

THE IMPACT OF THE COVID-19 PANDEMIC ON ENTREPRENEURSHIP

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Abstract:

Entrepreneurship is globally accepted as a significant driver of socio-economic development. However, the Covid-19 pandemic affected entrepreneurial activity in each country of the world, and the restrictions imposed by the governments caused strong disruptions for entrepreneurs. The purpose of this paper is to investigate the impact of the Covid-19 pandemic on entrepreneurship. The research methodology included qualitative and quantitative analysis. In addition, macroeconomic indicators issued by the Global Entrepreneurship Monitor related to entrepreneurial activity and business ownership have been used. The results show that the Covid-19 pandemic had a significant impact on entrepreneurship. The crisis affected the activities of SMEs and policymakers attempted to introduce resilience actions to support the entrepreneurial system. The most impacted industries during the Coronavirus pandemic were tourism, airlines, and the automotive field. However, industries related to health, technology, pharmaceutical, and science were the least impacted by the Coronavirus pandemic. Changes caused by the health crisis could also change the current labour market and the management infrastructure of existing companies. Policymakers should create opportunities for existing and future entrepreneurs through new policies related to remote work, reskilling of the workforce, and investments in innovative technologies.

Key words: Covid-19 pandemic, entrepreneurship, entrepreneurial activity, digital transformation.

JEL classification: I18, L26, L53, O33

1. INTRODUCTION

The economic growth of all countries in the world was slowed down by the outbreak of the Covid-19 pandemic in 2019. Moreover, a huge number of companies from specific sectors of the economy experienced major issues in continuing activities during the health crisis and were forced to reinvent their strategies to survive in the market. The tourism, airline, and arts industries were among the most affected by the health crisis. On the other hand, the ICT industry and the delivery of services were the least affected by the pandemic.

The Covid-19 crisis had a negative impact on entrepreneurial activity and the creation of new businesses. The entrepreneurs experienced a period of inactivity, reduced revenues, and negative cash flow. Additionally, most economies around the world have recorded a decrease in the number of new businesses created. Currently, entrepreneurial activity is strongly influenced by the financial crisis that followed the war in Ukraine.

The introduction of Covid-19 restrictions on international markets accelerated the adoption of digital technologies within small and medium companies. Digitalization of businesses became an efficient method to survive in the market during the crisis and to continue the activities. Today, the creation of new businesses has moved digital technologies to the point of becoming a business priority.

Another challenge arising from the outbreak of the Coronavirus pandemic is the way of working. A large number of workers currently prefer to work in a hybrid system. Moreover, the health crisis accelerated the development of the Fourth Industrial Revolution which demands the creation of a huge number of new jobs in areas characterized by big data, green professions, or innovative engineering.

Governments around the globe tried to overcome the negative effects of the Coronavirus pandemic through initiatives and actions designed for the short and medium-term. Currently,

companies need long-term policies that could overcome the future crisis. However, the challenges created by the Coronavirus pandemic may lead in the future to new types of businesses and jobs.

The main aim of this paper is to investigate the impact of the Covid-19 pandemic on entrepreneurship since the effects of the restrictions have caused major transformations in the business market. This research is based on an in-depth analysis of entrepreneurial activity, new business creation, and the adoption of digital technologies during the health crisis. The importance of studying the effects of the Covid-19 crisis on Entrepreneurship derives from the need to map the challenges and opportunities that companies and workers experience nowadays since the global economy is constantly evolving.

2. RESEARCH METHODOLOGY

The research methodology is focused on the examination of significant theoretical background related to entrepreneurship, the status of entrepreneurship during the Covid-19 pandemic, and the investigation of the impact of the health crisis on entrepreneurial activity. Moreover, the paper introduces discussions related to current changes that companies have to confront in the post-Covid-19 scenario. The study used statistical evidence on entrepreneurship provided by Global Entrepreneurship Monitor (GEM), Statista, the World Bank, UNCTAD, and United Nations.

