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## Editor's Desk

As an institution which believes in academic pursuits which have practical implications, B.I.T Durg has always been a forerunner in academic endeavors setting benchmarks in education and industry.

This Newsletter aims at empowering professionals everywhere to lead more productive work lives by disseminating knowledge processed here at our campus.

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## The Drivers of Entrepreneurship

Despite the consensus on the role of entrepreneurship in economic growth, the interactions between entrepreneurs and their environment are very complex and difficult to comprehend. These interactions reflect the bidirectional relationship between entrepreneurs and their environment and the way they are also affected by several socio-economic factors in the economies where they operate. Over the years, economic theory has gradually incorporated additional factors in analyzing entrepreneurship as a driver of economic activity. Differentiate between three main types of theories of entrepreneurship, namely the classical theories, the neo-classical theories, and the Austrian market process. While the classical and neo-classical approaches focus on the actions undertaken by entrepreneurs for the production and distribution of goods and services, the Austrian approach is based on the knowledge that entrepreneurs possess about the economy.

Consider four approaches to define the entrepreneur based on his function, role, personal characteristics, and behavior. Function has to do with the action undertaken through innovation and risk taking, while role is related to the action as an investor owning capital and exploiting production factors. Personal characteristics and behavior are more related to attitudes and decision making. In this context, the entrepreneurial function determines his impact on the macroeconomic performance.

As an investment activity, entrepreneurship is based on the knowledge of the entrepreneur and on his ability to take a call regarding existing opportunities to overcome the challenges resulting from his decision. At the same time, opportunities are the results of changes in several socio-economic conditions influencing the demand and supply conditions. The fact that the environment is volatile

implies that opportunities are never exhausted, and what is limited is just the stock of projects available to entrepreneurs. In studying the determinants of entrepreneurship, this leads to distinction between the internal factors related to the entrepreneur's skills and capabilities and the external factors related to his environment and the way the environment affects his decisions.

The question of how the environment affects entrepreneurship has been a subject of divergence between economists and has triggered many empirical studies to identify the critical factors for success and failure in different contexts. Distinguish between economic environment and institutional environment and their contribution to the failure of self-employed entrepreneurs in the eurozone. Their results demonstrate that in addition to economic factors, the culture and perceptions of society about entrepreneurship are significant factors in reducing entrepreneurship failure. Furthermore, their study shows that the quality of formal institutions (including protection of property rights, the quality of the legal system etc.) plays a key role in reducing the failure of entrepreneurship.

Overall, studying entrepreneurship is complex in the sense that it implies analyzing the economic, social, and institutional factors responsible for the success and failure of any entrepreneurial activity. Recently, an increasing number of studies have been interested in the level of entrepreneurship in different economic phases. In that sense, in addition to the multidisciplinary aspect of entrepreneurship, the results of any study are conditioned by the context of the study. For example, while several studies have been able to assess the situation in the context of developed countries studies in the context of developing countries have been very limited until now. Lastly, the nature of entrepreneurship is very



important to assess the sustainability of its impact on economic growth. In fact, opportunity entrepreneurship is driven more by innovation and the opportunities it creates in the economy. Hence, this kind of entrepreneurship, which is more predominant in developed countries, can leave a lasting impact on economic growth by creating added value and more jobs, as well as triggering other innovations through competition. However, necessity entrepreneurship is in general driven by the lack of alternatives and by the low level of employment created by the economic activity. In this context, this kind of entrepreneurship can be terminated as soon as some opportunities are created and become available to the entrepreneurs.

**Sweta Chanda, MBA IVth Sem**

### **The Possible Impacts of Recession on Employment Levels and Wages**

In spite of the appeal of innovation and entrepreneurship as drivers of development in poor nations, the challenges standing in the way of fulfilling the Schumpeterian development promise of creative destruction at a macroeconomic level in low-income developing nations are many. These challenges grow into major risks at times of crisis. Massive levels of unemployment are one of the most common and immediate consequences of a sudden drop in trade or a recession in the economy. With a constant or decreasing supply of labor, for example in mature economies, this is already a very critical consequence of economic crises that has the potential of stirring up social unrest and regime change, and profound socioeconomic changes have been unfortunately observed during the course of the 20th century in both developed and developing nations.

