

Global Downturn

Executive Summary



The global financial crisis is very different to previous crises.....

The financial crisis originated in developed, Anglo-Saxon, countries but its effects will be felt for years to come across the world. This is because it is very different to previous financial and economic crises:

- The scale and cost of the crisis in the developed world is still unclear since the full exposure to credit risks across the financial system have not yet fully worked through the financial and non-financial system.
- The immediate lock-down of credit, as early as December 2007, has caused a slump, both in consumer and business demand for credit itself and therefore also in the demand for consumer goods and services.
- Because the crisis originated in the financial markets it has been immediate and global in its impact.

The speed with which financial markets locked down and demand slumped at the end of 2008 has stunned commentators and practitioners alike. By November 2009, it appears that financial markets and economies are showing tentative signs of recover although no-one is yet sure whether or not this is a false dawn and the debate about a “V” shaped or “W”-shaped recession still dominates commentary.

.... but is having a real impact on enterprise sustainability....

Yet the real impact, on sustainable enterprises, entrepreneurs, perceptions of entrepreneurs and decent work are likely to be felt for many years to come.

Because credit tightened and demand slumped simultaneously across the world, companies have, in the words of one interviewee, “gone bust where they should never have gone bust.” Under tight financial and market circumstances, small and medium sized enterprises face unique challenges around whether or not to retain workers, enter new markets or simply to ride out the storm. Companies that have high levels of indebtedness or weak cashflow are seriously threatened.

Large companies are laying off workers but this research does not suggest that they are reducing their CSR budgets or altering their strategies towards responsible business. One director of a large multinational argued, “We have built our reputation with our customers and our investors through our responsible approach and focus on long term sustainability in every sense of the word. We cannot be seen to be undermining this, however dire it is out there.” This does not mean that they are not laying people off, but, as a company with large operations in emerging economies, it does mean that it is continuing to invest in start-up companies within their supply chain and some of these may come from individuals who have lost their salaried work.

Small companies across the world appear to be approaching the crisis in a similar way. They are not taking risks, not borrowing, and trying not to let their workforces go in the interests of being ready to resume growth once market conditions pick up. However, independently commissioned country-level studies in selected OECD countries (the UK, Australia, Canada and Germany) do suggest that companies are not investing in training or innovation to the extent that they were, and while they are still investing in environmentally-friendly measures, these are part of long term cost reduction or regulatory compliance strategies rather than a desire to operate on a more comprehensively sustainable basis. Sustainability at the moment is couched in economic terms.

.... And because the crisis originated in financial markets, entrepreneurs are finding it difficult to grow.....

In the words of one venture capital investor, “There’s no money out there, and we are finding that entrepreneurs are amazed at how well they can live on nothing.” Banks argue that there is money available for good projects, particularly since the Summer of

2009, but admit that the mistrust between them and business has to be rebuilt before that credit will start to fuel growth again. Entrepreneurs in the developing and the developed worlds are facing similar difficulties – they are using retained earnings to finance current cash flow where they can. Global companies, similarly hit by a slump in demand have tightened up on their contracts with suppliers and have lengthened their payment terms. This has exacerbated cash flow problems to the smallest entrepreneurs who may also be unable to access loans to bridge the finance gap.

The availability of credit to business has clearly been affected:

- Banks appear to businesses reluctant to lend despite government rescue packages across the world that provide generous guarantees to them. While this situation eased by the end of the study, credit for core “high risk” sectors was still difficult and “pricing for risk” had become widespread.
- Private equity and venture capital markets collapsed across the world and capital inflows to developing nations have fallen off restricting both cash flow and investment capital to growing firms.
- The private investor/business angel market has flourished during the downturn fuelled by two things: in the developed world the fall in valuations of early stage companies looking for finance: in the emerging world, a sense that there are investment and growth opportunities that will serve multiple investment purposes by stimulating economic development through enterprise growth.
- Micro-finance has continued to grow as a support vehicle for micro businesses in the developing world, but alongside this, remittances have fallen as jobs in OECD countries have become increasingly scarce impacting both on subsistence income and on the capacity of individuals to repay their microloans.

Entrepreneurs themselves appear eternally optimistic. One African entrepreneur commented, “For every downturn there are a million possibilities and new and emerging markets are the jewel in the post-crisis global crown.” Yet demand for finance, particularly growth finance in the developed world, has been slow to pick up with surveys suggesting that relatively few entrepreneurs are looking for finance at the moment, either because the “do not need it” or because they “are putting in the money themselves.”

.... Meaning that some parts of society and the global workforce are particularly badly hit.

Key sectors such as manufacturing, retail, leisure, construction and mining have been devastated by the crisis and have shed blue collar and unskilled jobs. In South Africa this is having a very real impact on the labour market as jobs go in mining and construction in particular. The social and political effects of joblessness are already manifesting themselves as protests on the streets. Without clear routes to help people into sustainable work, the long term effects across Africa could be to undo much of the good that has been done to promote entrepreneurship and sustainable enterprise.

