

ENTREPRENEURSHIP AND COVID 19: THE ENTREPRENEURIAL CHALLENGE IN A GLOBAL PANDEMIC.

EMPRENEDEDORISMO E COVID 19: O DESAFIO EMPRESARIAL NUMA PANDEMIA GLOBAL.

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ABSTRACT

The purpose of this study is to analyse the most relevant factors affecting the development of new businesses that have been set up during the Covid-19 pandemic. The main challenges in the entrepreneurial phenomenon are identified in this study, which represent an immediate contribution to the discussion on the development and economic evolution, emphasizing the impact of creativity, innovation, and entrepreneurship in sudden health emergencies. For this purpose, descriptive research and literature reviews were done, where the years 2019 -2020 - 2021, were contrasted. The growth and decrease of taxpayers in the mentioned periods were analysed with the support of the Internal Revenue Service (IRS) during the opening, closing, and suspension phases. Therefore, the researchers analysed the factors that contributed to the decline of small and medium businesses in Ecuador during the health crisis.

Keywords: Entrepreneurship, Enterprises, Factors, Innovation, Pandemic.

RESUMO

O objetivo deste estudo é analisar os fatores mais relevantes que afetam o desenvolvimento de novos negócios que foram criados durante a pandemia da Covid-19. Os principais desafios no fenómeno empreendedor são identificados neste estudo, que representam uma contribuição imediata para a discussão sobre o desenvolvimento e a evolução económica, enfatizando o impacto da criatividade, inovação e empreendedorismo em emergências sanitárias súbitas. Para o efeito, foram feitas pesquisas descritivas e revisões de literatura, onde os anos 2019 -2020 - 2021, foram contrastados. Foram analisados o crescimento e a diminuição de contribuintes nos períodos mencionados com o apoio da Receita Federal (IRS) durante as fases de abertura, fechamento e suspensão. Portanto, os pesquisadores analisaram os fatores que contribuíram para o declínio das pequenas e médias empresas no Equador durante a crise da saúde.

Palavras-chave: Empreendedorismo, Empresas, Fatores, Inovação, Pandemia.

1. INTRODUCTION

Today, small, and medium-sized companies play a significant role in the market, mainly because they contribute to the creation and development of employment opportunities in societies and fulfil their business activities. Therefore, since their creation, small and medium-sized companies have been one of the main sources of local and national economic prosperity, given that their productive activities have had a great social contribution and have been affected during the crisis. (Bermeo and Mera, 2017).

In theory, the image of entrepreneurs represents a basic element of the economic system, since creativity and the nature of entrepreneurs are characterized by risk-taking, in the historical moment decisive innovations arise in economic development. Empirically, Ecuador and Latin America face a high level of entrepreneurship with very low-quality levels, mainly due to the inclusion of new companies in the informal economy.

There is no doubt that Small Medium Enterprises (SMEs) are one of the business sectors most affected by the pandemic; at the same time, these organizations play a vital role

in providing basic goods and services to people in times of crisis. The main business challenge in the Covid-19 era is the financial impact, which is related to the decrease in international and domestic demand. Therefore, their economic income, the difficulties to obtain financial credit and the various conflicts to acquire or not imported materials reduce the employability and productivity of talents.

However, for organizations, this situation is considered critical and not favourable for sustainability; in other words, due to lack of working capital, low competitiveness, low-capacity utilization, internal and external costs have decreased. External demand, rising unemployment and falling exports have put pressure on the increasing bankruptcy of companies. This leads to lower production lots, economies of scale, loss of reach and learning. All of these have a negative impact on variables such as employment, wages, and income distribution. Therefore, companies of all sizes are affected, especially the tourism, service, and trade industries. (Sanchis and Poler, 2020).

The research helps to find opportunities for improvement, since as companies contribute to economic development, they are likely to be able to reinvent themselves nationally and regionally by opting for digital marketing or home-delivery commerce. By analysing the reasons and effects of the closure of such organizations, a precise inquiry can be made about the consequences and effects on the local economy, which until now have been uncertain.

Heredia and Dini (2021) state that small and medium-sized businesses will have no future without state support. State support includes many issues, including strong public spending that provides liquidity, tax incentives for many companies. From a business perspective, this epidemic involves the injection of capital, but the challenges of innovation and creativity are equally important. The expansion of Covid-19 in these past months has made the stock market unstable, having a serious impact on the development of the global economy.