However, this is further heightened in factor-driven labor-rich economies, which naturally supply an even higher number of job seekers in the market. In this context, one may be tempted to simplistically describe the dilemma that decision makers are faced

with: either jobs of current workers should be saved on a priority basis with the limited levers available for government intervention or the onus should be on supporting the economy to rapidly transform to be able to create jobs for both the job seekers entering the market and the current workers who will inevitably lose their jobs as a result of the crisis. The two dynamics are simplistically described in the graphs below. In both graphs, equilibrium employment level in the economy is defined as the intersection of a price-setting curve, which depicts the aggregate demand for jobs from the economy at the production frontier, and the wage-setting curve, which is the occupational demand for wage-jobs by job seekers (against the available alternatives of unemployment or other activities).

The secondary impact of the recession subsequent to the crisis is to shift the wage-setting curve downwards, especially for low-pay workers. This effect is particularly marked in developing countries with weak social protection structures. This could generate a positive employment outcome since the lower wages due to lower expectations from job seekers as well as the entry of new job seekers in the market may lead to a higher equilibrium employment level  $wg$ . In practice, achieving this new maximum employment level will pose a challenge for the economy requiring transformation of jobs and recovery measures.

**Poonam Yadav, MBA IVth Sem**



## **Outbreak of the COVID-19 pandemic and government support to fight this outbreak**

Within a month or a few months of the World Health Organization (WHO) declaring COVID-19 to be a global public health emergency of international concern on 30 January 2020 (WHO 2020), governments in many countries as well as the multilateral development banks launched rapid policy responses, including support for vulnerable groups of micro, small, and medium enterprises. After this declaration of world health organization many governments began extending financial and other forms of support to micro, small, and medium enterprises (MSMEs) and their workers because smaller firms are more vulnerable to negative shocks to their supply chain, labor supply, and final demand for goods and services than larger firms.

Since MSMEs are diverse, however, the severity of the pandemic's impact on them varies considerably depending on their characteristics. Using online survey data of MSMEs from eight developing economies in South, Southeast, and Northeast Asia, this paper attempts to deepen our understanding of the impact of the pandemic on MSMEs, especially their employment, sales revenue, and cash flow. It also characterizes those firms that began participating in online commerce and tries to determine how their use of online commerce and their employment are related in this difficult time. Despite the announcement of large-scale economic stimulus packages, the

economic impacts of the pandemic spread rapidly over the whole world. In June 2020, the ADB (2020b) and the International Monetary Fund (2020a) had to revise downward the GDP growth predictions that they had released less than two months previously.

Initially, government support tended to treat all MSMEs almost equally. Since MSMEs are far from homogeneous, however, there was an expectation that

a certain differentiated approach to MSME support would work better than the one-size-fits-all approach. Indeed, many governments began treating MSMEs in different sectors differently after observing substantial diversity among sectors in the damage resulting from the pandemic.

MSMEs in developing Asia experienced considerably reduced employment and sales revenues in the first few months after the outbreak of the COVID-19 pandemic. The reduction in employment was, of course, more severe for the employment of non-permanent employees, but the employment of permanent or regular employees was also significant. Although there are considerable differences among countries, one-fourth to one-half of the sample MSMEs experienced a temporary shutdown during this period and one-third to two-thirds were facing a cash shortage at the time of the survey. Thus, the impacts of the pandemic on the employment and the sustainability of business were quite severe.

Interestingly, the severity of these impacts, if compared among the countries in question, is not consistent with the impression that one would have from the GDP growth rate forecasts of these countries. For example, the employment reduction was relatively large in Viet Nam, which was experiencing positive GDP growth, and the highest percentage of firms experiencing a cash shortage occurred in Bangladesh, which was experiencing a higher GDP growth rate than any other country in the



sample. Presumably, this inconsistency arises from the vulnerability of MSMEs, which is acute, especially in lower-income economies. MSMEs in such economies are prone to using up liquid assets and to cutting employment as a precaution.

