

Entrepreneurial optimism and business recovery during the Covid-19 pandemic

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Managing Through Crisis: Evidence from our research 2020

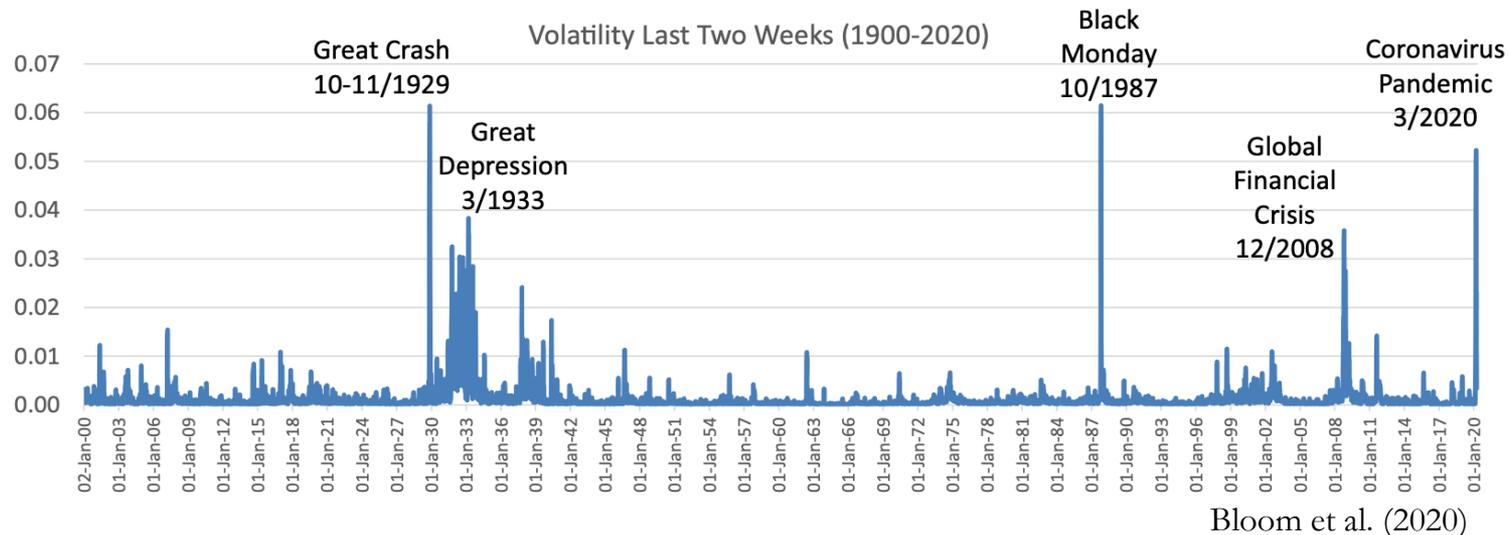
Collective Intelligence Hangout with Department of Strategy and Innovation

Copenhagen Business School

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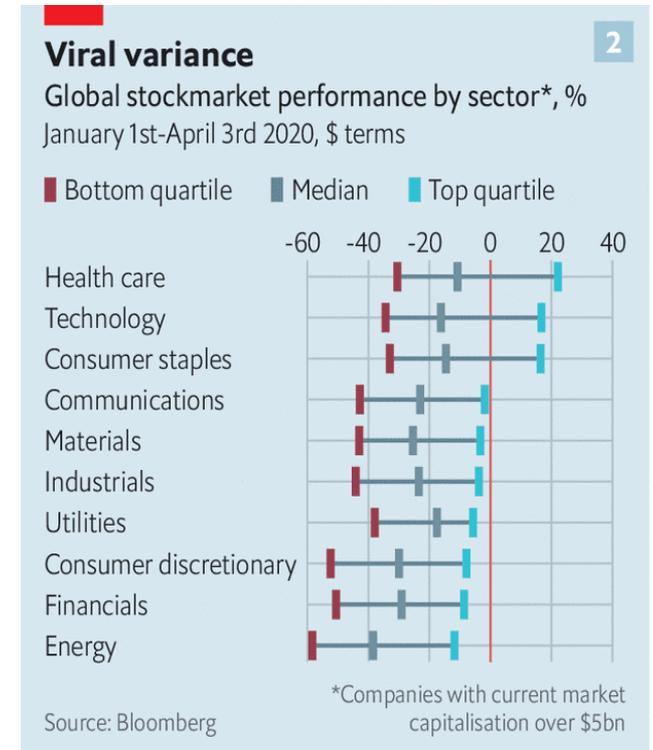
Unprecedented shock

