

IMPACT OF COVID-19 ON ENTREPRENEURSHIP

WINGS “INTERNATIONALIZATION SERIOUS GAME FOR START-UPS AND ENTREPRENEURS”



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1. Introduction

Entrepreneurship is a process of designing a new business or running an already existing business, that was previously initiated on a small scale (Ratten and Entrepreneurship 2020).

Entrepreneurs are a vital source of a country's economy. They boost the economy by introducing innovative technologies, services, products, and by providing new opportunities and jobs that contribute to the economy (Liu et al. 2020)

The pandemic of the Covid-19 virus originated from China in December 2019, and since then it has significantly affected the world's economy and all sectors of life. This report highlights the impact of Covid-19 on entrepreneurship. Due to preventive measures taken by governments to limit virus transmission, there was a prodigious disruption socially and economically to entrepreneurship, at different levels, of which small scale businesses and startups were among the most vulnerable. The adverse impact was observed in businesses worldwide and most of the newly formed businesses and startups were compelled to dismiss their employees, leading to issues such as widespread unemployment, lack of productivity, and the downturn of economies. Covid-19 also impacted the global supply chain, which resulted in a contraction of the worldwide economy. Many entrepreneurs and startups faced a significant reduction in revenue due to the impact on the global supply chain of both goods and services. We want to point up the challenges which entrepreneurs have experienced in the catastrophic time of Covid-19, and the measures taken by them to protect their ventures. It can be concluded that Covid-19 has significantly caused disruption to economies and entrepreneurship, and has posed several unprecedented challenges, however, the absolute impact remains unclear, as more in-depth longitudinal studies are required to better investigate this issue.

2. Changes in perspectives of entrepreneurship after a global health crisis

Without a doubt, entrepreneurship has been greatly affected by Covid-19. There is an argument stating that these changes in perception, will act as a double-edged sword (Shane 2011). In the future, these changes might have a negative impact and discourage new entrepreneurs, whereas, some suggest that these changes might have a positive impact, and can be a source of advancement by providing learning opportunities and new business tactics (Brown and Rocha 2020). Covid-19 has also enhanced the sense of competition among entrepreneurs and existing businesses (Sterk and Sedláček 2020). Many economies such as the one in China, have formed strategies to encourage entrepreneurship and facilitate them (Gössling, Scott, and Hall 2020). These countries know that Covid-19 has posed a great threat to an established system. This threat must be well regulated and is crucial in maintaining economic competitiveness in comparison to other countries, to cope with the downturn in the economy (He and Harris 2020).

3. The unprecedented downturn in the global economy and business

There is an overall recession in the world's economy, due to a reduction of entrepreneurship and business activity. A recent report by World Bank has revealed that gross domestic production (GDP) has been reduced significantly due to the pandemic, particularly in those countries which are dependent on trade or tourism (Papadopoulos, Baltas, and Balta 2020). However, this issue is still ongoing, and estimates by the International Monetary fund (IMF) and

World Bank are revised weekly. In Asia, it has been observed that the growth may remain steady (Papadopoulos, Baltas, and Balta 2020).

- **Decline in productivity**

With facilities being shut down temporarily, or permanently, companies were compelled to terminate their employees or send them on unpaid leave, and even a slight decline in the number of employees has led to decreased productivity and serious issues in businesses (Nicola et al. 2020a). During this extraordinary time, staff also experienced mental stress due to work or family pressures, which had a cumulative impact on their productivity over these months, making it difficult for the entrepreneurs to compete in the world (Ozili and Arun 2020).

- **Loss of employment**

Activities of entrepreneurs elevate the productivity of firms which in turn boosts the economy, but in the recent pandemic of Covid-19, an extensive structural change has been observed across the globe, by exhibiting replacement in established and sclerotic firms (Nicola et al. 2020b). These changes at the country level have resulted in an overall recession on the world's economy, due to the decrease in entrepreneurship. Many established firms were compelled to reduce their production or number of branches causing a drastic increase in unemployment (Fernandes 2020).

4. Entrepreneurship in countries with high cases of Covid-19

In countries with a greater number of cases, borders were sealed to avoid transmission of the disease, and massive lockdowns were imposed almost in all European countries. Further efforts were made to adopt social distancing, thus many countries, even with sound economies, compelled most of the businesses to shut down and restrict their interactions, leading to a significant downturn in economies, both at domestic and international levels (Sergi et al. 2019). Partial or complete closure of borders also hindered the movement of goods causing a considerable interruption of goods circulation in the global supply chains. In countries with a high number of cases like the USA and Europe, the impact was more intense than the rest of the world (Sadeghi et al. 2019). These countries experienced a macroeconomic hit due to the pandemic. In less than 3 months these countries had been plunged into crisis, leading to a global recession (Cervelló-Royo et al. 2020).

