The Probable Effects of COVID-19 on Entrepreneurial Trends and SMEs in the Tourism and Hospitality Industry

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Abstract

Almost all sectors have come to a standstill with the emergence of the COVID-19 crisis. Tourism is one of these sectors. It is clear that the health crisis in question has limited the production of supply sources of the industry at least as much as the flow of international tourists. Reactivating become difficult day by day for small and medium-sized enterprises (SMEs) that do not have an enough financial saving / support, and unemployment is increasing in most countries. Although the situation is so serious from the supply perspective, the effects of COVID-19 are generally examined in terms of demand, and what challenges enterprises face are largely neglected. In order to fill this gap, this article aims to discuss the effects of COVID-19 on tourism SMEs and healing power of entrepreneurship. In this context, the existing literature has been reviewed thoroughly, including prior studies on crisis management in SMEs.
INTRODUCTION

Any sort of crisis to occur around the world may generate unexpected yet evenly devastating impacts on the commercial markets including tourism and hospitality (Davahli et al., 2020). The decrease in financing resources such as credit, the reduction in aids provided and the setbacks in generating income despite of the increasingly growing costs will bring negative consequences for the real economy (Cowling et al., 2020). Since particularly small-scale enterprises are likely to experience difficulties in creating liquidity in the short term, they may become dependent on external financiers to survive turbulent times (Cowling et al., 2020; Gourinchas et al., 2020). Taking into consideration the fact that young micro, small and medium-scale enterprises are established with limited capital, it should be kept in mind that they may not have resources to convert into quick cash in case of a turbulent period and that this constraint would cause loss of credibility in the eye of external financiers (Brown et al., 2020). In this respect, it is inescapable to experience economic recession as a consequence of crises that hamper or restrict product and service production. Furthermore, it is an expected scene for enterprises where profitability rate decreases, or, which becomes completely incapable of running the enterprise to observe an increase in the lay-off rate and sacrifice quality in order to reduce costs (Thorgren & Williams, 2020). The likelihood of encountering new disturbances as a result of successive news of bankruptcy comes to the fore as one of the facts that can be faced at macro level.

COVID-19 is the most significant global crisis experienced in the current period. So much so that we are confronted with a pandemic in which all individuals, schools, enterprises and even governments around the world take emergency measures and the daily life routines are designed from scratch. Information is circulated alleging that nearly half of approximately three billion global labor force are at the risk of losing their jobs. Moreover, it is within the projections that the poverty level, which will escalate as a result of the decline in employment opportunities, would bring along further problems concerning healthy nutrition and welfare (World Health Organization, 2020). On the other hand, millions of businesses are striving to endure an invisible competitor that threatens their existence. In particular, there are growing concerns about to what extent the SMEs, which constitute more than 90% of all businesses in the world and are the backbone of economies in almost all countries, have been affected by COVID-19 (Thorgren & Williams, 2020).

Applied in order to reduce the spread of the virus, measures such as curfew, social distancing and hygiene rules have either narrowed the customer volume of enterprises or vanished it entirely. Furthermore, it is doubtful whether consumers will engage in social activities as much as they did before, even if the spread rate of the virus slows down and new steps are taken to pave the way to return to normal life. In brief, acute concerns about the futures of SMEs are turning into chronic ones. This matter of fact is also evident in the reports published by many organizations and official authorities.

For instance, in a statement by the Organization for Economic Co-operation and Development (OECD) (2020a,b), it is mentioned that the pandemic and the curfews have directly impacted on the sectors that generate one third of the GDP in large economies. Calculating that there will be a two-percentage loss for each month in the annual growth of the GDP, OECD underlines that the tourism industry on its own encounters a 50-70% contraction in production. It is also observed that OECD invites the leaders of the G20 countries to take decisive and collective action, by placing emphasis on the importance of providing aid for workers, enterprises and particularly SMEs so as to avoid the existing problem getting worse in the future. In addition, United Nations Development Program (UNDP) (2020) has
communicated the negative developments concerning SMEs on the basis of the sample in Turkey. Accordingly, it is reported that COVID-19 has created the most devastating shock on SMEs. Four out of five SMEs have been dramatically affected by the pandemic. SMEs have lost more than 50% of their income. Matters such as adequate infrastructure required for remote working not being available in such enterprises and specifically nearly half of SMEs in the service industry being far from digitalization have also accelerated the downfall. In other saying, SMEs that do not have sufficient knowledge about technological developments and do not have financial resources to outsource information transfer have failed in digital transformation required to meet the novel contactless service and consumption expectations brought by COVID-19. According to Gourinchas et al. (2020), hospitality, food and beverage, entertainment and recreation industries are among those that have been affected by COVID-19 the most. Hence, it is important to discuss the current situation especially in the context of SMEs in the tourism industry and to provide suggestions for the future in the light of the implications to be projected in the present time.

