

RESEARCH ARTICLE

COVID-19: Small and medium enterprises challenges and responses with creativity, innovation, and entrepreneurship

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Abstract

SMEs are significantly affected by COVID-19 crisis as they overrepresent hardest-hit sectors such as retail, hospitality, food services, entertainment services, and construction. The discovery and the spread of COVID-19 in the absence of cure have led governments to take drastic measures, including the lockdown of large parts of society and social distancing resulting in behavioral changes. Some SMEs are responding to the crisis by applying creativity to problems to obtain opportunities. However, it is because of resilience that they can see an opportunity in chaos and survive uncertain times, but, to convert those opportunities to reality, some government interventions are needed to correct the negative effects of lockdown restrictions by revitalizing the entrepreneurial ecosystem.

KEYWORDS

businesses, COVID-19, creativity, entrepreneurship, entrepreneurial ecosystem, innovation, resilience, SMEs

JEL CLASSIFICATION

L31; M14

1 | INTRODUCTION

COVID-19 is a pandemic that has caused much chaos around the world. To control the spread of the virus in the absence of adequate remedy/cure, various countries worldwide went into partial or complete lockdown. Since all the economy elements are intricately interrelated with public health measures, this resulted in economic instabilities, which hinted toward a change in market dynamics (Mehta, Saxena, & Purohit, 2020). With the pandemic and economic instability, consumers are also demonstrating a significant change in their behavior. Given consumers' price sensitivity, the value remains the prime reason to try different/new brands. Apart from value, availability, convenience, and desire to support local businesses are often cited as "top-drivers" behind consumers' purchasing decisions (McKinsey & Company, 2020). It has caused cultural and lifestyle changes because of which businesses are facing challenges. Therefore, increasing attention is being paid to how entrepreneurs respond to their creativity and innovation (Ratten, 2020a).

Compared to large businesses, SMEs have been hardest hit by the COVID-19, as sectors like retail, hospitality, food services, entertainment services, and construction activities are overrepresented by SMEs (Albaz, Mansour, Rida, & Schubert, 2020). Whether running a small business in the hospitality sector or operating a small accounting firm putting the right processes or technology is a big financial imposition. Coupled with reduced consumer demand, it is no surprise that many SMEs are experiencing challenging times (Mizen, 2020). To respond to the challenges and take advantage of the opportunities, entrepreneurs need to be more resilient. Resilience is an important concept in entrepreneurial crisis management as it aids in understanding how businesses adapt or resist change. Resilience incorporates a sense of creative and innovative ability to pivot and change business activity as per the orientation of the market's customers and needs by "applying creativity to problems to obtain opportunities" (Ratten, 2020c p.10). However, the resilience of the SMEs also depends on the resilience of their ecosystems. Therefore, government support or public policy also plays a crucial role in encouraging small businesses'

resilience and creating a more inclusive and sustainable growth (International Trade Centre, 2020).

2 | CORONAVIRUS AND ITS IMPACT

The Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2) caused the coronavirus disease 2019 (COVID-19) with the first symptoms officially reported in December 2019 and the subsequent outbreak in 2020. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. On March 27, 2020, the IMF stated that “the world is now in recession” and that the “length and depth of this recession depend on two things containing the virus, and having an effective, coordinated response to the crisis” (UNDP Regional Bureau for Asia and the Pacific, 2020). It has caused significant behavioral changes in the way individuals interact and behave in society as the virus is inflicting rising human costs worldwide. In the absence of a cure, social distancing, self-isolation became the norm or the “new normal”, to curtail the spread of the virus and reduce its impact (Ratten, 2020b).

The pandemic has disrupted many businesses around the world due to complete or partial lockdown and social distancing measures, which are essential measures to curtail the spread of the virus. Due to these measures, specific sectors/businesses that rely on social interaction like the sports industry, travel, tourism, hospitality, and manufacturing industries have experienced profound effects. Workplace closures affected the supply chain and led to reduced production. Income decline, layoffs, fear of contagion are some of the reasons which have led to reduced customer spending, which is further causing job losses and business closures (International Monetary Fund, 2020).

