

IMPACT OF COVID-19 PANDEMIC ON YOUNG ENTREPRENEURS: AN EMPIRICAL INVESTIGATION ON MSMEs OF ODISHA

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ABSTRACT

This paper is an attempt to understand challenges faced by young entrepreneurs operating in Micro, Small and Medium Enterprises in Odisha and the impact of the covid-19 pandemic on their business prospects. The study is based on the performance of young entrepreneurs before and after the covid-19 pandemic, which is measured on the basis of three parameters i.e., Turnover, Number of Employees and Average Gross Salary. To analyze the phenomenon, paired t-test has been applied and the results have been interpreted accordingly. It was found that there is significant impact of covid-19 pandemic on the business operations of young entrepreneurs in terms of all the three parameters.

JEL Classification:M13

Key Words: MSME, Young Entrepreneurs, Covid-19Pandemic, Turnover, Employees, Average Gross Salary and Youth Entrepreneurship

1. INTRODUCTION

There is an extensive agreement among economists and researchers on the importance of entrepreneurship for economic development. Deeper the entrepreneurship more is the development. It is because, entrepreneurs drive and shape innovation, speed up structural changes in the economy, and intensify the level of competitive activity, thereby contributing to productivity (Bosma and Levie, 2010).Micro, Small and Medium Enterprises (MSME) sector has been globally accepted as the engine of industrial development and economic advancement due to its employment generation potential and to produce goods at a lower cost.

The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies credited with generating the highest rate of employment growth and account for a major share of industrial production and exports.

Keeping in view its growing importance and to make it thrive even during the trying times as the ongoing pandemic, the Union Cabinet headed by Prime Minister, Narendra Modi, on 1st June, 2020, officially revised the definition of MSMEs and made it the part of the Atmanirbhar Bharat Abhiyaan relief package. The investment and turnover figures were changed to larger values, thereby resulting in a larger number of medium-sized enterprises.

Table -1: MSME Definition and its Rationing

	New Definition		Old Definition
Type of Enterprise	Investment	Turnover	Investment
Micro	Rs.1 Crore	Rs.5 Crore	UptoRs.25 Lakhs
Small	Rs.10 Crore	Rs.50 Crore	Rs.25 Lakhs to Rs.5 Crore
Medium	Rs.50 Crore	Rs.250 Crore	Rs.5 Crore to Rs.10 Crore

The low threshold in the old MSME definition prevented these companies from growing as that could have meant losing out the benefits. The new higher limits in investment and turnover are expected to help companies grow. Plus, turnover brings in greater transparency in the classification, as it is easier for the government to verify a company's turnover using the GST data than the investment in machinery, etc. Manufacturing companies had opposed using turnover as the sole criteria arguing that it would allow traders to claim MSME status (and the linked benefits) by importing cheap goods from China and selling them here without adding to the country's manufacturing base and increasing competition for "genuine" MSMEs.

Corona virus spread is a major concern for the entire human race. Countermeasures like the nationwide lockdown were necessary to save lives but were equally damaging for the newly conceived business houses. The Covid-19 pandemic measures like social distancing, and the lock-down has hit the business and market very hard. Even the well-established ones need to re-look how they manage and operate their business to keep the financial wheel turning. Unfortunately, the startups and small businesses were impacted severely, as they have scarcer funds to manage crises. However, some say that great companies often come out during market downturns. Many innovative entrepreneurs have stepped up to help with some old or new techniques and products. With the sudden change in the market due to COVID-19, the businesses needed to change their perspective on entrepreneurship. While some businesses have come to a standstill, there are a few opportunities that have knocked at our doors. Investors are showing interest in funding potential COVID-19 solutions and also in industries that could thrive in the post-pandemic world.

