

Entrepreneurship and Disaster

The Role of Entrepreneurship in Disasters and Crises

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A discussion paper and supplementary material for the students' online resources for *Entrepreneurship: A Contemporary and Global Approach*

1. Introduction

Disasters, both man-made and natural, and the crises that result from them have become more frequent in the 21st century. Obvious examples have included some of the effects of climate change, where the disaster may be 'natural' through flooding or the effects of strong hurricanes, but the underlying cause is 'man-made' through the emission of carbon dioxide (CO₂). The last major global disaster could be claimed to be man-made—that of the Global Financial Crisis (GFC) of 2008/09 and the various wars in the Middle East which led to large influxes of refugees into Europe and elsewhere. Other well-known regional disasters may be natural and include devastating earthquakes such as in Christchurch, Aotearoa/New Zealand in 2011 and at Tōhoku, Japan, leading to a nuclear disaster at Fukushima in 2011, sometimes accompanied by tsunamis (e.g. off the coast of Indonesia in 2004 and 2006), and volcanic eruptions, such as Eyjafjallajökull, Iceland, in 2010.

The effects of such disasters and their associated crises may be limited to entrepreneurs operating in the local economy, but more often they have far more reaching and global effects. For example, many flights were grounded across most of Europe because of the aforementioned Icelandic volcanic eruption and the well-known impact of hurricane Katrina on New Orleans in 2005 that affected not just the New Orleans local economy, but had much wider and far reaching global effects through supply chains in the US economy and shortages of locally produced products further afield.

At the time of writing, that is, April 2020, a natural but man-made disaster, the novel coronavirus 19 (COVID – 19) pandemic is not just global in its impacts but is unprecedented in the nature of the extent of disruption. It is fair to say that no business has been unaffected

by its impacts and everyone have been affected by the restrictions that have been placed on peoples' movements throughout the world by national governments. This brief discussion paper is written to provide students with a basis for discussion and further research on the role of entrepreneurship in a disaster or global crisis.

2. What do we know about the impact of disasters and crises on entrepreneurship?

Previous studies into both global crises such as the GFC and more local disasters such as Katrina have shown the following impacts on entrepreneurship and the local economy:

- Impacts are variable on individual entrepreneurs and small firms; some suffer falling revenues and close or exit, some benefit and can obtain new business for example in re-building work that is required following earthquakes or flooding, whereas others may continue trading almost as normal. For examples of the variable impacts of hurricane Katrina on the New Orleans economy, see Dolfman et al. (2007).
- Likewise, the *resilience* of entrepreneurs and small firms to survive in a natural or man-made disaster will be variable and will depend on a number of factors, such as the strength of networks, access to advice and risk assessment practices. For example, we found that in our study of the resilience of entrepreneurs and small firms following the 2011 Christchurch earthquake, entrepreneurs turned to their peer groups for advice and support. Such advice, by its nature, will tend to be variable across different sectors (Battisti and Deakins, 2017). Similarly, locally embedded tourism businesses in Indonesia were able to diversify and be 'inventive' during crises – such as the 2002 Bali Bombing and 2006 tsunami – in Indonesia (see Dahles and Susilowati, 2015).
- A disaster will speed up decision-making for entrepreneurs, for example some entrepreneurs that perhaps had already been struggling will bring forward a decision to close the business. Business challenges inevitably include a reduction or cessation of customers, leading to cashflow and liquidity problems (see Chapters 5 and 6), business owners are unable to pay employees' wages and other bills (such as suppliers or rent) and may be pursued by creditors. Others may decide to exploit different opportunities that they had not previously had enough time to devote resources. For

example, manufacturing and engineering companies have devoted resources to producing ventilators and diversified away from their traditional products.