5. Impact of the pandemic on different business

Naturally, the impact of the pandemic on different businesses also depends on the size and location within the company life cycle (start-up, scale-up, maturity). Those companies building up production have been hit hard also during the second wave, due to the lower capital stock at hand, while those companies which are up and running since a certain time have been more affected during the first wave rather than during the second one. The pandemic has led to critical cashflow issues for small and medium-sized enterprises (SMEs), e.g. in the aerospace and T&A sectors, but even in wellperforming sectors like the digital one. There are distinct differences among the sectors in the level of impact and extent of rebound. Pharmaceutical production, as well as the production of devices such as computers and tablets, have been affected the least through the first months of the COVID-19 pandemic (Q2 2020), and production was extended

during the course of the year. Other manufacturing industries, which have been hit relatively hard during Q2, such as the automotive and textile industries, undertook a path towards recovery during the course of Q3, as supply shortages were solved and production started rebounding. On the other hand, sectors that are dependent on human contact and interaction, such as the cultural and creative industries and the aerospace industry (due to the decrease in mobility and tourism activities), have been the hardest hit by the pandemic and the related confinement measures. Government restrictions to the mobility of people, in addition to strong sanitary and distancing requirements, are the major factors negatively affecting these sectors' performance during the pandemic: 'non-essential' activities such as leisure time and travels in particular affected these industries, as well as the negative effect that consumers' economic insecurity had on 'luxury goods'. At the same time, financial services, and particularly fintech services, did not experience such a strong COVID-19 impact. Services-based subsectors of the food, health, automotive and textile sectors have been suffering more than other subsectors of the respective industries.

6. Global fallout in small scale entrepreneurship

Throughout the world, millions of entrepreneurs have been the victim of economic fallout due to Covid-19 (Dele-Ijagbulu et al. 2020). Many small-scale entrepreneurs were compelled to close their business while some were just working 'hand to mouth' and struggling with their businesses. These small scale businesses play a role in local economies by providing jobs to individuals and much-needed products and services (Price 2020). Youth Business International had to enact a policy to support entrepreneurship in almost 50 countries, by identifying the problems and providing solutions (Hernández-Sánchez et al. 2020). Two global initiatives were launched, namely the SOS meeting and rapid response/recovery program, which is capable of supporting over 200,000 businesses in 32 countries. This will aid young entrepreneurs in growing businesses (Mickiewicz and Rebmann 2020). Remuneration During Covid-19, 41% of startups fell in the red zone and barely had cash left for three months, although 29% of them were in that situation even before the crisis. This pandemic posed a 40% further threat to them (Bodas and Peleg 2020). On evaluation, it was seen that about 20% of the startups had term sheets pulled by the investor, and after Covid-19, 53% experienced a slowdown in process, whereas only 28% of the startups were able to function normally and continue to receive funds (Swinnen and McDermott 2020). Impact on employment At the onset of the virus, 74% of startups terminated its fulltime employees. It was also observed that 39% of the startups had to further reduce 20% of its employees later on. When the share values of startups plummeted, further negative effects were observed for the entrepreneurs, and some were compelled to terminate all of their employees (Bartik et al. 2020). Among the top three continents, North America showed the greatest reduction in employees by 84%, this was followed by Europe which experienced 67% termination of employees, and the least was observed in Asia which was 59% (Bartik et al. 2020).

