

Enterprise & Entrepreneurship: Disruptive “New- Normal” & Survival Strategies

ISED Discussion Paper

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ISED Small Enterprise Observatory
Jointly with
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Preface

Against the current global setting of a pandemic, it is important to carefully understand the scenario of labour market behaviour, and of MSME performance in India. The much awaited “new normal”, the foundation of ‘business confidence’ in India remains elusive. This paper has three major thrusts: First, to provide a summarized view of the MSME constituency today. Secondly, to outline the strategic policy options available to the country in this transitional stage. Thirdly, it looks into some of the key steps relating to prioritising such policies and strategies.

Under the India MSME Communication Programme(IMCP), the Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique ‘Development Report’. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy , and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title come out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.



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June 29,2021

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Abstract

Against the current global setting of a pandemic, it is important to carefully understand the scenario of labour market behaviour, and of MSME performance in India. The much awaited “new normal”, the foundation of ‘business confidence’ in India remains elusive. The following discussion has three thrusts: First, to provide a summarized view of the MSME constituency today. Secondly, to outline the strategic policy options available to the country in this transitional stage. Thirdly, it looks into some of the key steps relating to prioritising such policies and strategies.

Key Words: Pandemic, India, SME, policy, performance, strategies.

1.0. Introduction

Having traversed through the current global setting of a pandemic, and of an economic crisis therefrom, it is important to carefully understand the scenario of labour market behavior, and of MSME performance. Such an understanding is critical, as the destinies of millions of people and their income opportunities would be shaped by the course of Covid-19, which still remains too uncertain. Tremors in the economy are nothing new for the small and medium enterprises. With their natural resilience by which small firms often manage such situations. However, the “new normal” that was the foundation of business confidence in India, itself continues to be disruptive, waiting for better times. Such a situation has obvious economic and social significance for the MSME constituency in specific, and for the country as a whole. The purpose of the following discussion is three-fold: First, it attempts to provide a summarized view of the MSME constituency in India today. Secondly, it discusses the strategic options available to the country in this transitional stage. Thirdly, it looks into some of the key steps relating to policy and strategies that need to be initiated on a priority basis.

2.0. The Global Order of Disorder Today

The post-Covid19 world order is perceived to be radically different in terms of geo politics, economic relations with respect to trade and investment, and the distribution of income and opportunities within and among countries. Globally, there is an evolving consensus on ‘K-shaped recovery’ as the

development paradigm for the immediate future. In response, countries and communities will have to think in terms of ‘boot-strap development’ strategies. This would essentially mean meticulous attempts to harness their natural advantages and capabilities at the subsector, regional and firm levels..

The global order that is likely to emerge from the present crisis is a matter of debates. There are two view points on this: 1) death of multilateralism and active globalization; and 2) selective globalization. ‘Globalization’, obviously, may undergo a change in terms of its content and direction, based on learning on the experience of the past. ‘Selective globalization’, a new paradigm that is likely to emerge, would mean a multilateral advisory arrangement, to address global issues, such as poverty, unemployment, climate change, public health etc. Development of SMEs and entrepreneurship are likely to have a central place in this agenda, because the multilateral commitments are likely to be much more declaratory rather than mandatory. This would mean that, the corporations rather than the governments will implement such declarations at the ground level-CSR in a new form. The prospects of development in general, and of opportunities of income and employment at the bottom layer of the productive system, will be dependent on these changes. The experience of the management of the pandemic so far indicates that, apart from the bare requirements of such management, such as regulation of community life and travel, economic governance a weak spot in many countries. This has its negative implications on the operational space and performance of MSMEs.

2.1. Enterprise as a Disruptive Potential

Perspectives and projections on the post-COVID 19 global economy and society have come from various sources. Multilateral agencies have made their global projections on economic growth, employment, trade, and investments. On growth prospects, the key projections have come from the IMF and the UNDP. According to the United Nations (2020), the world economy in 2020 was projected to shrink by 3.2 per cent, racking up some \$8.5 trillion in overall losses – wiping out nearly four years of output gains. As of mid-2020, GDP in developed countries was expected to plunge to -5.0 per cent, while the output of developing countries will shrink by 0.7 per cent. As in June 2021, the United Nations raises global economic forecast to 5.4% growth in 2021. But, it cautioned that this will unlikely be sufficient to lift the rest of the world's economies, other than the developed economies; the economic outlook for the countries in South Asia, sub-Saharan Africa and Latin America and the Caribbean remains fragile and uncertain.

On employment, the key observations have come from the ILO. Global unemployment was expected to have increased by around 2.5 million in 2020. This means that in 2020, the global rate of unemployment amounted to 6.47 percent. Besides, underemployment will exacerbate, as total labour underutilization is more than twice as high as unemployment; the estimated figure is 470 million.

On trade and investment, UNCTAD has come out with some projections in 2020. International trade in goods was expected to continue its nosedive. According to data for June 2020, merchandise trade fell by 5% in the first quarter of the year and point to a 27% drop for the second quarter and projected an annual decline of 20 per cent. In its report, SME Competitiveness Outlook 2021, UNCTAD puts forward a 20-point Green Recovery Plan to foster competitive, resilient, and environmentally friendly sustainable SMEs.

On industrial growth, the UNIDO came out with some important findings. The most recent data from UNIDO's seasonally adjusted index of industrial production (April 2020 vs. December 2019) indicated that, both lower and upper-middle income countries have been significantly impacted by the Pandemic.

Four key factors explain the evolving socio-economic scenario: 1) the evolving technology paradigm, as a response to the COVID 19 experience; and 2) changes in production structure and the flow of capital; 3) the evolving growth pattern and business demography; and 4) the distributional scenario, in relation to incomes, opportunities and employment.

2.2. Techno-economic Paradigm

The evolving global order today needs to be examined in relation to the great rupture in the dominant techno-economic paradigm, by an external shock. The Fourth Industrial Revolution has been co terminus with the changes in the paradigm of global value chains, and as in 2019, it was getting into another phase. The key functional drivers of 5G were expected to unlock a broad range of opportunities, including the optimization of service delivery, decision-making, and end-user experience. This was expected to result in \$13.2 trillion in global economic value by 2035, generating 22.3 million jobs in the 5G global value chains alone. Much against this stream, the experience of COVID 19 ushers in, and is leading to an accelerated focus towards local and regional value chains. A synthesis, obviously, need to emerge from these two conflicting streams.

2.3. Sustainability and Survival: Logic and Policy

Despite the evolving techno economic paradigm globally, and of the thinking and practice of sustainable development, the logic of the “now” would guide public policy and business behavior in the near future. This logic implies strategies for survival, as against wider business goals and perspectives that guide investments and the development agenda in general. This would involve a mix of decisions and strategies such as postponement of investments, total curtail of investments, and even closure of businesses.

There are several ways of keeping the SMEs active in their role as a counter-cyclical tool, under an economic down turn. In a normal recession, demand for consumer goods and services do not contract significantly; they can also be stimulated by fiscal measures, such as tax breaks. Governments tend to prefer to target their measures at domestic demand directed at local suppliers; hence SMEs tend to get a bigger cushion from counter-cyclical