

Analysis on the Economic Effects and Challenges of Entrepreneurship during Covid-19

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ABSTRACT

Small businesses possess a crucial role in the economy and face severe challenges during the Covid-19 pandemic. As small business entrepreneurs represent a vital force in stimulating the local economic recovery, this article explores the economic and social role of entrepreneurship and the existential challenges of these small businesses. This article studies existing businesses before the pandemic in learning the impacts of the Covid-19 and then targets entrepreneurs who already owned small businesses or found start-ups during the pandemic for synthesizing the challenges and opportunities. Through a systematic analysis of existing researches on small business and entrepreneurship, this paper emphasizes an integrated picture of the subjects, highlights the following functions, including: 1) the small business is essential to local economic recovery, and entrepreneurship of the small business offers both social and economic counterforces of pandemic; 2) To better survive during the pandemic, integration of cutting edge technology into the small business or start-ups is necessary along with the digital transformation. This article provides a framework of macro analysis on the relationship between small business, entrepreneurship, and the Covid-19 pandemic, and it offers a general perspective in guiding future researchers in exploration.

Keywords: *Entrepreneurship, Pandemic, Technology, Small Business*

1. INTRODUCTION

After the spread of the Covid-19, the unprecedented pandemic brought tremendous impacts on the economy. Accompanied by immense social and economic costs, governments developed different policies globally to counterstrike the pandemic, such as social distancing, lockdown, and flight restrictions. As the influence of pandemic permeates into various industries, previous research had analysed the performance of small and medium businesses, the opportunity and challenges of entrepreneurship, and the relationship between technology and small business. As many firms broke during the pandemic, many remaining ones need to transform to become better adapted to an offline working environment. Rather than being pessimistic, many individuals contrives to find new solutions by becoming entrepreneurs under the big picture that the “national social capital enhances the positive impact of entrepreneurial ability to start a new business” [1]. Research that explores the connections between the above remains limited, and therefore, this article aims to present the problem related to small businesses, entrepreneurship, and technology as a whole. This article

will provide insights into more significant questions on what role an entrepreneur of small business plays in the economy and the necessary implementations for the start-up or small business to be successful.

2. THE ROLE OF SMALL SIZE BUSINESSES AND ENTREPRENEURS

2.1. *Employment and Small Business*

Small Business plays an essential role in the employment market. Small or medium size firms usually range from 1 to 50 employees in existing data, and they are further defined by the different researchers. Professor Lin, in his study Firm Size and Employment During the Pandemic, claimed that “Half of Americans are employed in small and medium-sized businesses” [2]: data from Charlotte Oslund, a former employee at the U.S. bureau of Labor Statistics, reveals that small businesses (1-49 employees) account for nearly 30% of the overall employment by firms with fewer than 50 employees [3] (See Table 1). From this perspective, the prosperity of small businesses is fundamental to the development of national economies and a driving force

to efficiently utilize the labor force. Small businesses offers not only generate revenue, but also creates jobs. In an article published by U.S. Small Business Administration, “Small businesses have accounted for 65.1% of net new job creation since 2000” [4]. Small businesses function to secure the growth of economy by expanding the job markets. While United States and China are different in industrial structure in terms of methodology of production, the U.S. statistics shed light

on the importance of small businesses to China. In Lee and Xin’s paper, they used China’s data from national bureau of statistics and identified businesses with equal or less than 30 employees as small micro size business. However, these micro businesses cover 28.8 percent of the unemployment [5]. From this comparison, small business is an essential contributor of economic growth and employment for both China and the U.S..

Table 1. 2001 and 2017 Employment and firm Size Distribution from Oslund [3]

| Firm Size | 2001 | | 2017 | |
|---|--------------------|-----------------------------|--------------------|-----------------------------|
| | Average Employment | Percent of Total Employment | Average Employment | Percent of total employment |
| Small(1-49 employees) | 31563 | 29 | 33464 | 28 |
| Medium (50-499 employees) | 28227 | 26 | 30259 | 25 |
| Large(500+ employees) | 48866 | 45 | 56412 | 47 |
| All Establishments | 108656 | 100 | 120135 | 100 |
| Source: U.S. Bureau of Labor Statistics | | | | |

2.2. Entrepreneurship and Economic growth

Entrepreneurs are important forces that promote the development of economy. In Innovation, Entrepreneurship and Economic Growth by Miguel-Angel Galindo, entrepreneurs serves as the vehicles to introduce new technologies to improve firm’s activity and profit and in this way they make innovations realize economic growth [6]. As entrepreneurs attempt to bring an idea into reality, entrepreneurship itself possess the importance of job creation, market expansion, and profit generation. Entrepreneurs have the social and commercial power to revitalize economy through creating new social networks. Another Study by Migual-Angel Galindo-Martin also reveals that “the relationship between entrepreneurship and sustainable development is high” [7]. Therefore, entrepreneurship is a key to sustainable development and recovery from crisis of a country.