- There will be an increase in innovation; this is because entrepreneurs will seek new opportunities, will undertake research and development (R&D) and will bring forward ideas that had previously been ‘on the shelf’. For example, in the case of the Christchurch earthquake in New Zealand, we found that despite the devastation of the city centre, new methods of retail trading were found such as the use of temporary shipping containers (Battisti and Deakins, 2017).
- New opportunities will arise that will lead to a growth in new-start businesses and people becoming self-employed. Existing businesses may temporarily lay off workers, who themselves then decide to start their own business.
- Some effects will be direct, such as forced closure by government regulations or loss of buildings in an earthquake. Other effects will be more indirect such as loss or revenues as some business close.
- Shortages of skilled labour may result, particularly, in the case of natural disasters where people leave an area for safety reasons, with dislocation and migration.
- Different sectors are impacted differently. Several studies have found that construction and manufacturing businesses in particular tend to benefit from disaster environments as their labour, materials and expertise is crucial for re-building (Deitch and Corey, 2011). In contrast, tourism, hospitality, retail and wholesale businesses will be more adversely affected.
- Entrepreneurs and small firms have advantages of flexibility so they can respond quickly to changing trade patterns. However, they can also be more vulnerable than larger firms due to their limited resource base (Smallbone, 2012), which, as noted above, has profound implications for their financial and human capital.
- Trading patterns never return to ‘normal’ after a disaster. We know that some businesses will close and disappear. People change their demands, their activities and do not return to previous trading patterns.

3. Theoretical perspectives on the role of entrepreneurs in disasters and crises

A theoretical perspective helps to understand how entrepreneurs might perform and act in the face of adversity and unprecedented trading conditions. For example, any global disaster could be seen from the perspective of Schumpeter's 'creative destruction' process. (Schumpeter 1942). Disasters destroy existing trading patterns and activities, but they also create new opportunities for entrepreneurs. For example, and rather obviously, in the current 'lock down' situations in many countries there are new opportunities for 'contactless' online trading and for continuing to trade through deliveries, perhaps altering production methods to meet different demands. This approach, theoretically at least, suggests that entrepreneurs will be at the forefront in leading the eventual economic recovery that will replace the current downturn, particularly in areas of manufacturing and new product development.

Other theoretical perspectives can help us predict which entrepreneurs and small firms may survive, prosper and be successful in the post-disaster economy. The dynamic capabilities view (as described for example in Chapter 1) suggests that those entrepreneurs that can respond to a volatile environment will be best placed to take advantage of new opportunities that can be seen as characteristic of Schumpeterian creative destruction, that is the process through which entrepreneurs create economic value by destroying and replacing established economic structures with new ones (Schumpeter, 1994). The extent to which entrepreneurs respond to these new opportunities will depend on the firm's resource base as well as its dynamic capabilities (Sullivan-Taylor and Branicki, 2011).

Dynamic capabilities stresses the important role of the entrepreneur in the deployment of resources and how their perception of environmental volatility impacts on the deployment of those resources. It is the entrepreneurial judgement that influences the deployment of dynamic capabilities (Ambrosini and Bowman, 2009). In the context of small firms, this highlights the importance of entrepreneurial behaviour in the recognition and exploitation of opportunities in a Schumpeterian environment that is characteristic of post-disaster economies.

Finally, resource-based approaches and social capital theory suggest that those entrepreneurs and small businesses that are in strong networks with close relationships (not necessarily strong ties) will be more resilient in the face of a crisis and better placed to

respond to new opportunities. For example, Doern's study of the resilience of small businesses after the London riots of 2011 indicated that resilience depend on the development of strategies that conserved and developed their entrepreneurial resource base, including social capital (Doern, 2017).

4. Observations on the role of entrepreneurs in the COVID-19 global pandemic

We can already see some of the impacts suggested by theory, and by our previous evidence and knowledge, occurring in the current COVID-19 disaster. These include the following:

- Changes in working practices with the norm now being working from home (WFH).
- Bringing forward practices and speeding up change, through for example, more online trading and increased demand for delivery. Other businesses have speeded up WFH by increased in the resources need to facilitate such changes in working practices.
- Greater innovation as manufacturers respond to opportunities to provide the equipment that is needed to fight the pandemic suggest as ventilators and personal protection equipment (PPE). Video-conferencing apps such as Zoom have seen huge increases in their usage, as have other services supporting WFH. Similarly, business model innovation by retailers who have shifted entirely and introduced the innovative new 'contactless delivery' in New Zealand which observes physical distancing rules to avoid spreading infection. Meanwhile, it has been widely reported that elderly and vulnerable people have had to wait several weeks for food deliveries from large supermarket chains who were ill-prepared for the lockdown.
- Variability in responses to the new working environments and trading practices. For example, some farmers have been innovative and started more home deliveries, not just of their own produce as might the case for dairy farmers, but additional deliveries of other foodstuffs such as fruit and vegetables. Some small bakers, although producing 'essential' products have closed, yet others have remained open and indeed have diversified as new opportunities have arisen and have offered contactless delivery. The tourism industry (e.g. in the South Island of New Zealand) – already experiencing a downturn due to travel bans from mainland China – have not been able to adapt because their customers are locked down. Similarly, the ability of hospitality