One support agency argued that the credit crisis itself has made little difference to entrepreneurs – “they couldn’t get money before and they can’t get it now. Nothing has changed.” The number of banked enterprises is small and this affects their long term sustainability. Of more importance, argued an academic with a specialism in the effects of the crisis on vulnerable work, is the impact that the outflows from employment is having on the informal jobs market in India: micro-entrepreneurs set up in unregulated, informal sectors and, in boom times, can rely on the income that this provides. However, as people move from paid employment, they are entering the informal market too making it more contested.

Two groups are of particular concern:

- Women in emerging economies appear to be bearing the brunt of the crisis. They are more likely to be employed in the informal economy, to be responsible for holding families together, paying microcredit loans and generating additional household income. In a depressed developing economy this becomes difficult and data from across the emerging regions of the world suggest that women are “Working harder and eating less” as the recession bites hard. Existing problems of high food prices and under-development are now inter-twined with the financial and economic crisis and this is hitting women hard.
- Young people across the world are, according to one interviewee, “a lost generation.” Companies of all sizes are unlikely to return to pre-crisis levels of

employment and are likely to have made substantial productivity gains as they have adjusted to post-crisis market conditions. Evidence that the 18-25 year old age group is particularly badly hit is compelling.

Productivity and decent work

Econometric studies suggest that the world may face a reduction in productivity. Mathematically this is the case: if output reduces more quickly than employment then, in the short term the effect is lower productivity with commensurate effects on incomes across the world.

However, large companies, under substantial pressure from investors, are, according to the interviews conducted for this research, working to improve productivity. They will be increasing output but are unlikely to return to pre-crisis levels of employment meaning that productivity could rise more quickly than expected.

This should not be done at the expense of decent work. One interviewee argued that “there was a lot of slack in multinationals that built up during the good times. Now the crisis has hit, it is relatively easy to reduce headcount while maintaining levels of output without making people work harder by removing unnecessary functions.” Others argued that programmes to put workers on to short time working arrangements were boosting overall levels of training and, hence would improve skills and capacity after the recession.

Yet doubts remain in emerging economies. A case study from Dhaka suggests that garment workers are being pushed into accepting lower wages and, as a result are having to work longer hours in order to maintain their income. Similar stories emerged from interviews with representatives of African own-account workers and micro-enterprises. In the words of one, “the big companies are under pressure themselves. They are making their terms with local suppliers tougher and this means that contract agencies are putting increasing pressure on their contractors.

Entrepreneurs are keen not to “waste a good crisis”!

There is evidence in some OECD countries that the downturn is providing entrepreneurial opportunities. Individuals are reportedly using their redundancy pay in the UK and the US to set up enterprises, while government programmes to help people out of unemployment are important in increasing self-employment, especially amongst women. Similarly programmes to help young people gain entrepreneurial skills could be invaluable in addressing the issue of mass youth unemployment.

Interviewees were keen to stress that although this crisis is deep, the sustainability agenda itself offers huge potential for the post-crisis world. Some argued that the form of capitalism that generated the crisis is discredited with entrepreneurs, especially financial entrepreneurs, taking substantial criticism from the public about their role. However, this presented an opportunity, they argued, to address the new challenges we face of mass unemployment, reduced disposable income and climate change through sustainable entrepreneurship.

So how do we generate recovery and growth through a sustainable private sector?

There is no lack of willingness to address issues of social, environmental and economic sustainability according to the research conducted for this study. Company directors and entrepreneurs alike stress their focus on good work, on social responsibility and on longer term measures to address climate change. Much has been done, they argue, to address these issues over the past 10-15 years. Although the crisis has the potential to undo much of this as people focus on economic sustainability in the short run, it is possible, argued one employer, that the measures that are now being taken will make companies more sustainable in every sense of the word after the crisis.

All of the interviewees were keen to stress that the post-crisis business model has to be built in partnership across the social partners. If through the crisis the world has been shocked into wanting to build on the basis of consensus in the future then this has to be positive. Yet there are clear responsibilities within this overall principle:

1. Governments across the world must develop clear regulatory systems and infrastructures that encourage sustainable enterprise. Alongside obvious the

- infrastructures that contribute to the “Ease of Doing Business” indicators and the ILO’s own sustainable enterprise indicators, this includes measures to support the transition from own-account working to sustainable entrepreneurship through the growth financing system. Micro-financing is a critical part of the equation but it is by itself insufficient if it increases dependency on subsistence amounts of money: good and sustainable business ideas should have access to growth finance as well. Further, guidelines on “intangibles reporting” (such as people management, environmental impact or social investments) represented in the UK’s “Operating and Financial Review, could be considered on a global basis.
2. Employers should put sustainability at the core of business planning. Good intangibles management (environment, innovation, people, social impact and supply chain management – for example links with SMEs) have been shown in studies to improve long term business productivity since they are proxies for good management practice. Productivity is more than efficient resource allocation.
 3. Employee representatives should work closely with employers to ensure that productivity is “good” productivity – this is the only way of addressing income inequalities in the long run – but also have a responsibility to signpost individuals towards training and development opportunities that will help the sustainability goals. One representative spoke sceptically about the usefulness of entrepreneurship as a route out of unemployment yet employment contracts have been changing over the past 20 years so that “jobs for life” are now a rarity rather than commonplace. Accordingly economic risks are increasingly passed down to the individual by society and the need for flexible, entrepreneurial, training and thinking become paramount.