The lockdown that followed the outbreak of COVID-19 brought the manufacturing units to a standstill. The virus originated in China, home to most factories that supply finished products to various countries. The United Nations Conference on Trade and Development (UNCTAD) has estimated that the outbreak of COVID-19 could cause global Foreign Direct Investment (FDI) to decrease from 5 to 15% due to factory shutdowns and reduced production (UNCTAD, 2020). Some SMEs rely on suppliers from countries with fairly more COVID-19 cases making their supply chain vulnerable. However, in the second quarter of 2020, when products started moving from China, other factors like air and ocean freight crunch due to lack of flights and container imbalance and freight rates started affecting the supply chain of SMEs (OECD, 2020). International Trade Centre acting Executive Director, Dorothy Tembo claimed: “The COVID-19 pandemic has been both a health and an economic crisis and has presented several challenges for SMEs and global supply chains” (International Trade Centre, 2020).

There has been a total shut down of competitive sport and the postponement of mega-events of mass gatherings like Olympics games and European Football Championship, due to serious human health implications because of COVID-19 (Evans et al., 2020). Delays in sporting events affect the sports industry and industries indirectly related to it, such as sports analytics, hospitality, and the tourism industry. Tourism associated with mega-events brings in considerable revenue to the host country. The effect of COVID-19 on the travel

and tourism industry has been profound. The industry accounts for approximately 10% of the global GDP. It is expected that even after the outbreak is over the industry is going to take a year to recover as overseas travel will remain restricted in significant parts around the world. According to the World Travel and Tourism Council, the 3 months of the global travel ban have led to a 12–14% corresponding job reduction (GlobeNewswire, 2020). SMEs are a significant part of travel and tourism industry, hospitality, food services as these industries include small tour operators, car rental companies, restaurant, accommodations (hotels and motels) (Rhodri, 2000). For example, in the OECD, 60–70% of SMEs do business in these sectors, making SMEs more affected by the crisis (Albaz et al., 2020).

The crisis is an unexpected event, and the key is to act quickly to implement responses. Firms or businesses diverged in their responses, while some opted for a retreat strategy like a distress sale of assets, taking new debts, laying off employees, which in the long run can undermine the competitiveness of the company. Others acted in a more resilient manner, which includes taking into account the new needs of the customers, moving to online channels for sales, in case of supply chain disruption, sourcing from new suppliers. Resilient and agile approaches are pro-competitive approaches and ensure that a business can weather the storm in as good shape as before or even stronger (International Trade Centre, 2020). With individual business owners' efforts, government policy support system is also needed to help the businesses survive the crisis and prepare the enterprises to ramp up the businesses once the crisis subsides (Hidayat, Latief, Nianty, Bahasoan, & Widiawati, 2020).

3 | RESPONDING TO COVID-19: CREATIVITY, INNOVATION, AND ENTREPRENEURSHIP

A crisis is a situation that does not occur often and is characterized by a high uncertainty level. Since COVID-19 is an ongoing crisis, and in the absence of a cure, it has caused significant behavioral changes which in turn poses severe challenges to the survival of the business, and therefore, more attention is being paid to how entrepreneurs respond to those challenges with their creativity and innovation (Ratten, 2020a).

Entrepreneurs are often considered those who with their creative ability can fix the problems or somebody who will assist society in bouncing back or providing benefits to society; however, they can also be under pressure to overcome the challenges deliver solutions. Entrepreneurship involves assessing opportunities and coming up with innovative ideas. A certain level of creativity is required to facilitate different ways of thinking, which allow new ideas to emerge (Ratten, 2020b). Fillis and Rentschler (2010: p. 49) defined creativity as “the construction of ideas or products, which are new and potentially useful.” Furthermore, creativity is seen as a crucial element in problem-solving. Thus, creative leadership or creativity is considered more important than “conventional managerial methods” in the pursuit of dealing “with these non-linear and often unpredictable environmental conditions” (Fillis & Rentschler, 2010: p. 65).