- 66% of Danish SMEs reported a negative impact of Covid-19 on revenues; 40% more firms have declining revenues as compared to a normal year (Bennedsen et al. 2020)
- 43% of US SMEs were temporarily closed, and 39% of them reported lower employees as compared to pre-Covid level (Bertrand et al. 2020)



Yet, wide heterogeneity across firms

- Pre-2020 financial conditions
- Exposure to global value chains
- Long-term orientation (esp. CSR)
- Ability to carry out work from home



The Economist

Our study: The effect of individual traits

What's the role of optimism?

- Humans are generally optimistic, i.e. they display a tendency to expect positive events in the future even without evidence that can support this expectation (Sharot et al. 2007; Sharot 2011).
- Optimism has been shown to play a key role in a wide range of human activities related to work, social relations and health (Carver & Scheier 2014).

Optimism and health outcomes

- Positive association between optimism and individual health (Carver et al. 2010).
- Optimistic individuals tend to experience a lower mortality risk (Maruta et al. 2000), as a result of their higher propensity to take proactive steps to protect their health (Carver et al. 2010) and their better emotional response to adversities (Carver & Scheier 2014).
- An important, yet unaddressed, question concerns whether optimism can matter not only for individual survival but also for the survival of entrepreneurial firms in the wake of negative events.

Optimism and entrepreneurial success

- Covid-19 created several unprecedented business challenges
- While these challenges threaten the survival of many entrepreneurial firms (Bartik et al. 2020), they also entail relevant opportunities related to changes in households' daily routines and the emergence of new customer needs.
- Coping with these challenges and turning them into opportunities requires entrepreneurs to pivot their current ways of doing business along many potential dimensions – from product innovation to organizational and supply-chain adjustments.

Optimism and entrepreneurial success

- Optimism is associated with a successful adaptation to stressful events (Scheier et al. 1986; Baron et al. 2013).
- Optimism has been shown to be positively associated with organizational change (Wanberg & Banas 2000).

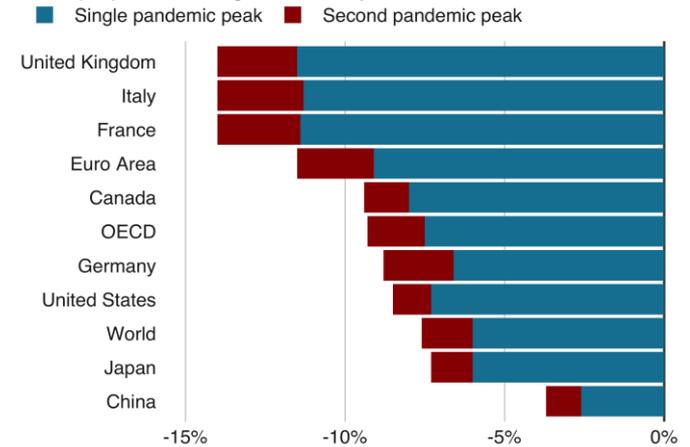
We adopt an exploratory research design to examine whether optimism shaped entrepreneurs' ability to undertake proactive actions to protect organizational health and their beliefs toward the future evolution of the Covid-19 pandemic.

Data

- Survey sent to 2,000 entrepreneurs in the UK at the end of the 1st Covid-19 wave
- Questions related to business conditions, individual characteristics and beliefs
- 1,632 usable answers