COVID-19 is such an incident that has never been experienced by the current generation. Therefore, neither consumers nor enterprises could foresee it and take precautionary actions. It has been a process in which individuals felt the urge to grasp the answers to the following questions: How is possible that consumption preferences changed in less than no time? What is the importance of digitalization? What awaits the market in the future? What sorts of strategies are to be implemented to meet the expectations of the target market which is being re-designed by the pandemic? On the other hand, the fact that the end of the pandemic is yet to be clear, the information pollution concerning how the virus affects human health, and the dramatically escalating economic shrinkage apart all these uncertainties have rung the bell for a frightening future.

Enterprises wishing to find a place in the market during and after the pandemic may need to seek more creative ideas and put them into action. Pointing toward the entrepreneurial orientation the signal in question brings into agenda the issue of enterprises having or not having financial resources to innovate. Despite the fact that the current situation in supply is remarkably critical, it is observed in the literature that the effects of COVID-19 have been investigated mainly in the context of demand (e.g., Neuburger & Egger, 2020; Polyzos et al., 2020; Wen et al., 2020) and that the challenges faced by enterprises have been ignored to a great extent. With the aim of eliminating the shortcoming concerned, this paper aims to discuss the effects of COVID-19 on tourism SMEs and healing power of entrepreneurship.

**Staying Alive: Crisis, Entrepreneurship and SMEs**

Enterprises struggle with numerous internal and external crises from the moment they are established. With the help of various risk management practices, it is partially easier to tackle internal negative developments. On the other hand, it is possible for organizations to find themselves undefended against uncertainties which stem from the external environment and develop abruptly (Asgary et al., 2020). Under the turbulent labor market conditions of our day and time, many complex events which have a significant impact on business activities occur. Ecological disasters, political instability within and beyond national borders, terrorist attacks, fluctuating exchange rates, cyber-attacks, economic crises, uncontrollable unemployment rates, changes to and conflicts within the societal structure are some of such striking uncertainties (Asgary et al., 2020; Hong et al., 2012). It is believed that especially SMEs are impacted by these crises in a disproportionate manner.
Limited organizational resources, a meager market power and a narrow customer base are among the features of SMEs which weaken their hand against larger businesses (Branicki et al., 2018). As long as the crisis draws out, the severity of the uncertainty felt by enterprises will only escalate. Giannacourou and colleagues (2015, p. 547) have underlined that the effects of a crisis may differ in accordance with its type but drawn attention to the fact that all unsteadiness occurs in four stages in essence: (a) the warning stage, (b) the acute crisis stage where crisis is erupting in a concrete manner, (c) the final stage in which the consequences are felt by enterprises and (d) the crisis resolution stage where enterprises try to adapt to a new normality. In each of these stages different uncertainties are faced and it is necessary to set forth correct strategies to increase the competitive power of enterprises. Specifically, it is of critical importance for managers of SMEs, which are vulnerable to uncertainties, to be recognizant of each stage of crisis in order to plan ahead their next steps and to make strategic moves.

On the other hand, the ownership structure of enterprises may be one of the critical factors determining the strategic flexibility against crises. Flexibility is an intra-organizational variable which grants enterprises a chance to survive in the long run since it provides different exit points in times of uncertainty (Alpkan et al., 2007). Studies which point out that the level of strategic flexibility is higher in SMEs when compared to larger businesses can be found within the body of literature (e.g. Guo & Cao, 2014; Majid et al., 2020). The fact that a large majority of SMEs have the status of family business and are managed by family members can increase their resilience against crises (Leppäaho & Ritala, 2021; Zhou et al., 2017). Since the possibility of dissidence between family members who share parallel ideas and objectives would be low, such enterprises have the chance to take and implement decisions rapidly (Marjański et al., 2019). Likewise, the strong emotional bond to the enterprise, which forms automatically between family members, would provide the courage to take the necessary survival actions since such bonds also strengthen the belief that the enterprise needs to be relayed to the coming generations (Arregle et al., 2007).