Fillis and Rentschler (2010: p. 66) have also pointed out that creative orientation leads to innovation, the “commercial tangibilisation of creativity.” Creativity is coming up with novel/new ideas, whereas innovation implements creative ideas in an organization. Innovation is viewed as a driver of competitiveness, economic growth, and progress. To overcome the crisis and sustain the business in the long run, businesses need to innovate, that is, “applying creativity to problems to obtain opportunities” (Ratten, 2020c p.10). Innovation is a complex process, especially for small and medium enterprises, as they encounter obstacles when implementing creative ideas. Their main barriers to innovation are limited or lack of adequate financial capital, limited management-level skill or qualification, limited technological information and know-how necessary to innovation (Ferreira, Raposo, & Fernandes, 2014). Especially during this crisis, the government-imposed closure of non-essential businesses, SMEs have taken a severe hit with many ceasing to function due to mounting rent and depleting cash reserves, thus making them financially fragile (Petropoulos, 2020). The vulnerability and the challenges faced by small businesses depend on changed consumer behavior and government-imposed health regulations. However, adapting change's dynamism and complexity in different organizations as COVID-19 disruptions did not equally affect all businesses (Bartik et al., 2020). Some closed, some pivoted, some downsized. Entrepreneurial action is needed to help overcome the crisis. Like a Vietnamese restaurant owner, Ann Do, in Melbourne, Australia, pivoted on her business from selling food to selling face masks not just about making up for her financial losses during the lockdown, but also a way to give back to her community (Fang, Renaldi, & Lange, 2020).

Research Proposition 1. *To overcome the current COVID-19 crisis and sustain the business in the long run, entrepreneurial action is required, businesses need to innovate and apply creativity to turn challenges into opportunities.*

In the wake of COVID-19, businesses are still navigating through the crisis in their unique way. By working toward the “new-normal,” the important question is whether they can maintain their entrepreneurial orientation throughout the length of the crisis?

The capability to respond to change depends on the entrepreneur's resilience and government health economic policy response measures. While crisis management on the micro-level is the entrepreneurs' job, policymakers support entrepreneurs through various monetary and fiscal policies to overcome the crisis. Policymakers conduct crisis management at the macro-level to strengthen the businesses' resilience and boost their actions to manage the crisis. Crisis management is crucial as unfortunate events will happen in most organizations. Solutions are required to take control of the situation to either keep them from reoccurring or mitigate the crisis's impact. Crisis management fosters resilience (Kuckertz et al., 2020).

Research Proposition 2. *Crisis management is required both at the micro and the macro-level to overcome the current crisis.*

4 | RESILIENCE

Resilience is an essential concept in entrepreneurial crisis management as it aids in understanding how businesses adapt or resist change and are, therefore, gaining much attention from academics and policymakers. The heightened focus on resilience is primarily because of the challenges posed by the health crisis. Resilience is the ability to overcome obstacles in an uncertain situation. In a business context, resilience is the capacity of an entrepreneur to survive, adapt, and grow during turbulent times (Kuckertz et al., 2020). Resilience enables them to navigate during a crisis and get the best out of the situation. Resilience is a multi-dimensional construct. It is an amalgamation of various favorable personal attributes, traits, and behavior (Ayala & Manzano, 2014).

Some of the literature on entrepreneurship has identified social or individual characteristics associated with the entrepreneur, such as the desire for autonomy, wealth, power, status, and personal achievement. However, it has been pointed by Peris-Ortiz et al. (2014: p. 2) that the main “individual characteristics that place entrepreneurial behaviour within the entrepreneurship function are related to the entrepreneur's natural tendency to be open to the environment and external challenges, willingness to take risks, cognitive abilities, and creativity.” These traits enhance an entrepreneur's ability to identify and discover opportunities as a fundamental aspect of entrepreneurship. Entrepreneurial action is comprised of a powerful mindset that can assist society to bounce back. The ability to respond to the crisis means that entrepreneurship has both short-term and long-term ramifications for the local economy, including the creation of employment, wealth, competition, and growth (Williams & Vorley, 2014).