Operations and management

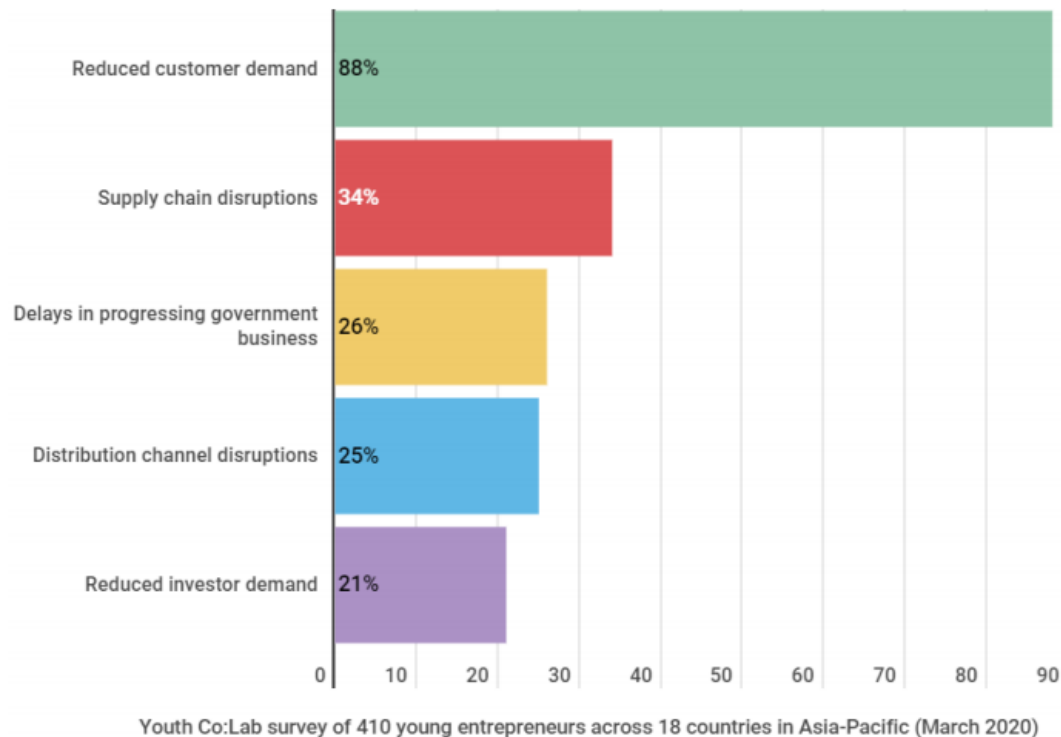
Since December 2019, approximately two-thirds of the startups had reduced their expenses. In some companies, an aggressive reduction in cost was noticed, in more than 10 companies 60% reduction in cost was observed, with some startups showed a reduction of up to 76% by March 2020. These figures indicated that all of these reductions were directly related to the Covid-19 crisis (Organization 2020).

Impact on startups ecosystem globally

Approximately more than 70% of the new start-up business had to end the contracts of their full-time employees since the emergence of the Covid-19 pandemic (Bennett et al. 2020). On the other hand, it has also provided opportunities for new goods and services, due to their

increased demand. Governments of various countries have provided funds to small scale and start-ups for supporting them in these extraordinary times (Arundale and Mason). Ahn, Kang, and Entrepreneurship (2020) conducted a study to find out reasons for obstacles in entrepreneurship Table 1 summarizes how Covid-19 has impacted entrepreneurship.

Summary of How COVID-19 has impacted entrepreneurship globally



Massive lock-downs and social distancing implemented in various countries have reduced the consumption of various products, which in turn has altered production and entrepreneurship (Donthu and Gustafsson 2020).

7. Tips for entrepreneurs to manage this crisis

A basic reminder: a company needs three assets to be profitable and sustainable:

1. Money (access to capital)
2. Know-how or specific expertise
3. A team (People)

1. Money

Keep playing to win, not to survive:

In this way, you should manage to survive; and, at the same time, you'll prepare for the day after the crisis ends.

Action 1: The Diagnostic

Accept that your previous business plan is now outdated and irrelevant; then prepare and plan for a worst-case scenario. You need to face the present realities.

Ask yourself:

- Where were you at the beginning of 2020? Were you in good shape or not, and why?
- Where will you see yourself in Q3 or Q4, 2020?
- How much money do you have in cash today?
- How much money do you need to stay alive during the coming 18 months? Prepare a Q1 2021 plan

Action 2: Cash (expenses and revenue sources)

Cash is key. It's time to review all your expenses: non-essential expenses must be cut in order to reduce your cash burn rate. You have to make your company leaner by transforming your fixed costs into variable costs in order to become more agile. Reduce marketing and events costs; everything which is not essential to the daily life of the company should be cut.

Pinpoint and look after your revenue sources. Analyze your customer portfolio to try to guess who among your customers might not be able to pay their invoices anymore. If you can, encourage faster payments from your clients.