The entrepreneurship ecosystem of India thrives on a regular inflow of capital. This not only results in the unhindered revenue generation but also impacts the minds of investors. Given the current scenario, when the customership has suddenly disappeared, these budding business houses have very little to reach out for help. Angel investors, who usually invest in these ventures and are one of the major sources of

finance, are reluctant to make any fresh investments. This changed behavior can be attributed to the Corona virus outbreak. Therefore, the sudden disappearance of customership, lack of finance and the preventive measures, that are inevitably the need of the hour, have made the operations ever tougher than before. Adding to these situational challenges, people unaware of the ground reality also became the rumor mongers and sprayed panic which resulted in the speculations.

2. LITERATURE REVIEW ON YOUNG ENTREPRENEURS

For young people, the effects of unemployment may be particularly scarring. Evidence suggests that a spell of youth unemployment increases the likelihood of poorer wages and unemployment in later life (Blanchflower and Oswald, 1994). Such outcomes also have pronounced social costs. It represents a loss of potential output and leads to increased costs to the taxpayer. One potential way of integrating young people into the labour market is to increase youth entrepreneurship. Becoming an entrepreneur potentially offers benefits to the young person through deepening their human capital attributes (self-reliance, skill development) and increasing their levels of happiness (Blanchflower and Oswald, 1998).

Youth entrepreneurship also offers societal benefits and has potential for trickle-down effect. Entrepreneurs create jobs, increase innovation, raise competition and are responsive to changing economic opportunities and trends. Entrepreneurship offers other positive externalities too. Youth setting up a new business may provide 'demonstration' or learning externalities in that they may act as a role model for other younger generation. This may be particularly advantageous for deprived communities because setting up a new business – especially if it goes on to become successful – may signal that entrepreneurship is a mechanism for helping disadvantaged people who are on the brink of social exclusion. Indeed, one of the reasons why youth entrepreneurship is so attractive and considered very effective is that it offers an indigenous solution to economic disadvantage (De Clercq and Honig, 2011; Greene et al, 2008). Youth entrepreneurship is also attractive to policy makers because of the high rates of latent entrepreneurship amongst young people. Euro Flash Barometer data suggests that two in five young people in the EU would like to set up their business, confirming previous evidence that latent entrepreneurship is particularly pronounced amongst young people (Euro Flash Barometer, 2011).

The pandemic of the Covid-19 virus which originated from China in December 2019, has spread across the globe and spared none. Though it has affected the poor countries more than the rich countries yet all across strata have been impacted by this virus. Unlike other crises, it has halted the movement of labour, capital and materials affecting the world's economy. Though sectors like services were worst hit yet all sectors have been hard hit. Only way to contain the spread of virus was to impose lockdown. This measure disrupted the social and economic fabrics and affected the entrepreneurship. Except the established ventures, small scale businesses and startups were the most vulnerable. The adverse impact was seen in businesses worldwide and most of the newly formed businesses and startups were compelled to retrench their employees, which resulted in widespread unemployment, low or lack of productivity, and the downturn of economies. Covid-19 also impacted the global supply chain and contraction of the world

economy. Many entrepreneurs and startups faced a significant reduction in their revenue due to the crumbling global supply chain of both goods and services. Amidst this backdrop, in this article, it is attempted to discuss the Covid-19 induced challenges and various forms of difficulties faced by the young entrepreneurs operating in MSME sectors in the State of Odisha and the measures taken by them to protect their ventures. Though the pandemic caused disruption to economies and entrepreneurship, yet the absolute impact of it remains unclear, as more in-depth longitudinal studies are required for better understanding of the issue (Meahjohn, Inshan, and Persad, Prakash, 2020).

3.OBJECTIVES OF THE STUDY

The specific objectives of the study are as follows:

- (i) To analyze the pre and post Covid-19 performance of business ventures owned by the young entrepreneurs, and
- (ii) To assess the impact of Covid-19 on business finance and growth prospects of young entrepreneurs.

4. HYPOTHESES

The alternative hypotheses for the study are as follows:

H1: There is a difference in mean of turnover of the MSMEs in pre and post-covid-19.

H2: There is significant difference between number (strength) of workers in pre and post Covid-19 pandemic.

H3: There is significant difference between average gross salary paid to workers in pre and post Covid-19 pandemic.