Pandemic hits UK economy the hardest

2020 projected change in GDP by scenario



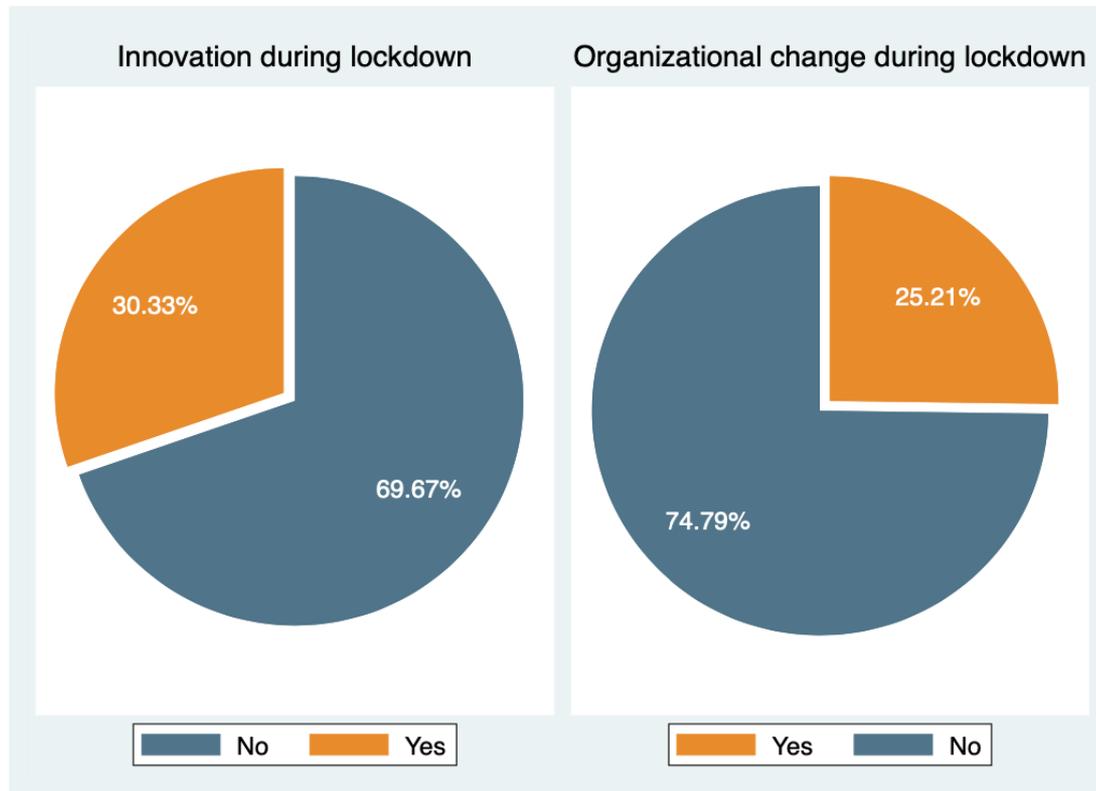
Source: OECD

BBC

Table 1: Summary statistics

	Observations	Average	Median	s.d.
Dispositional optimism	1,632	14.012	14	5.038
Advanced education	1,632	0.193	0	0.395
Female	1,632	0.643	1	0.479
Age	1,632	40.583	39	11.776
Risk aversion	1,632	5.927	6	3.103
Founding year	1,632	2012.79	2015	8.299
Full-time employees pre Covid-19	1,632	1.772	0	8.454
Closed during Covid-19 [0/1]	1,632	0.319	0	0.466
Revenue drop [0/1]	1,632	0.724	0	0.447
Revenue change during Covid-19 [%]	1,632	-37.785	-40	52.998