3. RESULTS AND DISCUSSIONS

Entrepreneurship was strongly influenced by the outbreak of the Coronavirus pandemic: affected economic growth and worldwide GDP influenced entrepreneurial activity and the creation of new businesses and promoted the implementation of digital technologies and innovation. In addition to the negative effects of the health crisis, opportunities emerged for potential entrepreneurs and workers. People and companies can benefit from new digital technologies to reinvent their job status and design business opportunities. The following subchapters will present and examine the challenges created by the Covid-19 pandemic to entrepreneurship.



Figure no. 1. The main effects of the Covid-19 pandemic on Entrepreneurship

Source: Own elaboration

3.1. TRENDS IN ECONOMIC GROWTH AND GROSS DOMESTIC PRODUCT (GDP)

Economic growth, which is usually measured by GDP increase, was slowed by the outbreak of the Covid-19 pandemic. The importance of ensuring stability in international markets became a major target for governments around the world during the health crisis. Analyzing the evolution of GDP in the world (annual percentage growth), it can be observed that 2009 and 2019 are the years

when this indicator registered the lowest level from the period 1961-to 2020. The Financial Crisis of 2007-2009 has caused a considerable decrease in GDP starting with 2007 and continuing until 2009 (UNCTAD, 2010; Moore & Mirzaei, 2014). The business environment from that time has experienced very difficult times, as companies did not implement restructuring measures at the right time. As the crisis became global, many companies disappeared from the market due to a decline in international trade and a large number of people who lost their jobs. Similarly, the outbreak of the Covid-19 pandemic in 2019 has caused the most severe decrease in worldwide GDP from the 1961 to 2020 period. Furthermore, Figure 2 shows a huge drop in GDP in 2019 in the following countries and economies: European Union, the United States, Japan, China, India, and OECD countries. Each country and economy in the world tried to become more and more resilient during the health crisis and regain their economic status. According to Maliszewska et al. (2020), the health crisis has directly affected entrepreneurs around the world due to an increase in trade costs and labour reduction. Supply chain disruptions created huge problems for companies active in the manufacturing industries. Furthermore, as a consequence of the Covid-19 lockdowns, people have spent less money on consumption goods (United Nations, 2020).

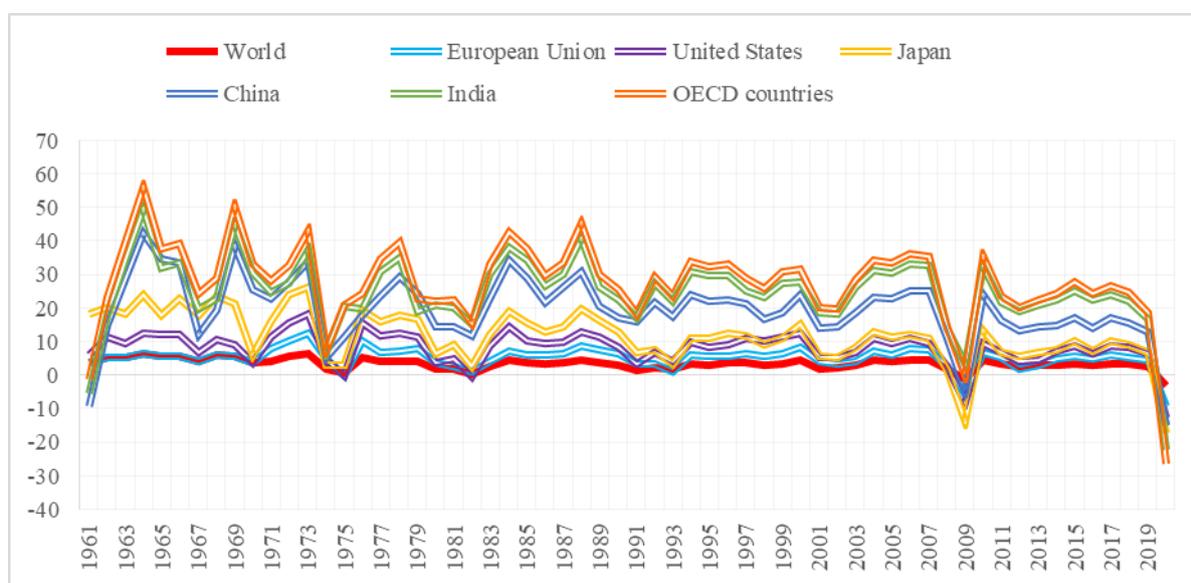


Figure no. 2. Evolution of GDP in the World and other countries and economies (annual percentage growth rate, 1961-2020)