2.3. The role of Entrepreneurship During the Pandemic

The outbreak of the Covid-19 “has upended the U.S. labor market, with massive job losses and a spike in unemployment” [7]. This Economic Letter published on May 18, 2020, had shown the disastrous effect of the pandemic in undermining the national economy. The floating unemployed needs to find a solution to labor, and

the national productivity needs them. The distribution of these human capitals had become an important consideration for national economic policy. In Entrepreneurship during the pandemic by Virgil Henry Storr, the author highlighted the functions of entrepreneurs that fits perfectly into the easing the chaotic situation: entrepreneurs provides goods and needs to combat the pandemic, perform services that keeps people productive, and act as a source of community support [8]. The precious social and commercial power of the entrepreneurs during the pandemic is important for economic recovery. It follows that a legal regime which fosters the development of entrepreneurs is crucial to a resurgence of consumption and production. Policy involves the futuristic thinking and innovation aspects of entrepreneurship is a key to unveil opportunities which adjust the pandemic crisis into opportunities to achieve growth and regain competence [9]. To be more concrete, expansionary monetary policy and avoid credit restrictions good favour the blooming of entrepreneurs [10]. Policies that are conducive to the nourishment of entrepreneurs is more efficient: the national pressure of invigorating economy is distributed to the population of entrepreneurs. The entrepreneurs, acts as individual production factor, serves as blocks that eventually builds up the whole economy. The incentive for entrepreneur to create, execute and expand not only carries the well-being of himself, but also produces larger financial

returns. In other words, the entrepreneurs creates a chain effect stemming from themselves to their companies, and then to the local and national economy. Government promotes entrepreneurship is allowing more diversity and freedom in job creations. The burden of generating job opportunities is now alleviated by the efforts of entrepreneur. Thus, increase in entrepreneurs of small businesses sends out hopeful signal of the economy: a potential signal for economy recovery and reduction in unemployment.

3. THE CHALLENGES FACED BY SMALL BUSINESSES, ENTREPRENEURS DURING THE PANDEMIC

3.1. Pandemic's impacts on the small business

Even though the small businesses are essential components of the national economy, compared to large firms, small businesses are more fragile in terms of their cash flow and company structure. The in-person service industry and the retail industry faced a hard hit during the pandemic: in a survey "The impact of Covid-19 on small businesses outcomes and expectations", conducted by Alexander W. Bartick, revealed several key findings: in the sample relatively skewed to retail sectors, "43% of the businesses were temporarily closed and that employment had fallen by 40%" [11]. Small businesses with fewer than 20 people also are more likely to go bankruptcy, and firms between 19 and 66 employees have large employee reduction. When this is put into a larger background of the role which small businesses take in the national employment, the impact is far more catastrophic. This general background for entrepreneurs during the pandemic raises questions constantly centring on company's financial structure design, asset management, and mobility organizations. The mobility organizations tests the internal mobility - encouraging the workers to pursue growth for long term career goal and business priority – and external mobility – efficient response in reducing expenses from utilities, payrolls, or other unnecessary factors.

3.2. Barriers for Entrepreneurs

The entrepreneurial environment is not as negative as originally thought for the entrepreneurs even though the pandemic caused damaging effects on the markets [12]. However, this does not mean the barrier is removed for the entrepreneurs. The difficulty faced by an entrepreneur is unprecedented. The Covid-19 had created a new economy that is more volatile in nature [13]. There are three dimensions of capabilities that entrepreneurs need to survive in this capricious economy: "sensing, seizing, and transforming capabilities" [14]. Sensing capability emphasizes the entrepreneur's strategic ability to "identify and respond to the upcoming changes" [15]. An entrepreneur needs to be able to sense the direction of

future, anticipating and acting on such opportunities. The seizing focuses on the execution aspect of the dynamic capabilities in making business more innovative and a step to realize what he senses. These two together ensures the cornerstone of a successful business by identify a need and turn it into profits. However, the transforming capability seemed to be one of the most important capabilities that is regularly tested for business leaders. For the entrepreneurs whose company are close to retail and service industry affected by lock down and social distancing, they need to reinvent themselves to better adapt: the marketing used to be favourable are often non-effectual now [14]. The entrepreneurs needs to be able to improve and innovate themselves in order to dynamic enough to survive. In a larger picture, a true entrepreneur needs to be able to identify the problem, catch opportunity, while be humble in learning to ensure his or her ability to re-innovate.

3.3. Digitalization and Cutting-edge Technology

The dynamic capability of the entrepreneurs of small business is often associated with digitalization and usage of cutting-edge technology. Being digitalized and advanced, small business can survive with new marketing techniques. Cutting edge technology quickly turned from "nice to have" to "must have" for small business when the pandemic hits: the on-going health crisis forces remote operations and digitization of business [15]. The entrepreneur's transforming capability is crucial in leading companies to adopt these technology, using the new platform to survive. As the technology is more and more often used in the current world, pandemic, on the other side, accelerated the digitalization of the global economy. For small business, the pandemic made the date of adopting of digital technology and online collaboration arrive early [16]. The entrepreneurs need to understand and know how to implement these technology into their business raises new barriers of success.

4. CONCLUSION

The role of small businesses carries an important function of resolving the unemployment issue. As 30% of the Americans are hired by the small business, small businesses is the cornerstone of local and U.S. economy. Since the small business is also creating around 65% of the jobs after 2000, the well-being of small businesses is deeply associated with the prosperity of nation. Entrepreneurs who participate in small businesses has the capacity to be social and commercial influencers in responding the crisis and ensure productivity. The entrepreneurs of the small businesses are crucial for both economic growth and recovery. Policy makers need to promote entrepreneurship of the small business in generating energy in combating the health crisis. It is possible to then turn the health crisis into an opportunistic

field in which new or transformed business can flourish. As the influence of the Covid-19 pandemic is large and distinct compared to any other event in the past decade, the government's support on entrepreneurship is more important than ever since.

With or without the government support, the difficulty to survive remains a critical issue for the small business and entrepreneurs. As 43% of the companies are temporarily closed, and many are financially fragile, it is important for small businesses to consider the area in which they can improve or better adapt to survive in the volatile economy. The pandemic not only accelerates the need of digitalization of small businesses, also tests an entrepreneur's "sensing, seizing, and transforming" capabilities. In this new economy during the pandemic, integration of company and technology had become a necessary task on the current and future entrepreneurs.

AUTHORS' CONTRIBUTIONS

This paper is independently completed by Shuaitao Tan.

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