2. DEVELOPMENT

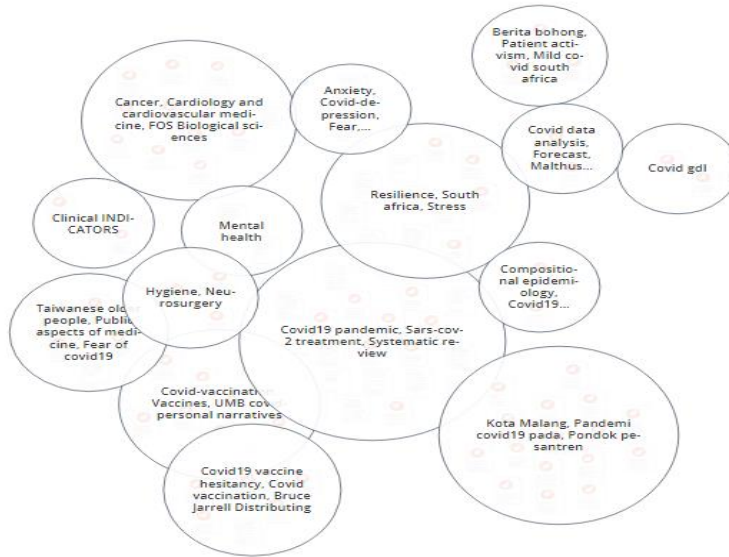
In the predictions of almost all commercial, industrial, and service organizations, COVID-19 is a dark smoke that does not allow to clearly see the future of the economy, which is an inevitable fact. No one predicted that the year 2020 would bring several problems such as travel cancellations, panic buying, factory closures, social isolation, saturation of medical services, online shopping, and services, telecommuting, and a massive increase in the number of unemployed populations. Generally, no one expected a pandemic and the complications that it demanded. If it can be anticipated, then it seems that after such a major disaster, a new reality has emerged. This scenario provides opportunities for conversion, modification, and improvement of routines and processes. Businesses play a fundamental role in changing society and in establishing this new normality, entrepreneurs are reinventing activities that will allow them to generate income. (CEPAL, 2020).

2.1. COVID-19 PANDEMIC

Since ancient times, mankind has experienced a series of epidemics, such as the plague of Athens, the Bubonic plague or the Black Death among others that have occurred at different times in history. The outbreak of severe respiratory disease in Wuhan, China, was identified for the first time in December 2019, describing it as a disease called COVID-19 caused by a virus called SARS-CoV-2, its spread was already unstoppable.

On the economic side, the productive system has been partially paralyzed, where only the basic necessary sectors such as food, health, pharmaceuticals, and chemicals could produce, which caused the interruption of income of the companies where the payment of salaries, payment of basic services and financial expenses were complicated. Due to the lack of business reactivation policies on the part of the State, payments for services began to be delayed, with the possibility of bankruptcy, causing greater unemployment and breaking the chain of payments. (Jaén, Marín and Ortiz, 2020)

A graphical model is established that makes specific all the areas of the variable:



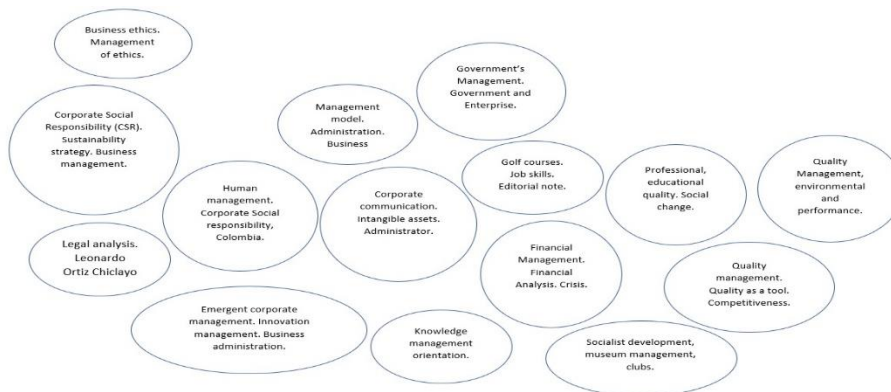
Source: Open Knowledge Maps (2022). Overview of research on covid 19. Retrieved from <https://openknowledgemaps.org/map/70a9f00d99dfe256093983e272b1f5f7>.

2.2. BUSINESS MANAGEMENT

Since the beginning, business management has been the focus that is responsible for identifying and determining in companies' various strategies that pursue their growth, being able to take on the challenges of today's competition, which will allow survival in globalization, being one of the biggest trends, which acquires relevance in the approach to customer experience. (Mora, Carvajal and Álvarez, 2019)

Rodríguez and Albizuri (2020) say that it is important to know that the effects of this crisis

on the world economy are impossible to predict, given the uncertainty about the progress of the pandemic, which is why numerous national and international organizations have created contingency plans that in any case anticipate a fall in Gross Domestic Product (GDP). To face the current situation, business management must consider a variety of indications to guide and orient entrepreneurs and managers of organizations such as: communication with customers, operations, cash flows, and human talent management.



Source: Open Knowledge Maps (2022). Overview of research on gestión empresarial. Retrieved from <https://openknowledgemaps.org/map/db84a5f7a7a0ab021b8bb29c5681826a>.