Resilience incorporates a sense of creative and innovative ability to pivot and change business activity as per the orientation of the customers and market need. Businesses are responding to the economic fallout caused by COVID-19 in various ways. As Ratten (2020b) pointed out, to deal with the crisis, entrepreneurial orientation is needed to overcome the challenges posed by COVID-19. Entrepreneurial orientation refers to firm-level behavioral characteristics of engaging in product-market innovation, promoting innovative behavior within the firm, undertaking somewhat risky ventures, and being the first to come up with proactive innovations' (Wang & Altinay, 2012). Because of resilience, one can see an opportunity in chaos and survive uncertain times and convert those opportunities to reality some interventions are needed to revitalize the entrepreneurial ecosystem. The ecosystem is a meaningful collaboration of systems. The term “system” connotes a group of institutions whose interactions determine national firms' innovative performance (Sussan & Acs, 2017). Systems theory suggests that a system's ability to survive under duress depends mainly on its constituent parts (International Trade Centre, 2020). Therefore, a systems approach based on resilience is needed to prepare socio-economic systems for future shocks. SMEs are an integral part of this system, as today's economies are made up of thousands of them, which are vital for the economy and growth of the nation as employers, as generators of value. Making businesses more resilient to shocks, while strengthening the links

between them and with their business ecosystem, will help the overall economy withstand the next storm (International Trade Centre, 2020).

The “new normal” focus is on further enhancing the SMEs' resilience, for example, having more than one supplier. In case of disruption from one supplier, production can continue by sourcing from another supplier. Saving profits can help provide a buffer for difficult periods. The crisis has also showcased what real disruption can be and has brought to the forefront the gaps in operations and technology investments. Businesses are now beginning to think more strategically about uplifting their digital capabilities as an imperative rather than nice to have. Resilient SMEs are considering including online sales options and including Cloud as the preferred choice to provide a secure platform, accessible anywhere, anytime, and remove the dependency on physical data centers. Since the current crisis is a humanitarian crisis, the focus should also be on keeping the employees' spirit or team members high. Employee retention and motivation are integral to the rebuilding strategy. Research has highlighted that it takes at least 3–4 months for a new employee to achieve the same productivity as an existing one. Furthermore, involving the team members in mapping out the plan will keep them engaged, motivated, and gives them a sense of ownership in their roles and responsibilities (KPMG, 2020).

The challenge is that implementing resilient practices in a business is costly and often creates a demand on limited resources that are further compounded by the business's size and the crisis they are facing (Sausser, Baldwin, Pourreza, Randall, & Nowicki, 2017). The resilience of SMEs also depends on the resilience of their ecosystems, which has a crucial role in the continuity of market activities and growth in communities. Therefore, government support or public policy can play a role in encouraging or boosting small businesses' resilience and creating a more inclusive and sustainable growth (International Trade Centre, 2020).

Research Proposition 3. *Greater resilience levels among SMEs will lead to better performance in the COVID-19 pandemic.*

5 | ENTREPRENEURIAL ECOSYSTEM

Most small businesses rely on weekly projections in order to maintain their market share and relevancy. Because of the crisis, most businesses are financially vulnerable, more than ever, systematic initiatives and government interventions are needed to revitalize the entrepreneurial ecosystem (Maritz, Perenyi, Waal, & Buck, 2020). Traditionally, the tendency was to focus on individual entrepreneurs and organizations rather than consider their contextual environment. However, as we live in an interconnected world, various entities are required to be able to function effectively and sustainably (Ratten, 2020a).

Spigel's (2017) study referred to the ecosystem as a supportive environment, which helps create resilient economies and innovative ventures. It includes active economic policies, investment capital, culture, social networks, and universities. Zaki (2001) and Arpac et al.