Action 3: Access to capital

Evaluate and calculate the potential risks. At the same time, validate with your VCs, your shareholders, your partners, your banker, your trust relationships, if they are ready to support you and help you during this crisis period; and until where and when. Secure the funding which you calculated you'd need to stay alive during the next 18 months. Bear in mind, fundraising via video conferencing doesn't work well, at least at present. Trust and confidence are not easy to establish behind a screen.

Do not: wait for the end of the crisis without taking immediate actions, simply thinking this sanitary crisis is not under your control and responsibility.

Do: position your company for growth. A downturn is the best opportunity to improve your fundamentals, as I'll explain below.

2. Your expertise, your value proposition, your market fit

Take this opportunity to improve your fundamentals and to make them more robust.

Your product:

Your technology and developer teams could use this time to go deeper and to improve your product. Make sure you are creating a pain killer. Take this time to train your tech team to new software (online and free open platform).

The executive team:

Take this opportunity to improve your market fit. What is your real value proposition? Strategic thinking is possible since, for once, CEOs and executives are not slaves to the short-term figures and the tyranny of monthly/quarterly turnover and performance reporting. Try to take a step back; look to change or adapt your strategy and put new processes in place.

The sales and marketing teams:

Take this time to talk and innovate with your best customers. Analyze your NPS (net promoter scores), understand why they love your product and why they could leave you. Dive deeply into your customer database. Find out your advocates and discover what product features are missing: do you have time to implement them and to make your product or offer 10x times better?

It's also time to innovate and forge new collaborations. Restaurants can move to take away food; some restaurants are providing a daily recipe each morning on their social media channels, while customers can order food or dishes for delivery via collaborations with delivery food apps – something many businesses would not have imagined one month before.

3. People: reimagine your new future and ways of working

During this crisis your employees must remain more committed than ever, in order to keep going through it. Communication is crucial. Increase your daily communication and try to reduce uncertainty as much as possible, so your employees' morale doesn't suffer. Take care of them, protect them, be sure they are healthy and safe. Be crystal clear and honest with your teams on what you know and what you don't know.

Bear in mind, remote working offers more flexibility, but it will kill some of the chemistry of creativity (spontaneous decisions taken at the coffee machine). Trust and humility are critical to reinvent or innovate your managerial practices. Be closer to your teams. Managerial innovation could be less control and more trust. You should reinvent and change your way of working with their input. This troubling time requires different cultural shifts. Don't hesitate to ask them how they would like to work when the 'normal' routine returns.

8. Conclusions

Massive lock-downs and social distancing implemented in various countries have reduced the consumption of various products, which in turn has altered production and entrepreneurship (Donthu and Gustafsson 2020).

- **Finding opportunities amid the crisis is agility crucial**

All entrepreneurs, whether large scale or small scale, must take the pandemic as an opportunity for re-directing and re-purposing their existing business by making use of their knowledge, skills. They should try to find out the new needs that have emerged in the community, and then boost their businesses accordingly (Fairlie 2020). Redirecting will help them in identifying the needs of the community, such as face masks, shields, and online grocery services, which have become the essentials for surviving. Also, a hike is seen in taxi startup businesses (Androniceanu 2020).

- **Every crisis is an opportunity**

This crisis can be turned into an opportunity through constant encouragement of entrepreneurs even in bad times through persistent encouragement and motivating new firms to be established. This will, in turn, produce new job opportunities and reduce unemployment (Ioannides and Gyimóthy 2020). Through the production of novel products, a change may be noticed from stagnant entrepreneurship to dynamic ones, which will aid in improving the economy of the world (Padilla and Petit 2020).

- **Entrepreneurship after a pandemic is over**

It is predicted that a quick recovery will be noticed in the world's economy and entrepreneurship, and soon will be revitalized (Buheji 2020).

We can conclude that Covid-19 has caused significant disruption to economies and entrepreneurship globally, and has posed several unprecedented challenges, however, the absolute impact remains unclear, as more in-depth longitudinal studies are required to better investigate this issue. This crisis will change the relationships between countries and states: presenting new challenges, new stakes, new dangers, new threats (health and climate). Governments must, and will, demand to be independent and autonomous with regard to critical medical supplies and medicines. A world less open and, probably, less free is to be expected.

With virus containment likely to persist in many parts of the globe, we'll see for sure new ways of life producing new needs, which will in turn create new opportunities for entrepreneurs. Some new business models, new offers around dematerialization, will have to be invented. They will be the entrepreneurs who will implement this new world.

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