5.METHODOLOGY

The purpose of the present study was to have a better understanding of covid-19 and its impact on entrepreneurial ventures of young people. More specifically, this study attempted to identify the entrepreneurial performance and competitive advantage of small business in the domestic market. In addition, this study aimed to explore the capacities, challenges, and opportunities for small entrepreneurs. In pursuit of these specific objectives, this study used a qualitative method which mainly consisted of face-to-face interviews. The purpose of this research design was to obtain the respondents' thoughts and reasoning in greater depth through gathering qualitative data. First, face-to-face, in-depth interviews were selected as the most suitable research method for the current study in order to gain insights into entrepreneurial performance during turbulent period of novel virus. Because, in-depth interviews allow researchers to transcend their own preconceived views and understand people's ideas of things (McMillan

& Schumacher, 2010). Besides, direct interviews help in exploring topics more openly and these aids the interviewees in expressing their opinions and ideas in their own words” (Esterberg, 2002).

To further this process, a questionnaire was developed consisting of four major sections: (1) the profile of entrepreneur; (2) entrepreneurs’ performance; (3) key determinants with regard to current covid-19 situations, which included opportunities and capacities; and (4) difficulties and challenges faced by the entrepreneurs. Here, the pre-covid period has been taken as the period from 1st January, 2020 to 31st March, 2020 (Before the announcement of lockdown) and post-covid period has been taken from 1st July, 2020 to 30th September, 2020 (After withdrawing of lockdown). The performances of young entrepreneurs in these two periods have been compared on the basis of (i) Turnover (ii) Number of workers, and (iii) Average gross salary.

For the study, 100 young entrepreneurs (owner of micro enterprises) operating in the Khurda and Cuttack district of Odisha have been taken as respondents. Here, it has been assumed that young entrepreneurs are those entrepreneurs who are less than 45years old.

6. DATA ANALYSIS

Table-2 shows the industry profile of the two districts that have been taken for the study. It can be seen from the table that the number of registered Medium sized units in Khurda district is 99 whereas in Cuttack district it is only 16. Similarly, the investment in Small-scale industry and Medium-scale industry in Khurda is quite higher than Cuttack. This variation is mainly because of more industrial areas and availability of land in Khurda as compared to Cuttack.

Table-2: Industry at A Glance

Head	Units	Khurda	Cuttack
Registered Industrial units	No	21,546	18,737
Registered medium units	No	99	16
Registered large units	No	12	3
Estimated average no. of daily workers employed in small scale industries	No	1,07,381	1,05,254
Employment in medium industries	No	10,333	9,734
No. of industrial areas	No	26	8
Investment of small-scale industry	In Lacs	1,73,801.96	1,01,750.03
Investment of medium scale industries	In Lacs	54,027	14,601
Investment of large-scale industries	In Lacs	2,58,345	55,823

Source: Directorate of Industries, Govt. of Odisha and UAM Portal, Ministry of MSME, Govt. of India, 2019-20.

Table-3 illustrates the detailed account of Micro and Small Enterprises existing in both the districts. Number of repairing and servicing enterprises are the highest in both the districts. Out of 10,277 micro and small enterprises in Khurda, 5,375 are involved in repairing and services, which is around 50% of all the enterprises. Similarly in Cuttack, out of 16,228, the number of enterprises involved in repairing and servicing are around 5,706, which is approximately 33%. The second highest enterprises operating in these two districts are in Engineering and Metal sector followed by Food and Allied services sector.