In a study conducted by Thorgren and Williams (2020) where answers are sought to the question “What are the possible measures that SMEs need to take against a crisis?” it is revealed that those businesses turn to actions such as avoiding new investment and decreasing labor costs and expenditures. Specifically, SMEs which are unwilling to take any action which increases their borrowing and rate of equity capital use avoid adapting to innovative practices focusing on increasing the level of income. On the other hand, Salvato and colleagues (2020) have underlined the fact that crises may serve as opportunities for entrepreneurship and stated that specifically family businesses have a high level of resilience against mass uncertainty conditions and an ability to transform post-crisis misfortunes into entrepreneurship opportunities. Likewise, Branicki et al. (2018) have investigated how entrepreneurship behavior supports the resilience of SMEs. Accordingly, SMEs having experience of operating in uncertain environments and dealing with challenges have high level of resilience. Since internal dynamics in such structures which are characterized by informal relationship patterns would allow maneuvers, resilience and familiarity against new turbulences could be high.

According to Llanos-Contreras and colleagues (2020), crises such as natural disasters are a major threat to SMEs in the status of family business, where the main goal is to guarantee continuity. Researchers underline that the relationship between socioemotional wealth and entrepreneurial orientation would influence the risk-taking behaviors of SMEs. Specifically, family businesses may engage in a positive behavior toward risk-taking in the event of facing such circumstances that threatens their continuity. The courage to take risks, in turn, enhances enterprises’ ability to
recover from the great losses that are likely to be suffered as a consequence of the crisis. Along with the risk-taking behavior, entrepreneurial orientation dimensions such as proactivity, competitive aggressiveness, internal innovation, and external innovation may also positively impact on the performance of SMEs in the post-crisis period (Alonso-Dos-Santos & Llanos-Contreras, 2019).

Lastly, Morrish and Jones (2020, p. 20) have addressed how entrepreneurial marketing strategies implemented by small-scale hospitality enterprises would impact on post-crisis recovery. In the light of the Entrepreneurial Marketing Post Disaster Business Recovery Framework developed by the authors, the following implications can be concluded: (a) the perceived individual and business-level impacts of crises affect entrepreneurial decisions, (b) entrepreneurial decisions affect entrepreneurial actions such as relocation, financial injection and new business model creation and adaption, (c) in businesses where the action decision is clear, entrepreneurial marketing behavior develops, which comprises of opportunity seeking, resource organizing, accepting risk, and creating new customer value. Moreover, entrepreneurial self-efficacy and effectual reasoning can also be influential on entrepreneurs in the decision-making process.

In the light of the information presented above, it should be kept in mind that entrepreneurial behavior will facilitate business recovery particularly in the post-crisis period. In previous sections, how uncertain conditions would impact on SMEs and the possible reactions that SMEs would engage under those circumstances have been discussed. In the following section, the topic will be addressed from the perspective of COVID-19.