Source: elaboration using data from World Bank (2022)

3.2. TRENDS IN ENTREPRENEURSHIP ACTIVITY

The total early-stage entrepreneurial activity indicator (TEA) indicates the part of the population that is a nascent entrepreneur or owner of a business and is calculated as a percentage of the 18-64 population of a country (Global Entrepreneurship Monitor, 2022). The indicator is part of the Adult Population Survey (APS), which is performed annually by the Global Entrepreneurship Monitor. According to Global Entrepreneurship Monitor (2022), the total early-stage entrepreneurial activity rate in the world decreased during the Covid-19 pandemic. Figure 3 shows that countries in Africa, South America, Asia, and North America registered high rates of total early-stage entrepreneurial activity (TEA) in 2020 compared to countries on other continents. European countries reported low rates of total early-stage entrepreneurial activity, and Norway was the country with the highest rate of people who are nascent entrepreneurs or business owners.

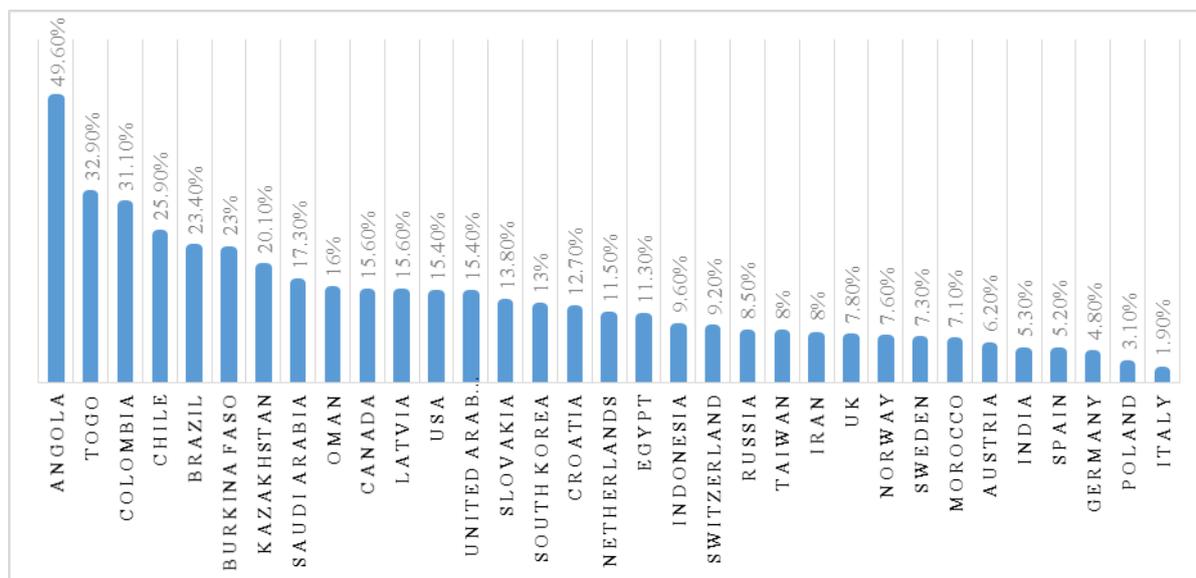


Figure no. 3. Total early-stage Entrepreneurial Activity (TEA), % of 18-64 population for 13 economies participating in the GEM Adult Population Survey

Source: Own elaboration using data from World Bank (2022a)

In this period, governments must strengthen the business environment because the Covid-19 pandemic caused multiple disruptions to a large number of companies. Moreover, governments have to support the creation of new businesses in economic areas where the impact of the pandemic was stronger: the tourism industry, aviation industry, consumer industry, hospitality, and entertainment. Generally, the decision to start a new business is strongly influenced by social, economic, and political issues encountered in all countries of the world. The outbreak of the Covid-19 pandemic created challenges and opportunities for companies and influenced the decision to start a new business, particularly in the economic sectors that were heavily hit by the pandemic. Now, many entrepreneurs explore the role of digital transformation in the development of business processes.