Table- 3: Details of Micro & Small Enterprises in the District of Khurda by end of 2020

Sl No.	Type of Industry	Number of Units	Investment (Lakh Rs.)	Employment (No.)	Number of Units	Investment (Lakh Rs.)	Employment (No.)
Khurda				Cuttack			
1	Food & Allied	762	17752.19	6111	2019	11204.38	11193
2	Textile based	559	1676.33	3596	1558	2177.33	9443
3	Wood/wooden based furniture/Forest based	320	1054.07	2273	1164	1355.75	6697
4	Paper & Paper products	319	3492.37	2179	692	2762.62	4272
5	Leather based	15	40.99	106	77	161.47	458
6	Chemical/Chemical based	251	3174.18	2097	508	4382.71	4046
7	Rubber, Plastic & Petro based	174	5853.02	1440	239	4537.11	1516
8	Glass & Ceramics	508	4606.7	8711	809	3560.77	11309
9	Engineering & Metal based (Steel Fab.)	987	8004.52	6902	2014	8091.1	14149
10	Electrical & Electronics	278	2266.24	2118	185	918.28	1325
11	Repairing & Servicing	5375	21514.24	19900	5706	17949.45	22191
12	Others	729	3889.26	3820	1257	3255.2	6141
	Total	10277	73324.11	59253	16228	60356.17	92740

Source: Directorate of Industries, Cuttack, Odisha, 2019-20.

6.1 Turnover

The mean turnover of the 100 MSMEs in pre-covid period was Rs.290,16,640 whereas, in post-covid, it was Rs.315,08,700.

Table-4: Paired Samples Test (Pair 1: Pre-Covid Turnover –Post-Covid Turnover)

Paired Differences				T	df	Sig. (2-tailed)	
Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
			Lower	Upper			
-2492060.0	1970331.59	197033.15	-2883016.5	-2101103.4	-12.64	99	.000

Source: Calculated and Compiled

It is observed that $t = -12.64$, and $p = 0.000$; i.e, a very small probability of this result is occurring by chance. Therefore, the null hypothesis is rejected, since $p < 0.05$ (in fact $p = 0.000$). It indicates that there is difference in turnover of MSMEs in pre and post covid-19 period. It shows that the earnings of MSMEs have marginally increased in post-covid period compared to pre-covid period.

6.2 Number of Workers

The changes in number of workers have been elaborated through figure -1.