Following the onset of the COVID-19 pandemic, researchers have begun to scrutinize the effects of this crisis from different aspects. What sorts of consequences the pandemic would bring to enterprises is one of the areas being researched. Questions such as what kinds of challenges SMEs have endured and what awaits them in the post-pandemic period or in case the pandemic continues much longer are being brought to the agenda more frequently every single day. For example, in their study highlighting the facts that COVID-19 causes congestion in the supply chain and logistics, results in fluctuations in prices and renders many sectors inoperable, Morgan et al. (2020) discuss the current conditions of SMEs within the framework of their existing capabilities and availability of bearing potential costs. According to the researchers, newly established businesses hold a more advantageous position in grasping post-crisis opportunities than the other SMEs. Owing to resource embeddedness, stakeholder obligations and it being more challenging for older SMEs to go beyond the routine, they are faced with the risk of falling behind young competitors. COVID-19 has been an unexpected incident, and it remains uncertain when it will come to an end. Therefore, it is highly likely that enterprises will refrain from taking new steps and become further dependent on subsidies rather than utilizing internal resources. It is observed that incentive funds, extended loans and interest amnesties granted by governments come to the fore as the most worthwhile aids essential to support surviving enterprises further and to revive those that have gone bankrupt (Al-Fadly, 2020). Market risks, financial risks and the risks threatening personal interests are considered to be the issues that will dramatically affect SMEs in the post-pandemic period (Cepel et al., 2020). According to Brown (2020), enterprises having trouble even in meeting the present costs due to lack of liquidity choose to retrench rather than taking entrepreneurial actions to generate new income sources. Since SMEs with limited financial power have adopted the wait-and-see strategy, they run behind adjusting themselves to the current period they are in. The adaptation problem in question will cause SMEs to fall
behind their competitors in innovation, capital investments and international commercial activities that facilitate organizational growth in the medium and long term.

SMEs having high cash volume and high amount of assets perceive lower risk in the face of the COVID-19 pandemic (Khan & Sayem, 2013). As a matter of fact, the availability of financial assets to be used in case the need arises serves as a shield guarding these enterprises against the negative effects of the crisis. Likewise, it is expected that enterprises failing to take a proactive stance will fail in crisis management (Ghaderi et al., 2015). It is highlighted that enterprises conducting both domestic and international commercial activities have lower perception of the risks driven by COVID-19 (Abu Hatab et al., 2021). Eggers (2020) calls the attention on the post-crisis periods embodying numerous opportunities for SMEs, while placing emphasis on the fact that they must have sufficient financial power to take advantage of the opportunities to emerge. In cases where financial resources are limited, making new investments with an unpredictable end evokes anxious feelings.

One of the most significant factors that may affect the enterprise success during and after the COVID-19 pandemic is the level of expertise of the managers in SMEs. Shortening the supply chain, producing products satisfying consumer needs that have emerged during the crisis, using digital marketing tools such as mobile applications and social media channels, and adopting payment policies to accelerate liquidity flow such as payment upon delivery and cash payment can strengthen the endeavors of small-scale enterprises to survive in the pandemic period and accelerate the recovery process (Fabeil et al., 2020). Studies focusing on the advantages of resilience (Nurunnabi, 2020; Portuguez Castro & Gómez Zermeño, 2020) and entrepreneurial identity/creativity for SMEs in the face of the COVID-19 pandemic and the key role of entrepreneurial endeavors in designing a new normal (Ketchen & Craighead, 2020; Manolova et al., 2020; Ratten, 2020; Shepherd, 2020) do exist within the body of literature.

In the following section, the impact of COVID-19 on SMEs in the tourism industry and the post-pandemic expectations are discussed. In this context, current research in the tourism literature have been put under scope.

Tourism Firms During and Post COVID-19 Pandemic

Tourism comes to the fore as one of the sectors affected by COVID-19 the most. It is estimated that international tourist arrivals, which were 1.5 billion in 2019, decreased by 56% to 80% in 2020 (UNWTO, 2020). The report released by the World Tourism Organization, which states that export revenues will decrease by almost 1.2 trillion dollars due to the pandemic and that 120 million tourism jobs are at risk, is among the greatest indicators of the heavy blows that COVID-19 has hit the sector in just one year. The facts that countries have closed their borders to reduce the spread of the virus; that the activities of most businesses (restaurants, hotels, entertainment centers, etc.) are paused especially within the scope of curfews; that people are encouraged to stay at home; that travels between states or cities are restricted; and that only take-out services are allowed in food and beverage businesses have led the tourism industry to suffer a paramount loss worldwide. Tourism activities may continue to be pushed aside as people act cautiously in economic senses due to the increasing unemployment rate in many countries and the uncertainty concerning how long the crisis will last. Additionally, the hygiene and distance rules that businesses themselves are liable to abide by are some of the factors that challenge consumers as well as businesses.