Enterprises earned revenues from online sales before the pandemic, and many of them, especially young

firms, export-oriented firms, firms facing a cash shortage, and those having used online sales, plan to increase the share of online sales in the midst of the pandemic. The share of online sales has a non-linear relationship with employment. As the share increases until it reaches about 40% of the total sales, its relationship with employment is negative, suggesting that the use of online sales displaces labor input. As the share increases further, however, the relationship becomes positive, suggesting that larger-scale use of online sales creates jobs.

MSMEs tend to prefer tax payment deferral, tax rate reduction, and loan repayment deferral to many other possible forms of government support for MSMEs, even though considerable differences exist among countries and among firms regarding which type of support they prefer. Those MSMEs that prefer tax-related support were more likely to receive such support and that those that prefer loan-related support were more likely to receive such support. In this sense, the demand and the supply of support seem to match to some extent.

**K Damodar Rao, MBA IVth Sem**

## **The Uncertain Role of Entrepreneurship in Developing Countries in the Post-COVID-19 Context**

The promotion of policies and initiatives that support job creation through entrepreneurship in developing countries is at the heart of the 2030 Sustainable Development Goals (SDGs) agenda, and, in particular, SDGs 8 and 9. Yet, entrepreneurship remains an abstract concept difficult to define and comprehend. Entrepreneurship is frequently confused with self-employment, an important source of employment in developing nations. Perry et al. (2007) relate that self-employment may constitute up to 30% of the total employment in Latin America, for example. In a more comprehensive study across 74

developing nations, Gindling and Newhouse (2014) relate statistics for mainly low and middle-income groupings averaging 51.6% and 33.5%, respectively, according to World Bank definitions. Owner-managers of small enterprises are therefore a critical category of entrepreneurs that must be considered in any attempt to provide and preserve jobs for all those in line with the SDG targets. However, the individual self-employed is not the only category of entrepreneurs in the economy. As Hagedoorn (1996) puts it, entrepreneurship can be broadly classified into two streams for research: one that looks on entrepreneurship at the level of individuals and the other that looks at corporate entrepreneurship and “intrapreneurship” especially at the level of large firms. Both categories are affected at times of crisis and this paper is specifically concerned about the drivers of successes and failures of entrepreneurship policies at a macroeconomic level



in developing countries, with a focus on the post-COVID-19 context.

COVID-19 has unleashed an unprecedented economic crisis expected to affect the developing prospects of all nations across the globe for years to come. The “swift and massive shock of the coronavirus pandemic” since its advent in early 2020 is expected

to be the harbinger of the deepest recession since the Second World War (Felsenthal, 2020). Entrepreneurial activities in all sectors have been affected by the simultaneous supply and demand shocks caused by the pandemic, and the World Economic Forum (WEF) estimates, for example, that the pandemic has forced more than 70% of start-ups to terminate full-time employee contracts. Yet, the degree and extent of the impacts of the recession on entrepreneurial activities are not well-understood. One of the reasons for that gap is the lack of methodological tools to link the aggregate macroeconomic activities of developing nations to the

entrepreneurial intensity. This paper will, therefore, after a brief review of the drivers of entrepreneurship in the literature in the second section, discuss the relationship between national income and entrepreneurial levels in developing economies from a review of the literature in the third section. Against this backdrop, the fourth section of the paper discusses some stylized facts on the macroeconomic issues related to entrepreneurial success in developing nations and develops an empirical model that is calibrated and tested on a balanced sample of 24 member countries of the Organization of Islamic Cooperation (OIC) over the post-crisis period 2009-2018 to demonstrate the U-shaped relationship

between national income and entrepreneurial levels. This has an important consequence when looking at the macroeconomic impacts of the COVID-19 recession on both entrepreneurial activity and employment in developing nations, and this is discussed in sections 6 and 7 with a brief theoretical review of the main drivers of the relationship between wages and employment levels. The policy options for developing nations with limited fiscal space and growing unemployment levels in the context of such a

major recession are very limited, calling for great selectivity and a detailed understanding of the most efficient mechanisms to achieve job preservation or job creation targets despite challenges. The conclusion will hence propose some areas for further research and some candidate policy approaches worth considering given the research results presented in the previous sections.

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