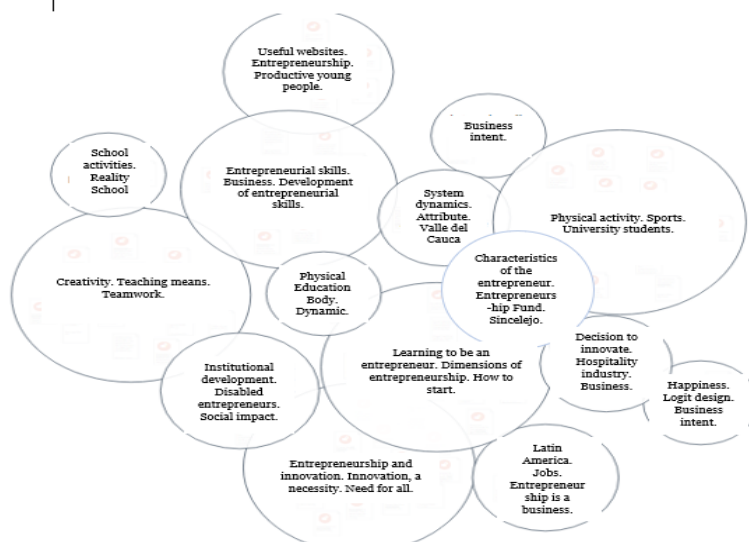
2.3. ENTREPRENEURSHIP

The term "entrepreneurship" comes from the French "entrepreneur" which means pioneer and refers to a person characterized by buying products at a certain price to sell them on the market at unknown prices. It is also known that entrepreneurs are directly involved in the balance of supply and demand although currently its use is limited to refer to a new project or a new company that starts a person or group of people with a differential plus, which makes the product or service unique. (Moreno, 2015).

The pandemic has influenced entrepreneurship in an accelerated way where

the lack of jobs and other income alternatives may have made more people to start their own business in 2020 and 2021.

If new businesses are referred to as innovative or not, it is necessary to analyse in business terms that innovation is usually understood as the introduction of new products or services, or in the use of new technologies or processes (Chan, Xool, May, & Limón, 2020). New businesses can be ideally positioned for one or both, as they have no commitment to existing products or services and can adopt the latest technologies if they have enough access to knowledge and financing.



Source: Open Knowledge Maps (2022). Overview of research on empreneur. Retrieved from <https://openknowledgemaps.org/map/62dbe59e9252aba11ec62c009296a3dc>.

2.4. TECHNOLOGY

Today's society is linked to technology, and this is immersed in everyday life, but do we really know what technology is? Several authors agree that it comes from the Greek term "Techno" which means technique, skill, ability, which is commonly determined as practice; and on the other hand, the term "logy" whose concept is: science, knowledge, and study, which is usually called theory. Technology brings great discoveries that improve quality of life, improve production, save time, shorten distances, all this to achieve a solution that

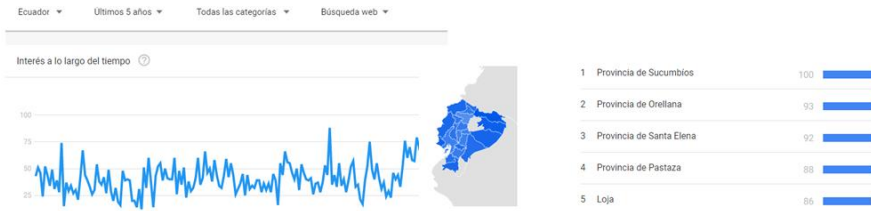
allows human beings to solve a conflict or satisfy a need in a specific area. (Escorsa and Valls, 2021).

This made social networks almost universal (90.6%) of the population over 5 years of age. As for e-commerce, 9.2% of companies have online sales options, and 9.7% of people buy and pay bills through online sources, indicating that it is a method that is still developing in the country.

These events made it clear that people are adaptable and look for ways to meet their

needs. The challenge for companies in today's world is to provide products and services under these new health standards, which means modifying their value propositions and adapting them to the present, personalized,

intelligent and fast, where technology plays an important role. Organizations must develop digital skills to continue to run normally despite post-pandemic restrictions



Source: <https://trends.google.es/trends/explore?date=today%205-y&geo=EC&q=Emprender>

3. METHODOLOGY

This research met the characteristics of the quantitative approach, due to the fact that theoretical perspectives were explored, described, and generated through digital field research linked to the Internal Revenue Service (IRS), in order to obtain accurate numbers for the years 2019-2020-2021, for the right study. Also, the basic modality of the research was Explanatory since the event is considered a social-economic phenomenon experienced by mankind. The study is retrospective longitudinal because it takes as reference the years of the pandemic.