Gursoy and colleagues (2020) stresses that it may not be possible for the sector to regain its prior dynamism in the initial periods when restrictions are loosened. To put it more clearly, researchers give a hint that people may show
hesitation for a prolonged period of time to dine outside, travel and stay in hospitality enterprises. It was also emphasized that more than 60% of consumers believe that restaurants must use technological applications to help minimize contact. This finding indicates that the sector has to prioritize technological transformation in near future. Psychologically worn-off during the pandemic, consumers can abstain from mingling with crowds in exterior settings and taking part in activities. This possibility reinforces the projections that hardships for tourism operators would not cease with COVID-19 but persist a bit longer. Tourism firms that fail in creating demand for their products and services will fail in covering their overheads. Consequently, this may reduce their survival resistance (Gursoy & Chi, 2020).

Although there is a possibility that the tourism sector may recover after COVID-19, as in other crises, it is alarming whether the supply resources of the sector will survive until the pandemic is over. On the face of business capacities idling throughout the pandemic and human power discarded due to no sale activity, it does not seem possible to transfer the productivity that these could have generated into the future (Gössling et al., 2020). Those researching into tourism, who also share the same concerns, have started a COVID-19 damage-check and the discussions about future opportunities are on. Especially in studies carried out from the perspective of enterprises, the emphasis is placed on the fact that having the upper hand during and after the pandemic requires taking entrepreneurial steps. Within this context, it is observed that some researchers believe that the negative impacts of COVID-19 on stakeholders could be reversed into positive ones through creative strategies. Below, studies designed within the framework of such variables as pandemic, tourism businesses, SMEs, entrepreneurship are elaborated.

Despite the plethora of unknowns, people are already debating that the crisis could stimulate sector transformation, that the new normal could be designed with innovative approaches of businesses and that research and studies could be inspiring during the road to change (Sigala, 2020). According to Alonso and et al. (2020), this crisis is a test to reveal how resilient many leaders, entrepreneurs and workers really are. Researchers draw attention on that tourism SMEs could survive, despite the great losses they have incurred in the number of clients and revenues, thanks to innovative approaches to products and services. Changes such as preparing healthy home-cooked meals, use of mobile applications or offering take-away options have served walking sticks to enterprises through hardships. It was emphasized in previous sections that owner-manager structure is dominant in SMEs. Pathak and Joshi (2020) have indicated that the psychological capital of business owners have instilled self-efficacy, optimism, hope, and resilience in their workers, preparing them, also, for an even worse scenario that could possibly roll out in the future. It was also found that the life satisfaction of business owners and managers translated into heightened organizational resilience levels, which can also support the process of post-crisis recovery.

Romagosa (2020) emphasizes that the pandemic could support sustainable tourism. Human behavior has to change, especially to mitigate climate change, if anything. Most activities have come to a halt or slowed down due to COVID-19 and the nature started healing. So, people came to understand the importance of practices that focus of environment-friendliness and sustainability. It can also be asserted that enterprises cherishing ecological values could take the lead in the competitive market in the aftermath. For this reason, the link between climate change and COVID-19 is becoming an even hotter topic for researchers (Jiricka-Pürrer et al., 2020; Prideaux et al., 2020).

Among other studies in the field of tourism, there are also scholars focusing on financial resilience efforts of SMEs (Rivera et al., 2021), effect of planned and adaptive resilience on sustainable tourism (Sobaih et al., 2021) and
priority topics for SMEs throughout the pandemic (work force, cost control, organizational support, promotion, and marketing practices) (Kukanja et al., 2020). Dayour and colleagues (2020, p. 10-Fig. 2) found that crisis management in SMEs during COVID-19 emerges in six stages. These are: (1) awareness, (2) efforts to prevent the spread of the virus, (3) developing coping mechanisms with the crisis, (4) deployment of short-term emergency measures, (5) preparation of long-term recovery plans and (6) lessons learned (such as diversifying services or no action at all). The first three are considered as components of the occurrence phase whereas the 4th and 5th phase represents the recovery and the 6th phase represents the resolution. Finally, Björklund et al. (2020, p. 4) have shed light upon which entrepreneurial solution pathways are there to reduce the negative impacts of COVID-19 on the catering and restaurant businesses in Finland as well as to create novel opportunities. Accordingly, designing new points of sale, launching new home delivery practices, organization of campaigns as a joint effort of multiple businesses, offering healthy snacks, diversification of products in ways to reduce operating costs and in a way to create new sources of income may boost the resilience of businesses during the COVID-19 crisis.