Figure -1: Number of Workers Before, During and After the Pandemic

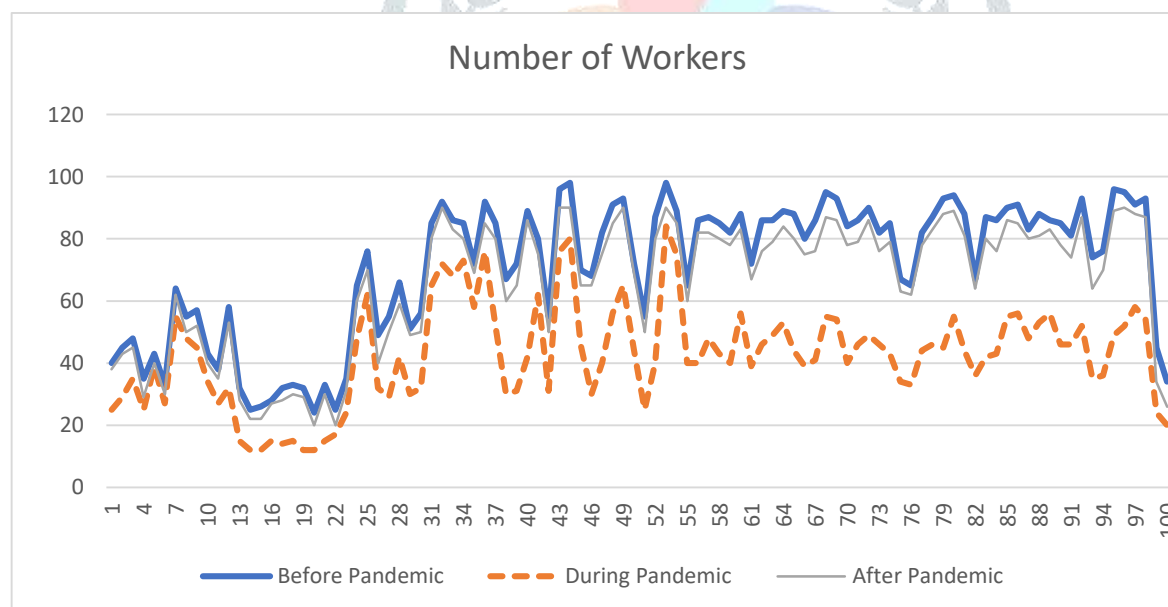


Figure -1 depicts about the responses of entrepreneurs regarding number of workers before, during and after the pandemic. All the 100 entrepreneurs said to have cut down their labour force during the pandemic to cope with the deficiency of fund. But if the workforce before and after pandemic is compared, then it can be clearly seen that the businesses have bounced back almost to the pre pandemic level as the number of their workforce after the pandemic is catching up with the number of workforce before pandemic.

Table - 5: Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Pre-covid-no of - workers	100	70.73	22.080	24	98
Post-covid-no of - workers	100	65.58	21.451	20	90

Source: Compiled from collected data

From the Table - 5, it can be concluded that the mean worker strength has slightly declined in post-covid period. This signifies that though the businesses have returned to the pre-pandemic level yet the impact has left many businesses without funds and workers without the jobs.

Table - 6: Paired Samples Test (Pair 2: Pre-Covid number of Workers – Post-Covid number of Workers)

Paired Differences					t	Df	Sig. (2-tailed)
Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
			Lower	Upper			
5.150	2.062	.206	4.741	5.559	24.981	99	.000

Source: Compiled from collected data

It is observed from Table - 6 that $t = 24.98$, and $p = 0.000$ which signifies that there is a very small probability of this result occurring by chance. As the p-value is less than 0.05, the null hypothesis is rejected. From the result it can be noted that there is significant difference in workers' strength in pre-covid and post-covid period. This is also reflected in the table – 5. It is because, during the Covid-19 crisis, every entrepreneur tried to minimize the cost to sustain their enterprise and the most viable action seemed to be the reduction of the number of contractual as well as few permanent employees. And now with the improvement of business in the third and fourth quarter of the year, slowly and steadily, these entrepreneurs are again returning back to recruiting the employees and trying to achieve the full capacity.

6.3 Average Gross Salary

Figure -2 depicts the average salary paid to workers before, during and after the pandemic. During the pandemic not only the number of workers had come down but also the average salary of the workers had been decreased. Though, this was a temporary phenomenon and it was mainly induced by low demand and shortage of cash in the whole economy, yet it has affected the very livelihood and source of income of the employees. This also reflects the gloomy picture not only of the entrepreneurs, where they did not

have adequate working capital to tackle such a scenario, but also of the economy which was in dire need of the cash.

