

The Impact of COVID–19: A Major Crisis or Just Another One?

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EXECUTIVE SUMMARY

The COVID-19 pandemic has had a devastating and immediate effect on all economies, impacting in the lifestyles and livelihoods of people around the world. There are strong concerns about how the crisis will affect SMEs that represent over 90% of all firms worldwide. In emerging countries, SMEs already operate in challenging contexts characterized by institutional voids and scarce resource environments where entrepreneurs need to continuously develop strategies to survive. The purpose of this study is to examine the role of resources in a single case of a Brazilian SME and its strategies to survive the impact of the COVID-19 crisis. The study applies the resource-based view (RBV) to understand how the type and nature of resources influence the activities pursued by this SME and relate the crisis with their usual challenges. Findings highlight the important role of different key resources in the survival, growth, and sustainability of SMEs, along with the need of institutional conditions to support and foster entrepreneurship.

1. INTRODUCTION

The COVID-19 pandemic has had a devastating and immediate effect on all economies, impacting in the lifestyles, relationships and livelihoods of people all around the world, with a sudden and violent impact that has resulted in widespread illness, death, and the rapid contraction of global economies due to lockdown measures and health protocols that interrupted supply chains and kept business closed. There are strong concerns about how the COVID-19 crisis will affect SMEs that represent over 90% of all firms worldwide, making them the backbone of the world's economy in both the formal and the informal business sectors (Alvarez, Urbano, Coduras, & Ruiz-Navarro, 2011; Eggers, 2020; Weaven et al., 2021a). As SMEs already operate in challenging contexts in emerging countries, characterized by

institutional voids and scarce resource environments where entrepreneurs need to continuously develop strategies to survive (Caballero-Morales, 2021; Mair & Marti, 2009; Rocha & Andreassi, 2020; The World Bank Group, 2020), the purpose of this study is to examine the role of resources in a Brazilian SME and its strategies to survive in such challenging environment, comparing it with the impacts of the COVID-19 crisis.

To successfully survive in such markets and their challenging situations, SMEs must leverage their resource-base (RBV) by combining different types of social, human and financial resources in order to create social and economic value (Zahra et al., 2009). This requires crucial managerial capabilities and creativity to successfully attract resources and accomplish their mission (Bacq & Eddleston, 2018; Desa & Basu, 2013; Zahra et al., 2009), so our study attempts to address the following research questions: *1) What is the influence of key SMEs' resources on the business survival in challenging environments?*, and *2) How strong was the impact of COVID-19 crisis compared to the existing challenges?*

By providing answers to these research questions, the present study seeks to examine which resources and capabilities are relevant to the strategic process of SMEs, applying the resource-based view (RBV) to explain how the type and nature of resources are pertinent to explain the activities and strategies pursued by an SME. This is relevant, specially considering that in emerging economies from Latin America, these kind of businesses are largely family-owned, commonly dealing with a large economic burden and uncertainty, in a scenario where is crucial to gather most of the knowledge regarding business management, strategic planning and innovation, to formulate alternatives to reinforce their business models for different markets and restrictions (Caballero-Morales, 2021). The methodological approach focus on a single case study of a Brazilian SME, a beauty salon, one of the segments most severely impacted by the COVID-19 crisis, where a study by Sebrae found out that 62% of activities related to beauty have been temporarily closed, and sales have decreased by an average of 50% (Ionescu-Somers & Tarnawa, 2020; Sebrae, 2021). We followed a qualitative approach and conducted several in-depth interviews with the founder and key manager of the SME, gathering information that covers the whole story of the business that was opened in 2006.

The study findings provide relevant insights regarding the role of key resources-based factors in SME's performance, contributing to enlighten the role of these resources *vis-a-vis* institutional voids and crisis, leading to more effective processes of the development of strategies in SMEs.

2.THEORETICAL FRAMEWORK

2.1 A brief Summary of COVID-19 Crisis in Brazil

On February 26th, 2020 the first COVID-19 case was confirmed in Brazil. In the beginning of March the first internal transmission was registered and on March 11th, the World Health Organization declared the coronavirus pandemic, estimating that the numbers of infected people, deaths and countries affected should increase in the following weeks. By this time there were 52 confirmed cases along with 907 suspected cases in 8 states (out of 27). On March 27th the first Covid fatality was registered and by April all states registered cases (Sanar_Saúde, 2020).

With the growth of cases, states began to declare “state of emergency” and to implement measures to contain the spread of the virus such as various types of closing non-essential activities, use of WHO's protocol (mask, social distancing, etc.), along with restrictions on the entry of foreigners. In the first six

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