4. RESULTS ANALYSIS

Once the theoretical review of the research has been carried out, it can be described that the characteristics of small and medium enterprises were closed down by the pandemic in Ecuador; such information has been identified from record results at the website of the Internal Revenue Service (IRS) in the statistical section of economic activities during the period 2019, 2020 and 2021. Then, it was determined that in 2019, 225917 taxpayers were registered in various activities assigned by this administration, versus the total of passive and suspended registrations of 220430 taxpayers in relation to 2020 that decrease with a total of 168619 and 1491. The following table shows that the first six months in 2021, there are 38516 active taxpayers and 383 passive and suspended taxpayers.

Table 2- Economic activities based on RUC (Taxpayer Identification Number - TIN)

	2019	2020	2021
<i>Assets</i>	225.917	168.619	38.516
<i>Liabilities</i>	3.602	539	8
<i>Suspended</i>	216.828	14.372	375
<i>Total</i>	446.347	183.530	38.899

Source: Multidimensional statistics Internal Revenue Service 2021

The data obtained from the Multidimensional statistics of the tax administration establishes the percentage distributed of the taxpayers'

status by year in each of the periods under study (Figure 1).

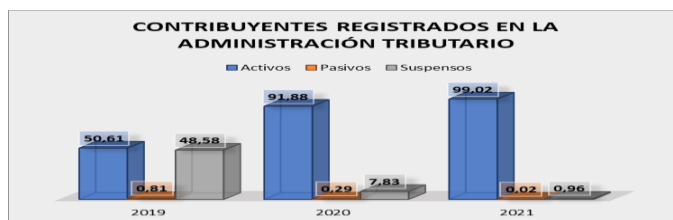


Figure 1 – Taxpayers Registered with the Tax Administration

Likewise, when performing an analysis by year and by state of each of the tax regimes, in 39% there was a decrease in the registration of new

businesses in reference to 2019 which was 52%, although in 2021 until March it amounts to 9%, as shown in Figure 2.



Figure 2– Entry of new taxpayers, Internal Revenue Service, March 2021

In the analysis of the economic activities registered with the tax authorities, the top 5 activities were personal services, retail sales in non-specialized stores, restaurant and mobile food service activities, livestock, and retail sales of other products in specialized stores, as shown below:

When analysing the end of activities, it is established that out of 100% of the RUC (Taxpayer Identification Number - TIN) registrations cancelled, whether, in passive or suspended status in the tax regimes, it is established that the economic activities that had a higher incidence in 2019 represented

activities without the specification of International Standard Industrial Classification (ISIC) with 75.75%, and for 2020 and 2021 it is given in other personal services activities with 22.07% and 22.44%, respectively.

For the purposes of this research, Ecuador is a middle-income economy. Table 3. below describes the countries that are part of this category, along with the indicators related to business activity in the different stages of an enterprise in times of pandemic, considering the countries of Latin America and the Caribbean.

Table 3– Business activity indicators

Country	Emerging	New	Established Businesses	Business Closure	Business Continued
Ecuador	26.9	10.8	14.7	5.9	3.4
Colombia	15.3	7.3	4.3	4.2	1.4
Brazil	8.1	15.8	16.2	4.8	1.4
Mexico	2.3	4.2	8	2.6	1.2
Guatemala	11.2	14.6	14.8	4.3	1.7

Source: Global Entrepreneurship Monitor, Ecuador

Created by: Llamuca Silvia

5. CONCLUSIONS

The global economic crisis caused by the Covid-19 pandemic has certainly caused many companies to close their doors. This study shows that, due to difficulties, many companies have closed in Ecuador. Therefore, analysis shows that 18870 companies suspended their activities last year due to the current health emergency. This data was gathered from the statistics provided by IRS that belong to different economic areas such as commerce, services, and manufacturing throughout the country.

One of the most important and concerning impacts of the problems the world is currently experiencing is the economic crisis and the financial problems of the entire country. There will not be a good economic performance. All sectors are affected, such as small, medium, and large companies distributed in the food industry, hospitality, entertainment, industrial sector, construction, agriculture sector, tourism, etc., which in turn face short-, medium-, and long-term effects.

The pandemic has caused a crisis, from an evolutionary perspective, it is possible to consider it as an extreme conflict, leading to polarization of economic entities on how to deal with this problem, however, if a consensus is reached, it is possible that it could lead to a competitive advantage.

Finally, new companies in Ecuador and around the world are one of the most active factors in the economy, as they stimulate productive activities that provide more added value, economic, and social development. As financial capital constitutes a fundamental axis in the progress of all companies. The employer of all its dimensions is creative, the value of the creators, the technological innovation tool will allow the market trend, always observing and studying which are the strategies that will allow the reactivation of the whole financial sector, an event that was caused by the covid-19.

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PROCEDIMIENTOS ÉTICOS

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