Figure -2: Average Salary of Workers Before, During and After the Pandemic

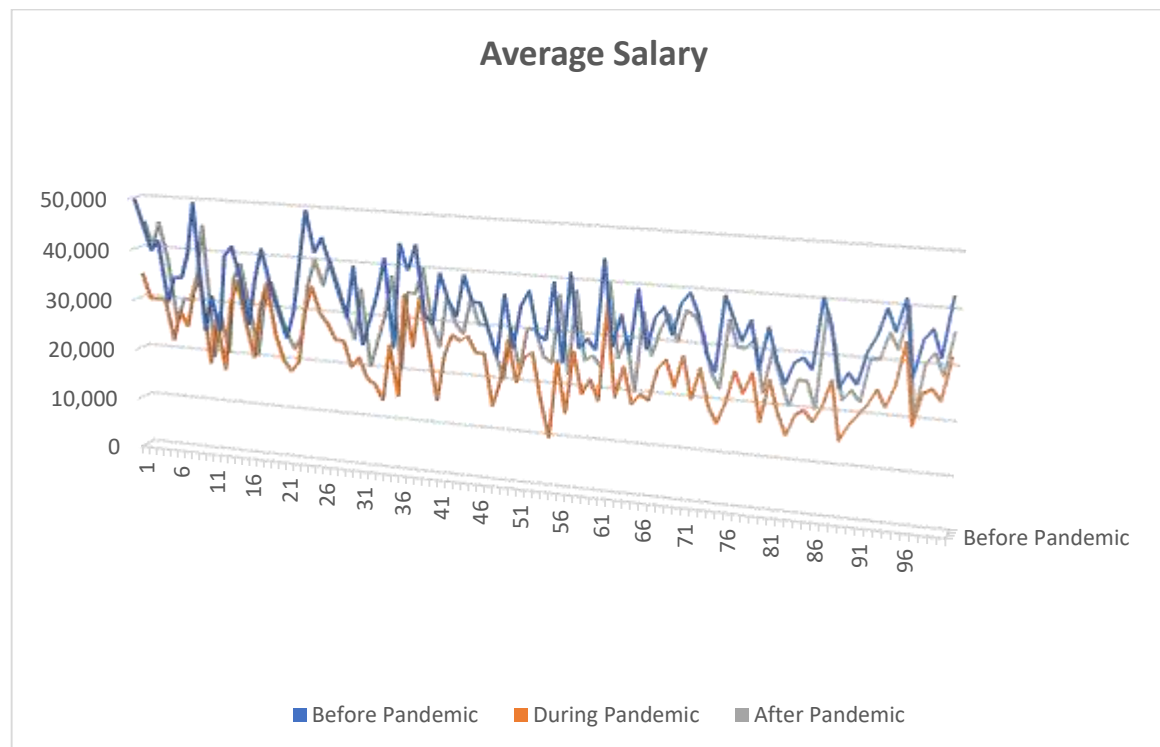


Table- 7: Descriptive Statistics

	Mean	N	Std.Deviation	Std.Error Mean
Pre-Covid-Gross Salary	34660.00	100	6412.14	641.21
Post-Covid-Gross Salary	29990.00	100	6431.44	643.14

Source: Compiled from collected data

It is evident from the table – 7 that the mean gross salary, paid by the young entrepreneurs to its employees and staff, reduced to Rs.29, 990.00in post-covid period from the Rs.34,660.00 in pre-covid period. This was obvious as the young entrepreneurs had to cut-down the cost because of the fall in the demand. But, the reduced the standard of living affected the livelihood of the employees. Variation in the gross salary is also evident from table – 8, which states that the t-statistic value is 25.89 and the p-value is 0.000, which is less than the alpha value of 0.05. Thus, the null hypothesis that there is no difference in salary of pre and post covid period is rejected. It can be said that there is significant difference between the mean gross salaries paid to workers during these two periods. This not only reflects and corroborates the prevailing gloomy scenario of the market but also is a clarion call for all the budding entrepreneurs to devise their strategies and remain future ready to face unforeseen situations.

Table-8: Paired Samples Statistics (Pre-Covid and Post-CovidGross Salary)

Paired Differences					t	df	Sig. (2- tailed)
Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
			Lower	Upper			
4670.00	1803.78	180.37	4312.09	5027.90	25.890	99	.000

7. FINDINGS

The major findings of the study are as follows:

- 1. Cash Flow Shortages:** One of the common problems that the young entrepreneurs faced during the pandemic was the “cash crunch”. This was obvious because of complete shutdown which halted the movement of labour, resources and capital. The customers demand shrank and the entrepreneurs were not able to manage their operating expenses.
- 2. Decreased Revenue:** Only the most urgent goods such as milk, grocery items, food items, etc. were supplied during the shutdown. So, the entrepreneurs who were not involved in such business, had to manage with decreased revenue.
- 3. Supply Chain Disruptions hindering Operations:** Lockdown was a unique and once in a life event for all. India had not heard or experienced such a prolonged shut down. The impact was severe as supply chains and logistics came to a grinding halt. Lack of movement of labour, capital and materials led to delay in the supply of the raw materials, in many cases right quantity and quality was not available. This affected the prompt supply of finished goods.
- 4. Concerns about Third Wave:** News of the outbreak of the second wave of covid-19 especially in Mumbai, Delhi, Kerala and other States and its devastating effect has again gloomed the business sentiment of the young entrepreneurs. News and the opinions of the experts on the third wave to be even more severe than the first and second wave has started depressing the business sentiment further. Even though vaccine is now available, in graded manner, still its availability and efficacy has left all the young entrepreneurs in quandary. The entrepreneurs still have apprehensions of future lockdowns affecting their business.