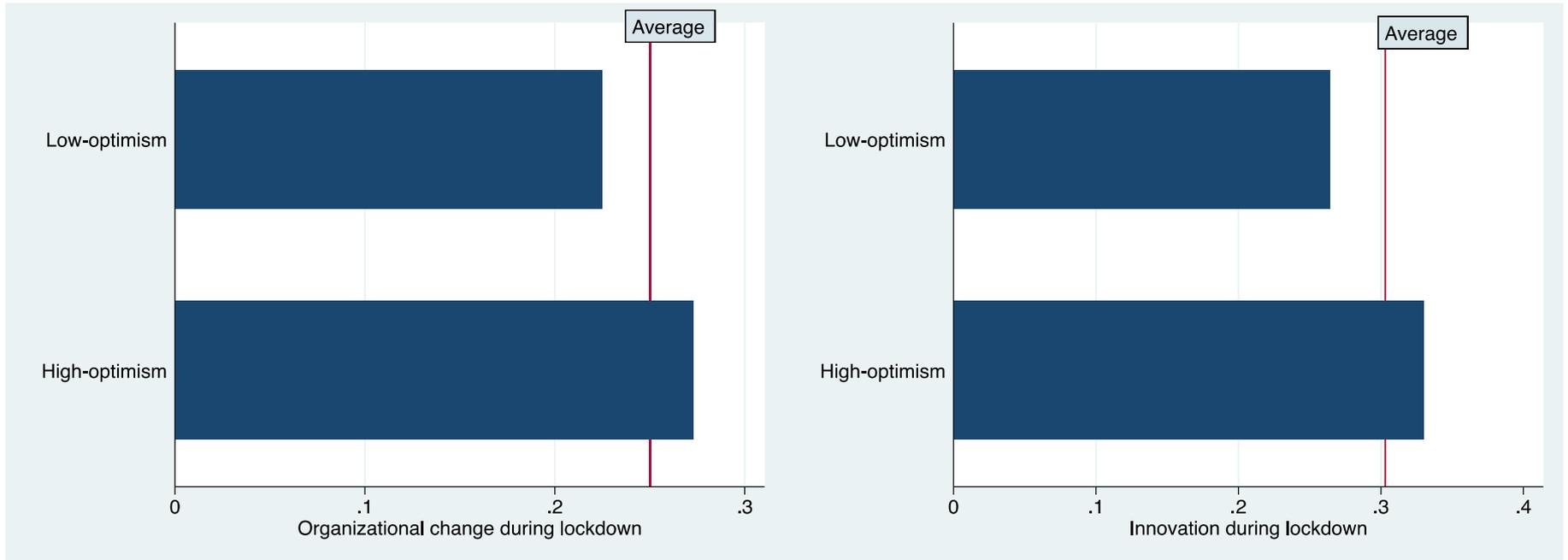
Innovation and change during Covid-19



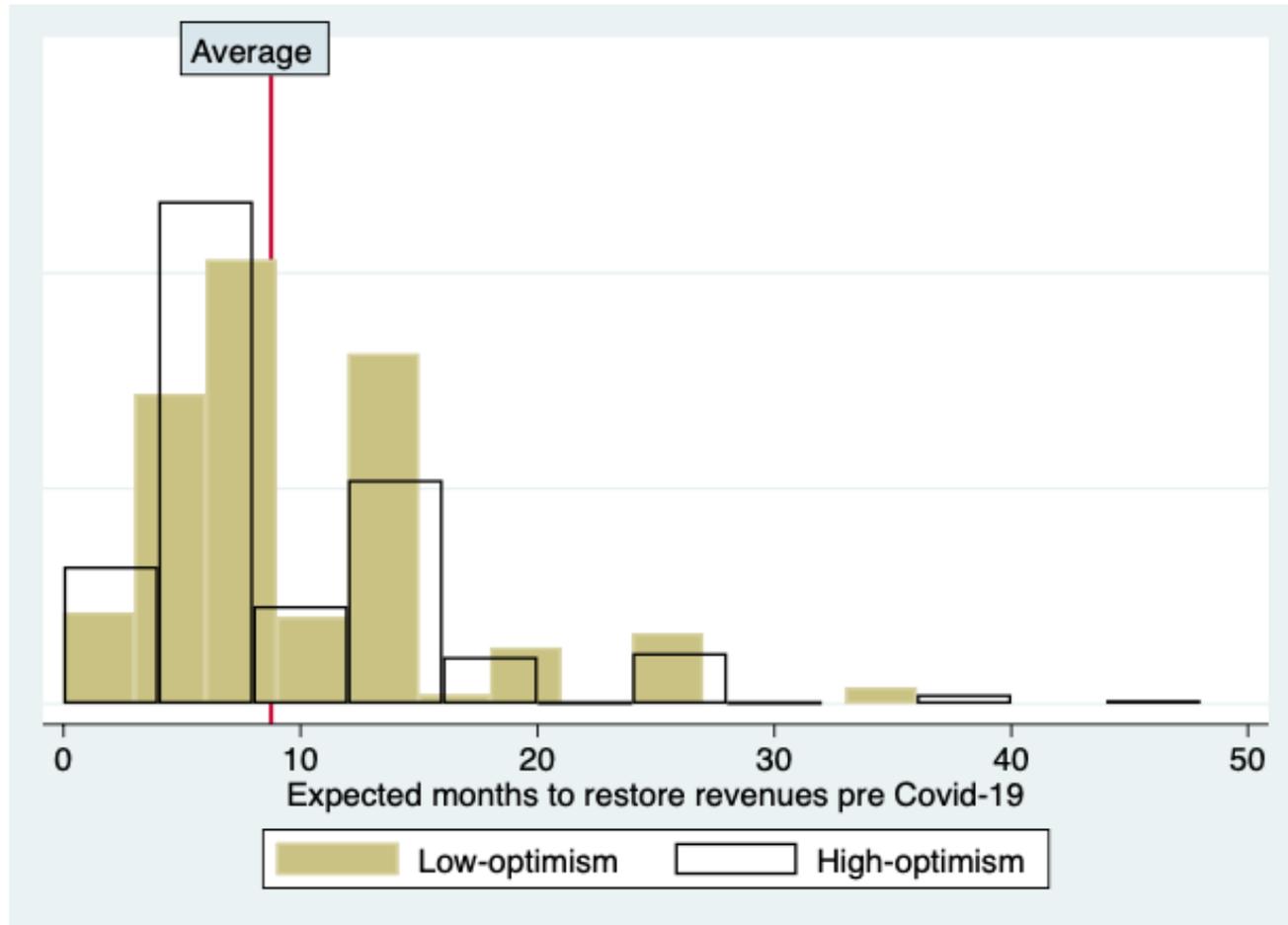
- Digital systems (66%)
- Product or process expansion (13%)
- Delivery systems (8%)