businesses to respond has depended on the rules imposed by Governments; with takeaway coffee and food being available in parts of the USA, but in New Zealand (where even surfing and swimming, but not yet walking in bare feet, were temporarily banned) all coffee shops, restaurants, butchers, grocers and takeaways were closed during the most strict 'Level 4' part of the 'lockdown' (27 March-25 April 2020). Takeaway food was still available in the UK from some grocery and 'small store' outlets, for example, for collection or via specially arranged delivery services.

- The impact on the self-employed and the 'gig' economy is proving to be even more variable. As might be predicted, some self-employed faced with stoppage of work in their industry, such as construction, will be badly affected and will find it difficult to claim support. Faced with increased uncertainty, they will leave the 'gig' economy. See Chapter 1 for a more detailed discussion on 'Entrepreneurship as a Double-Edged Sword', and also Chapter 9 on ethics, and the stresses that the gig economy places on the self-employed (George and Hamilton, 2011), these stresses must only increase. However, other members of the self-employed will find demand increased for their services such as Uber drivers as people find different ways to travel to work and to supermarkets.
- There will be a 'shake out' of inefficient and traditional practices in entrepreneurship and small firms. Those small firms that were already struggling (like the larger firms such as Debenhams in the UK and the long-established publisher Bauer Media in New Zealand) are closing and will not return in the post-pandemic environment. Ironically, some viable businesses will close because owners may not wish to take further risks and lose their home or for other reasons.

Tan and Enderwick (2006) offer some very helpful parallels from their study of the previous Severe Acute Respiratory Syndrome (SARS) crisis focusing on responses by individual firms, Government spending, domestic and international (e.g. border closures), and they offer the following longer-term strategic implications that unfortunately have not been heeded by many Western Governments and firms that were unprepared for COVID-19:

- The need for diversification, maintaining supply chains, and firms having their own business continuity plans (where these are possible)

- ‘Fear management’. That is the need for full disclosure of information to avoid unnecessary panic, rumours and exaggeration. Notably, even before the COVID-19 lockdowns, many customers were reported as avoiding public places, coffee shops and restaurants.

5. The response of national governments

Faced with the imposition of authoritarian and stringent restrictions upon movement, (modelled partly on the response in Wuhan, China) and first imposed in the West in Italy, the imposition of WFH wherever possible, the closure of non-essential retail outlets, hospitality, catering and leisure sector businesses, national governments have been forced to introduce business support packages that have aimed to help and support entrepreneurs and small firms to survive, particularly those that have forced, by government action, to cease trading. These support packages are aimed at increasing the *resilience* of entrepreneurs, providing a safety net for a temporary period during the imposed ‘lockdowns’. At the time of writing, it is unclear how long such business support might have to last, but as mentioned it is unlikely that we will emerge with the same trading conditions, or indeed the same stock of businesses. National governments have never had to intervene on such a scale before, to illustrate the extent of intervention of support for entrepreneurs and small and medium-sized enterprises (SMEs) we give two examples: the UK and the New Zealand responses.

5 (a) The National UK Government Response

The UK Government announced an unprecedented business package of support to include special support for SMEs and the self-employed on 26 March 2020 (up-dated). The specific support package for SMEs included:

- Business Interruption Loan Scheme with Government-backed security for SMEs to apply for loans up to £5m over six years—SMEs apply through the normal banking channels.
- Job Retention Scheme-aimed at all businesses, where employees are asked to stop working due to COVID-19, they become ‘furloughed’ workers, still on the payroll, but not paid, the firm can reclaim 80% of their wages up to a maximum limit (£2500 per month).