World Bank's results of the Entrepreneurship Database (World Bank, 2022b) show that approximately 58% of companies (limited liability companies) saw a decrease in 2020 due to the Coronavirus pandemic. Distance restrictions and lockdowns during this period have influenced the creation of new companies and affected the revenues of existing ones. Furthermore, between 2009 and 2020, the number of companies (limited liability companies) registered the highest decrease from the period 2006 to 2020. OECD countries reported the highest number of newly created companies, followed by Europe and Central Asia, Latin America, and the Caribbean. South Asia and Sub-Saharan Africa reported the lowest level of entrepreneurship creation. Therefore, the global crisis influenced the activities of the existing companies and the number of newly created companies. Digital technologies became imperative for continuing activities during the Coronavirus pandemic and also became an important tool for future developments.

The health crisis affected industries where physical interaction was present. Figure 4 shows the main economic sectors that were affected by the Coronavirus pandemic. Companies active in these sectors reported periods of inactivity, granting leave, and low income.

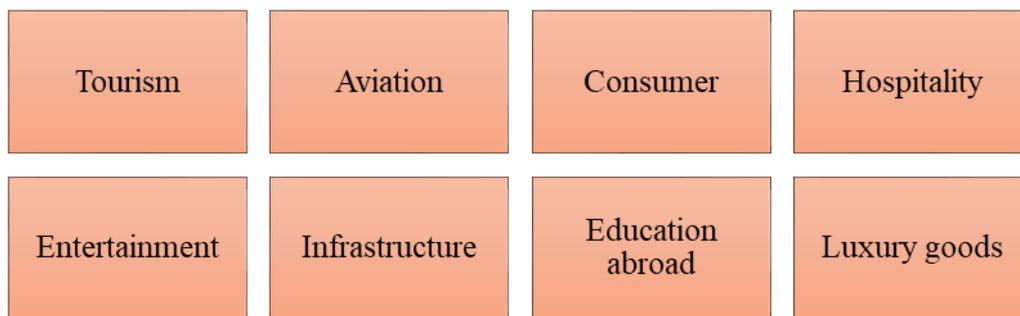


Figure no. 4. Economic sectors affected by the Covid-19 pandemic

Source: Own elaboration

Tourism was the most affected industry during the Covid-19 pandemic. Companies active in this field reported high revenue losses, and many of them were forced to leave the market and fire workers. The economy of many countries is dependent on the tourism sector. In 2020, the contribution of the tourism sector to GDP decreased due to distance restrictions and lockdowns (Table 1). The vaccination campaign encouraged recovery in this sector, but many people were reluctant to take a vacation or travel for reasons of infection. During that period, a state of fear because everything was new, laws were rough, and the fines were severe. After the health crisis stabilized, people have chosen to travel in smaller numbers and look for safer accommodation, particularly in rural areas.

Table no. 1. Economic effects of the Covid-19 pandemic on the Tourism sector

Year	Covid-19 influence on the Tourism sector
2019	The tourism sector contributed 10.3% of global GDP
2020	The tourism sector’s contribution to GDP decreased to 5.3% 62 million jobs disappeared from the tourism market
2021	The tourism sector’s contribution to GDP increased to 6.1% 18.2 million jobs were recovered

Source: Own elaboration

3.3. TRENDS IN DIGITAL TRANSFORMATION OF BUSINESSES

Today, countries and economies around the world must go through a process of transition toward digitalization because digital technologies will increase the economic growth and the welfare of populations and will help companies to become more innovative and resilient to crisis. According to the IMD World Digital Competitiveness Ranking 2021 performed by IMD (2021), the USA is the most competitive economy in the world in terms of digital technologies in both 2020 and 2021. In 2021, five European countries ranked high in this ranking, four of them being part of the Scandinavia Peninsula (Table 2). This rank included aspects related to business agility and social adaptability to digitalization. Digital transformation is imperative today, and governments, companies, and society must explore digital technologies as new development opportunities.

