

## Chapter 6

# Current and Post–COVID–19 Impact on SME Business Growth and Sustainability Trajectory

**Kannan Rajagopal**

*Symbiosis Centre for Management and Human Resource Development, Symbiosis International  
University, India*

**Vaisahli Mahajan**

 <https://orcid.org/0000-0002-1958-5809>

*Symbiosis Centre for Management and Human Resource Development, Symbiosis International  
University, India*

### **ABSTRACT**

*This chapter attempts to study the COVID-19 pandemic's impact on business success and failure with an emphasis on small and medium-sized enterprises (SMEs). The other prime objective of the chapter is to discuss the various strategies that have been instigated by the government and other agencies to manage the adverse economic consequences caused by the pandemic situation. The theoretical investigation is done using secondary sources, which reveals that the SME sector has infused a strategic measure to bring back the situation to normalcy. However, there are still some more expectations from the SME sectors specifically from the government and other stakeholders to help them come out of this unforeseen situation.*

### **INTRODUCTION**

The biggest setback in the world economy was first witnessed during the 1930's great depression. The same scenario is observed during the COVID-19 pandemic. About 60 percent population across the world are facing lockdown. In some places the lockdown is severe and in other places it is partial. The economic activities have mired or have decreased significantly affecting the livelihood of millions of people. As a result, it is anticipated that the economy would contract by 4.9 percentage in 2020 (International Monetary Fund [IMF], 2020). India had to follow the lockdown policy immediately due to two

DOI: 10.4018/978-1-7998-7436-2.ch006

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prime reasons, one being a densely populated country and the other, the country has inadequate medical and health care facilities to meet the pandemic situation. This situation of Covid -19 also reminds us on how the small and Medium businesses were grossly affected during the GFC (Global Financial Crisis,2008). SMEs will never forget the financial crisis caused due to the restrictions laid by the banks on their lending which drastically impacted their business (Buckley,2011).

The economic shudder due to COVID-19 is unprecedented in its density and brutality. The lockdown across the nation and concurrence with behavioral changes caused by the pandemic, not only affected major disturbances but also impacted the demand for firms' output. Though revenues have got tumbled, SMEs are forced to meet the financial requirements towards suppliers, creditors and also manage their operational costs. Given the global crisis situation, the most difficult aspect of business is raising fresh funds for their day to day operations. The preparedness to infuse finance by way of loans requires lot of security, as the SMEs are incapable of providing collaterals they are unable to receive funds from informal sources readily.

## **BACKGROUND**

The pandemic is initiating large-scale loss to life worldwide. It is a major health crisis which in turn has led to economic crisis, with pause in production, a collapse in consumption and confidence. At the time of writing the report, number of COVID-19 cases were at an increase worldwide and as well in India. However, the number of OECD (The Organization for Economic Co-operation and Development (OECD) countries the cases are shrinking, the lockdown and containment restrictions are step by step being lifted.

There are various ways the Covid-19 pandemic has affected the economy mainly the SMEs, mainly on demand and supply. In the supply side, business experience a decrease in the supply of labor due to migration, they either being unwell, looking after their children or other household activities due to absence of house help or the schools being closed and movement of people being restricted. There has been sever drop in capacity utilization due to implementation of lockdowns and quarantines adopted to contain the disease. Besides supply chains is interrupted leading to scarcities of raw materials, intermediate goods and parts.

In case of demand, a dramatic and unexpected loss of demand for goods and revenue for SMEs viciously distresses their capability to function, and/or causes severe liquidity shortages. Also, customers experience loss of income, terror of infection and heightened uncertainty, which in turn decreases the expenditure and consumption of consumers. This is due to employees being laid off and organizations not in a position to pay salaries. Sectors like transportation and tourism, are largely affected, leading to loss of business and customer confidence.

Normally, SMEs are known to have limited quantity of supplies, in certain cases this might shelter the SMEs from the shock. During the breakdown of the COVID-19 pandemic in China, this seemed the situation with German SMEs functioning mainly in regional supply chains and hence were less affected by changes in Asia and specifically in India. In some cases, SMEs will also rely on sellers from countries and regions with higher COVID-19 cases, increasing their vulnerability. Likewise, hindrances in shipping by air, road or sea disturb these SMEs. In the long run, it might be problematic for several SMEs to re-build contacts with former linkages, once supply chains are dislocated and former associates have established new associations and business contracts.

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