- Deferred Value-Added Tax payments for three months initially.
- Deferred income tax payments for 6 months.
- Special taxable grants for the self-employed, allowing the self-employed to claim 80% of declared trading profits up to a maximum (£2500 per month)—the trading profits to be calculated as an average of the previous three years' trading.
- SMEs can reclaim statutory sick pay where workers are self-isolating due to COVID-19.
- Special support for the retail, hospitality and retail sectors, including business rates holiday and cash grants.

5 (b) The National New Zealand Government Response

The distinction between the more 'draconian' (in the earlier description by Tan and Enderwick, 2006 in relation to China) lockdown approach of the New Zealand Government – compared to the initially more *laissez-faire* approach of the UK – is notable. The relatively experienced UK Government permitted hot takeaway food to be delivered, whereas the inexperienced young New Zealand Government hastily compiled a list of 'essential' and 'non-essential' businesses (see Annex). These 'essential' businesses, for example, included a cigarette factory, but not grocers or butchers; even restaurants were not permitted to sell takeaway food, and (often ethnic) takeaways were closed. Some large businesses were initially closed, but after a week were permitted to sell online.

The New Zealand economy has several critical sectors, such as the primary sector, including farming and food production, which includes a large export trade, but which have continued as 'essential businesses', and the tourism and hospitality sector, having already been dealt a fatal wound by the COVID-19 pandemic, with many small restaurants and coffee shops suffering further harm by being classified by the Government as non-essential businesses. Indeed, in early April 2020, a fifth of firms – mainly small businesses – in the hospitality sector reported that they would close permanently (Radio New Zealand (RNZ), 2020). The New Zealand Government's support package for businesses (Ministry of Business, Innovation and Employment (MBIE), 2020) includes:

- A wage subsidy for affected employees that employers can apply for and then pay to their employees. This scheme also covers self-employed people. The business needs to demonstrate a 30 per cent decline in its revenue.
- A Government-backed Business Finance Guarantee Scheme that support[s] targeted new loans (including increases to existing limits) to eligible businesses, as a response to difficulties caused by COVID-19. Under the scheme, businesses with annual revenue between \$250,000 and \$80 million can apply to their banks for loans up to \$500,000, for up to three years The Government is guaranteeing 80% of the risk, while the banks are covering the remaining 20%” (MBIE, 2020).
- Legislation was amended to provide ‘insolvency relief’ for potentially insolvent companies by providing a ‘safe harbour’ for directors and putting ‘existing debts into hibernation until they are able to start trading normally again’ (New Zealand Companies Office, 2020).
- A mortgage holiday scheme for up to six months so that SME owner-managers do not lose their homes (Beehive, 2020).
- Additional advice on health and safety, landlord and tenants, export and importers, travel and other legal matters.

Discussion questions

1. Discuss examples of innovations that you have observed undertaken by local entrepreneurs in the face of their loss of business as a result of COVID-19 and the lockdowns.
2. Discuss examples of entrepreneurs that have ceased trading locally. Do you think that they could have continued to trade in different ways?
3. How have you been affected by COVID-19 and the restrictions and how have you adapted your working practices?
4. Do you think working practices such as WFH will become the new norm?
5. What has been your Government's response to help support entrepreneurs and SMEs—will it be sufficient and effective?

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Annex: New Zealand Essential and Non-Essential Businesses

Essential	Non-essential
Accommodation and housing	Arts and crafts
Alcohol	Butchers, bakeries and similar small-scale food retailers
Courier services	Farmers markets
Essential non-food consumer products	Furniture moving
Maintenance and safety	Hospitality services: bars, cafes and restaurants
Pets and animal welfare	Natural health services
Food delivery and food banks	Pet care services
Supermarkets and dairies	Real estate services
Click and collect services for consumers (supermarkets only)	Turf maintenance
Surveying	
Transport	
Other services*	

Source: <https://covid19.govt.nz/businesses-and-employees/essential-businesses>

*Laundry, plant nurseries, recruitment services, rental cars, self-storage, support services (e.g. IT, Payroll), telecommunications, unions.