Table no. 2. World Digital Competitiveness Ranking in 2020 and 2021

Top 10 in 2020		Top 10 in 2021	
USA		USA	
Singapore		Hong Kong	
Denmark		Sweden	
Sweden		Denmark	
Hong Kong		Singapore	
Switzerland		Switzerland	

 Netherlands	 Netherlands
 Korea Republic	 Taiwan
 Norway	 Norway
 Finland	 United Arab Emirates

Source: Own elaboration based on IMD data (2021)

Importantly, Statista (2022) shows that approximately 97% of companies interviewed in a study have answered that the Coronavirus crisis increased the implementation of digital technologies in their processes and activities. Remote work was one of the main accelerators that increased the use of digitalization.

Covid-19 brought multiple changes to entrepreneurs and companies. The lockdowns and restrictions on distance imposed during the health crisis forced worldwide companies to identify new ways of producing and selling products and services. A significant challenge that people and companies had to face during the Coronavirus pandemic was the adoption of digital technologies and digital skills. This crisis has increased the number of companies that integrated their products and services online. The evidence shown by Statista (2022) highlights that the recent pandemic has increased digital transformation in businesses and, in addition, digital transformation spending in the world. Figure 5 shows a clear trend to increase digital transformation spending in businesses by 2025, which means that companies have embraced the idea of turning their business activities from non-digital to digital. Today, all companies must implement digitalization strategies, and IT companies must stimulate and inform the business environment about the actual importance of technological solutions to their processes and services.

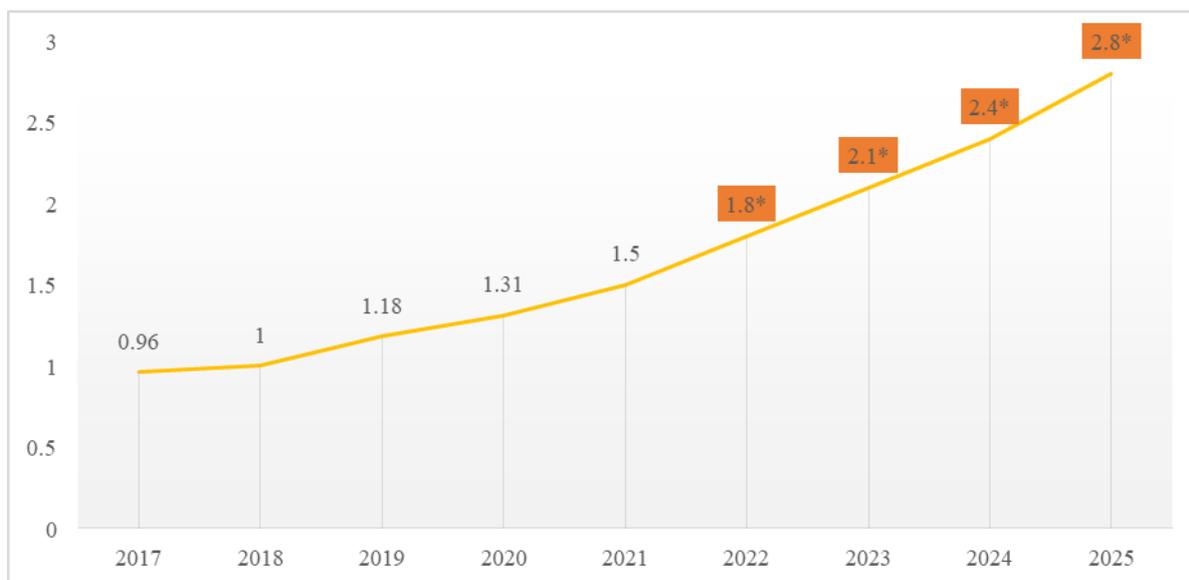


Figure no. 5. Digital transformation spending worldwide during the period 2017-2025

Source: Own elaboration using data from Statista (2022)

Generally, small and medium companies report low levels of investments in digital technologies, and the health crisis highlighted the need to further address this problem. Consequently, governments must support these types of companies in adopting digitalization as a way to become resilient and competitive during difficult times. The consequences of Covid-19 force new entrepreneurs to include digital technologies and digital skills in their business strategies to penetrate new international markets faster and become competitive.