(2008) have studied the effectiveness of policies and successful execution to restore the business environment. Ongoing interventions are needed to give small businesses immediate relief and build long-term resilience. According to a survey, the business founders and start-up's executives, the top four policy responses for the businesses would be “#1 Grants to preserve company liquidity (29 per cent); #2 Instruments to boost investment (18 per cent); #3 Support to protect employees, like payroll supplementation (17 per cent); and #4 Loans to preserve company liquidity (12 per cent)” (Gauthier & Morelix, 2020).

Moreover, the International Trade Centre's (2020) COVID-19 business survey also highlighted that most companies' favored tax waivers, temporary tax relief, and financial programs as the most helpful government measures. Governments recognize that SMEs will be a vital engine for the post-crisis economic recovery. Many of them have already taken steps by announcing various stimulus packages and programs in response to the pandemic. The preferred government policy stimulates economic growth (Lux, Macau, & Brown, 2020).

There is a need to promote and nurture entrepreneurial culture and knowledge, especially in this time of distress, as it can lay a strong foundation for the future. Universities, science parks, and incubators, all play a crucial role in providing a supportive infrastructure (Shwetzter, Maritz, & Nguyen, 2019). It is essential that incubation hubs, innovation centers. Work together with the entrepreneurial communities to create innovative solutions/products to suit the customers' needs. The hubs themselves have to be creative in reaching out to entrepreneurs. Hubs should run virtual programs for SMEs in various locations at the same time. Likewise, SNV Netherlands Development Organization, together with MDF West Africa, the Ghana Innovation Hub, i-Code Ghana, and Kumasi Hive, under the European Union-funded Boosting Green Employment and Enterprise Opportunities in Ghana (GrEEen) project, is running an online incubation service to assess how entrepreneurs in Ghana can be supported during the pandemic. The online incubation program coached and mentored the participants to build eco-inclusive business models. Programs like these can provide social networking and engagement opportunities that are great for collaborations and developing innovative solutions and motivate entrepreneurs through the challenging journey of entrepreneurship (SNV, 2020). However, to continue running more entrepreneurship support programs continued, government financial support is needed. Such platforms' role is critical for continued innovation, as innovation does not occur in a vacuum. It requires openness and interactions.

The short-term measures of the governments have succeeded in relieving the pressure on entrepreneurs to some degree. During the pandemic, helping SMEs was crucial to get the maximum possible result from the existing efforts. However, it remains to address the long-term objective of promoting sustainable growth and an equitable business environment by setting up SMEs for a robust and enduring recovery in the long run.

Research Proposition 4. *Government interventions are needed to revitalize the entrepreneurial ecosystem.*

6 | LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

The narrative showcases that entrepreneurship is not a one-shoe-fits-all approach but rather an iterative and integrative process dependent on entrepreneurs' characteristics, resilience, and external enablers. The present article includes four research propositions that need to be tested through empirical work by taking a comparative or a cross-sectional study between countries and the impact of specific policy responses on SMEs' resilience and entrepreneurial capability. Detailed case studies are needed to see how SME entrepreneurs are navigating through the crisis, and government policy in various countries as the vulnerability and the challenges faced by small businesses are different. The current empirical work on COVID-19 and entrepreneurship is exploratory regarding the long-term repercussions of the crisis given that the government policy measures are still unknown. The article has some limitations because of its conceptual nature and vastness of the research topic with COVID-19 still ongoing. Recently, a new variant of COVID-19 was detected, which is driving increased transmission of the disease. The evolution of this impact in business, especially in SMEs, is yet to be seen and studied.

7 | CONCLUSION

The COVID-19 crisis has caused behavioral changes, which affect entrepreneurship, and particularly SMEs. SMEs are navigating through the crisis through their creativity and innovation. Their capability to respond to these changes depends on the entrepreneur's resilience to continue with creative and innovative ideas and government growth-oriented economic policy.

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How to cite this article: Thukral E. COVID-19: Small and medium enterprises challenges and responses with creativity, innovation, and entrepreneurship. *Strategic Change*. 2021;30: 153–158. <https://doi.org/10.1002/jsc.2399>