5. Changing Patterns of Consumers Spending: Consumers have also changed their consumption pattern and preference. They are saving more for the future and minimizing their spending on the non-essentials. Even on the essentials, they seem to be spending only on the bare essentials and deferring the spending as far as possible to save for the future medical requirements. It appears as if they have learnt from others and also from their own experience that saving for the future than the current splurge is the prudent decision. So, changing consumer mindset, categorization of items as necessary and unnecessary and deferring the spending on non-essentials has affected the cash flows of the business ventures.

8. SUGGESTIONS

On the basis of the analysis and findings, the following suggestions are being made to enhance the employee recruitment, increase sales turnover and enhance the employee salary among the ventures run and managed by the young entrepreneurs:

- (i) Entrepreneurs must create an emergency corpus to face unforeseen events and insulate the business from financial constraints.
- (ii) Young entrepreneurs should gradually switch to online platform or follow both the channels to book purchase orders and make delivery. The traditional demand may get hit because of such pandemic which may be repeated in future also.
- (iii) Relationship building should also be a priority for the young entrepreneurs. Because, investing in building relationships will ensure that they get the employees to work for their organization even during difficult times with reduced pay and also the employees, in turn, will be assured that their livelihood will not be affected.
- (iv) The entrepreneurs should adopt a mix of balanced and conservative approach and keep more working capital to meet the exigencies.
- (v) The supply chain should be strong and the relationship with the suppliers should also be sound.

9. CONCLUSION

The young entrepreneurs of the Khurda and Cuttack districts of Odisha are usually the first or second generation of entrepreneurs. As a result, they are found lacking in many areas and have not been able to insulate their business ventures from future uncertainties. Though they are becoming more self-reliant yet the meagre savings and almost no corpus to meet the vagaries of the future have made them more fragile. They have focused more on the firefighting than insulating their business from fire in the future. So, what is needed the future strategy and also the helping hand from the Government and non- governmental agencies. Though there is gradual

shift and proactive approach from the Government yet it is in very nascent stage. The District Industrial Centre's (DICs) and the State government are extending helping hand to budding entrepreneurs in setting up and excelling in their business ventures. But what is lacking is the provision of funds for meeting the future requirements. The covid-19 pandemic is a case in itself which came as the real shocker not only for the young entrepreneurs but also for the established entrepreneurs. But it is heartening to see that though the tremors of the pandemic jolted them yet it has also united them and made them take actions to regain their lost ground in the business. Study showed that the entrepreneurs went through a period of fear psychosis and suffered both financially and emotionally as they had to fire their employees who were like their family members. But once the lockdowns restrictions were eased and life inched closure to normalcy, businesses retrieved the lost ground and started reappointing most of their old employees. Some have even recruited the new ones. This is a clear indication of entrepreneurs valuing the contribution of their employees in the growth of the business and entrepreneurs not being very selfish or insouciant about the needs of their employees. This also reflects the bonding between the employees and the entrepreneurs and how much value these young entrepreneurs attached to their relationship with their employees. This corroborates the fact that the entrepreneurship is not only a financial venture rather it is an amalgamation of all the stakeholders. It is also seen that though the entrepreneurs have suffered during pandemic with their turnover going down with the added cost of retaining the employees and paying their salary, yet they have almost bounced back to the pre pandemic level with the time. Entrepreneurs understand it better that the future is uncertain and many more jolts may come in their way in the future. Therefore, they must be future ready to face the unforeseen challenges, thrive their business and make their country sustainable.

10. LIMITATIONS

Though the current study takes into account the challenges faced by the young entrepreneurs during the most difficult time of the century, yet its area is limited to the district of Khurda and Cuttack of Odisha only. Broader area of the study, with more number of districts especially industrial districts, could have given better perspectives and have helped in generalizations. Sample size could have also been large. These limitations are the scope for further research.

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