The Covid-19 pandemic increased the number of individuals who use the Internet due to restrictions on distance and lockdowns. The percentage of the worldwide population using the Internet increased in 2020 by 11% compared to 2019 and by 22% compared to 2018 (Figure 6). As highlighted in Figure 6, China, India, and Japan reported a reduced number of people using the

Internet, compared to the other countries and economies analysed. However, the number of people using the Internet in these countries has increased considerably over the years, particularly in 2020, after the crisis.

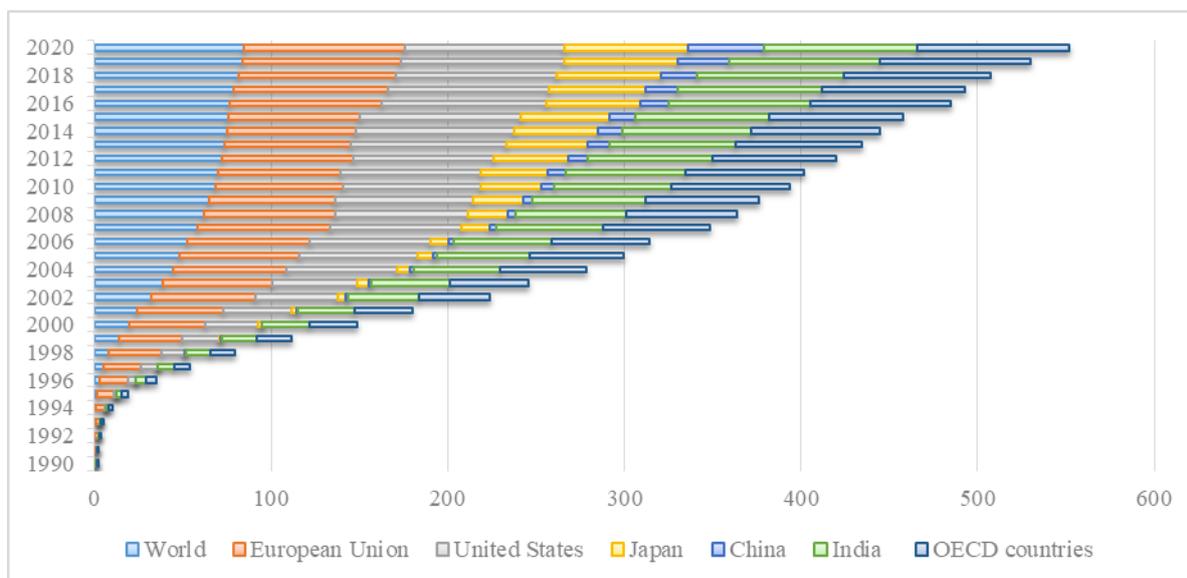


Figure no. 6. Trends in individuals using the Internet as a percentage of the total population (1990-2020)

Source: Own elaboration using data from World Bank (2022c)

4. CONCLUSIONS

The role of entrepreneurship within an economy is crucial because it drives economic growth and increases welfare. During the Covid-19 pandemic, entrepreneurship suffered multiple changes: economic growth and GDP decreased, companies became digitalized, and the workforce worked from home or became inactive for a long period.

The recent Covid-19 pandemic strongly influenced entrepreneurship, entrepreneurial activities, and business creation. The results of the study show that digital transformation and digital technologies supported existing companies to continue their activities during the health crisis. Moreover, potential entrepreneurs nowadays consider digitalization as a key element to penetrating new international markets and becoming more competitive.

The results emphasize that the level of investments in digital technologies will increase in the future as a result of the health crisis. Coronavirus accelerated cooperation between companies and encouraged innovation. Today, companies are trying to identify new solutions for their business processes and for selling online. In addition, workers chose to adopt a hybrid way of working.

Future research should consider the potential effects of digitalization on running a business in the future and the importance of digital skills for future jobs.

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