Conclusion

What makes COVID-19 different than any crisis is that it concerns the entire world. The serious threat it poses on human health and the uncertainty about its exit stage hampers the tourism industry to prepare itself for the post-pandemic, which calls for the preparation of a ‘new normal’ approach that shall be embraced by all stakeholders so that the sector will not come to a full halt while the pandemic still unfolds. Looking into the content of studies reviewed, four key points come to the fore:

(a) faster digitalization in the sector,

(b) allocation of more financial resources to SMEs with tighter budgets so that they can pursue innovative approaches,

(c) designing incentive programs to help sector stakeholders to develop demand-raising new ideas and practices and

(d) with an emphasis on the climate change, warning enterprises to prioritize sustainable tourism practices during and after the pandemic.

In addition, another point to draw attention is the issue of employment. Especially, with increased digitalization, the need for human power will decline. As such, it is of vital importance that governments blaze new business pathways in order to preserve the level of social welfare and prevent internal conflicts.

SMEs are of paramount importance for the tourism industry, as in many other commercial areas. It is considered that majority of the hospitality, food and beverage, transportation and entertainment businesses operating in almost every tourism destination across the world fall within the category of SME (Moreno de la Santa, 2020). Being high in number, SMEs are one of the leading actors playing a significant role in eliminating the employment gap in countries.

As mentioned earlier, in previous studies and statistical reports (e.g., Kallmuenzer et al., 2018; Peters & Kallmuenzer, 2018), it is indicated that a significant number of SMEs have the status of family business. Since the structures in the form of family business mostly utilize internal resources for financing (Yilmazer & Schrank, 2010),
they partially reduce the burden on the shoulders of the states. On the other hand, in SMEs where ownership and management are largely under the control of the family, operational activities, employment strategies, organization and responses to crises might be different than those in large-scale enterprises (Eggers, 2020; Varum & Rocha, 2013). Limited capital and the compulsion to generate income from investments in a short time to ensure business survival may lead SMEs to suffer devastating blows caused by crises (Kato & Charoenrat, 2018; Pal et al., 2014). Uncertain conditions in the external environment are likely to render SMEs more vulnerable than other enterprises. It is a well-known fact that almost all sectors have come to a standstill as a result of the outbreak of the COVID-19 crisis. Tourism is one of those sectors (Uğur & Akbıyık, 2020). It is evident that the pandemic has restricted the production of supply sources as much as the international tourist flow. Consequently, unemployment is growing in many countries, and each and every day it becomes more challenging to restart the operations for SMEs that have no significant financial saving and/or support. Therefore, considering that especially SMEs have difficulties in cash flow in times of crisis, it is necessary to increase the government support given to such enterprises and to provide them with ease of access to external financing resources (Lu et al., 2020).

From another perspective, especially family-owned SMEs are stakeholders representing the region they are located in. Thus, it is highly possible that such businesses would be supported by their customers and the local community at times of crisis due to the close and loyalty-oriented relationships formed previously within those parties. Such support may motivate family-owned SMEs to transform crisis into opportunity, to bounce back after times of organizational exhaustion, to learn from losses, to make bold entrepreneurial moves and to develop management skills through strong binds to the organizational social capital. The social connection between family businesses and their environment increases their flexibility skills (Marjański et al., 2019). Flexibility enables enterprises to quickly adapt their strategic plans to fluctuations and opportunities in the environment. The success of gaining competitive advantage in environments and times of uncertainty depends on how well the directions and the consequences of change are analyzed from the business management perspective.

In summary, in this study, the effects of the crises on SMEs, specific to COVID-19, were discussed. In doing so, various resources, from general crisis management literature to current pandemic studies, have been reviewed. The advantages and disadvantages of tourism SMEs that may come to the fore in periods of high uncertainty were emphasized. The most important limitation of the study is that it cannot support the research outputs with current empirical findings. In this context, in order to understand the reactions, difficulties, strategic moves, organizational attitudes and expectations of SMEs operating in the tourism and hospitality sector in turbulent times in a more concrete way, it is recommended that future studies make more comprehensive research using the interview technique which allows the larger-scale data collection.

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