strategy of survival for small industries in the era of the Covid 19 pandemic.

The data in this study consists of secondary data and primary data. Secondary data in the form of data on population and total workforce in South Sumatra, the number of workers absorbed by small industries by district / city and province, per capita income, and output generated by small industries in the district / city.

The data source was obtained from the Central Bureau of Statistics of South Sumatra, Bank Indonesia, and the Office of Industry and Trade in South Sumatra. While the primary data is obtained by disseminating questionnaires compiled in the form of online questionnaires (google form) distributed to small businesses based on the identity information of respondents obtained from the data base of small business actors obtained from the Office of Industry and Trade of South Sumatra which includes data on the amount of labor, wages, output, raw material costs and marketing costs.

The population in this study is a small industry group that exists in districts / cities in South Sumatra. The determination of samples is done by purposive sampling by first selecting the dominant industry group and is found in all districts / cities in South Sumatra.

Small industries are grouped into two, namely small food industry and small non-food industry, because these two industry groups dominate in South Sumatra. The sample in the study was 60, with a breakdown of 40 food industry groups and 20 small non-food industry groups.

Analysis techniques use qualitative and quantitative descriptive approaches. Qualitative descriptive analysis to provide a general overview of the small industrial conditions in South Sumatra and the characteristics of the variables associated in the study. The variable is economies of scale, in relation to the effects of the Covid 19 pandemic. According to Kim (1995) and Kuncoro (2012), the larger the economies of scale, the better the performance of the small industry. Moreover according to Li *et al* (2012), efficiency is the right measure to describe the economies of scale of a small industry. While according to Humphries et al., (2020), the Covid-19 pandemic has had a negative effect on the performance of small industries, as a result of declining economies of scale of small industries.

**3. RESULTS AND DISCUSSION**

Covid-19 is not only considered a health disaster, but has had a devastating derivative impact on the economy of South Sumatra. This impact spreads to all lines of business, from large businesses to small businesses. Some of the impacts felt by small industries include:

* Difficulty of raw materials. Small industry players will have difficulty raw materials if the material is purchased outside the province or abroad. As we know, some provinces are implementing regional quarantines and some countries are implementing lockdowns. The Indonesian government's social distancing policy has disrupted production activities
* Production and sales declined. Small industry players experience such a drastic drop in income that they struggle to pay fees. These costs include employee salary/honor, venture capital, daily living expenses, and other needs.
* Inhibited distribution activity. Small industry pelau is experiencing obstacles in distributing its produce. The application of work from home, studying at home, worshipping at home and isolating themselves at home, lock down in some areas makes it difficult for small industry players to market their produce. The halt in distribution activity is certainly detrimental to small industry players. They are now confused about how to distribute products, especially for small industries that have begun to expand their market reach beyond the region.

The barriers experienced by small industrial actors as a result of rising raw material prices, declining production and choked disttrbusi have a profound effect on the inerja of the small industry. This is reflected in the decline in profits and efficiencies that are difficult to predict, which has the effect of declining the economies of scale of the small industry

**4. CONCLUSIONS**

The impact of the spread of Covid-19 in the small industrial sector in South Sumatra has a huge influence. One of the difficulties in raw materials, decreased production and sales and stalled distribution caused the performance of small industries in South Sumatra to be poor.

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