- Workplace adjustments, e.g. flexible schedules, remote-working etc. (33%)
- Job retention schemes (20%)
- Business model adjustments (12%)

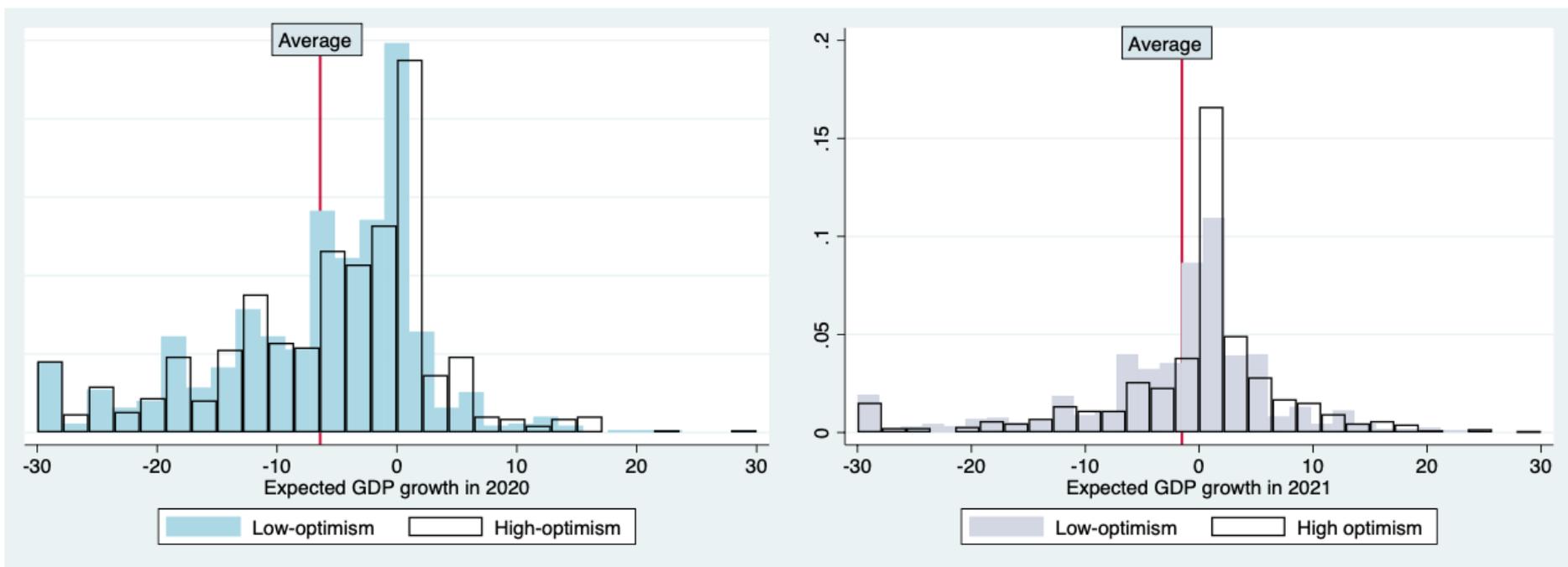
Innovation and change during Covid-19 by optimism level



Optimism and business expectations



Optimism and macroeconomic expectations





Main takeaways

- New ventures experienced significant damages during the spring outbreak of Covid-19, though the impact was highly heterogeneous across firms.
- Optimism helps to explain this heterogeneity across firms.
- Firms led by optimistic entrepreneurs show a higher likelihood of innovation and organizational changes, which were useful to overcome the pandemic shock.
- Optimistic entrepreneurs display more positive beliefs toward future events: they expect their businesses to fully recover over shorter periods of time and, more generally, they have positive expectations about macroeconomic conditions.



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