

CONSEQUENCES OF THE PANDEMIC ON SME MANAGEMENT

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***Abstract:** The global crisis caused by the Coronavirus pandemic has had profound consequences for the country's economy and business management, especially for small and medium-sized businesses. In this context, the paper aims to briefly present the main aspects captured by different authors on the economic and social situation of small businesses in Europe and especially in Romania compared to the US, the conditions imposed by governments and the consequences of the pandemic encountered by SME management in this part of the world. Finally, it highlights the main opportunities for recovery and development of SMEs in these countries, especially in Romania, which can support the management of these businesses in the coming period.*

***Keywords:** pandemic, economy, management, SMEs, recovery*

***JEL Classification:** M15, M16, F2*

1. Introduction

The COVID-19 virus pandemic has created a general decline in economies worldwide, with small and medium sized enterprises (SMEs) in particular being affected. As governments struggle with new blocking measures to combat the spread of the virus, the pandemic brings new losses to businesses and costs to governments.

The main problems facing the countries of the world are (Jones et al, 2021):

- Many countries are in recession. The IMF estimates that the global economy will shrink by 4.4% in 2021. The only major economy to grow in 2020 was China, which grew by 2.3%.

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- Stock markets around the world have been affected, with a negative impact on pension funds.
- The unemployment rate has risen in major economies (US, France, Spain, UK and others).
- Travel and tourism are severely affected. Reservations at all destinations have decreased, most flights have been cancelled and commercial flights are still below normal.
- Retail sales fell unprecedentedly as buyers stayed home. Many stores have closed, but there is a change in the behaviour of shoppers who have significantly stimulated online retailing.

A study conducted in 2020 on the effects of the pandemic on the competitiveness of companies highlights, among others, the need to develop digital skills of workers, the need to ensure online network security and the need for rigorous planning of company activities (Schwab & Zahidi, 2020).

These problems of the world economy have affected the activity of small businesses in all countries, as in many cases they are suppliers of large companies or are local producers and service providers. There was a decrease in the number of SMEs, and losses in commercial activity were felt in almost all industries.

This paper aims to briefly present the main aspects captured by different authors on the economic and social situation of small businesses in Europe and especially in Romania compared to the US, the conditions imposed by governments and the consequences of the pandemic encountered by SME's management in this part of the world. Finally, the main opportunities for the recovery and development of SMEs in these countries, especially in Romania, are highlighted. The importance of the topic results from the topicality of the issue induced by the pandemic worldwide. The analysis of some bibliographical references, comparisons and the own judgment were used in the realization of the paper.

2. The state of economy of SMEs in the period 2020 compared to 2019

Romania, as part of the European Union, has suffered a decline in the activity of SMEs and has taken the right measures at key times, such as those in Europe. The rapid spread of the virus has led government authorities in various European countries to temporarily close their businesses, restrict travel and movement of people. These measures will lead to strong contractions in economic production, household spending, investment, and international trade (EC, 2020).

In the United States, the situation was different in some respects. A study of 5,800 SMEs in the US (Bartik et al, 2020) highlights the financial fragility of small businesses, which over the decades have been the engine of development in this country. In the crucial period of 2 months, from February to April 2020, the number of SMEs in the United States decreased by 3.3 million or 22%. In African-American companies there was a decrease in activity by 41%, in Latin by 32%, and in Asian by 26%. Women's small businesses fell by 25%. In May and June, the number of active SMEs decreased by 15% and 8%, respectively. Continuous losses in May and June and partial recoveries in April were felt in all demographic groups and in most industries. (Fairlie, 2020).

Another study (Bartik, 2021) reveals that over time, fewer small businesses have gone out of business. More companies closed permanently in February and March than in April and May. The author notes that most of the decline in business income and consumption was not directly related to local infection rates, although no real investment was made in testing and tracking contacts, as South Korea or Germany have tried.

Small and medium-sized enterprises (SMEs) accounted for the essence of the life of the European economy, accounting for more than two thirds of the workforce and more than half of the economic added value. However, the results of a recent McKinsey survey, conducted in August 2020, of more than 2,200 SMEs in five European countries – France, Germany, Italy, Spain, and the United Kingdom (Dimson et al., 2020)

indicate how strong their prosperity has been affected by the COVID-19 crisis. About 70% said their incomes have fallen as a result of the pandemic, with serious impact effects. One in five was worried that they might no longer be given loans and would have to lay off employees, while 28% feared they would have to cancel development projects. Overall, more than half felt that their business could not survive more than 12 months – despite the fact that 20 per cent of those surveyed had already benefited from various forms of government assistance to alleviate their financial difficulties, such as tax exemptions or staff payments.

SMEs are the backbone of the economy: they represent 99% of EU businesses with 24 million small and medium-sized enterprises in the EU. They generated more than half of the EU's Gross Domestic Product, while employing around 100 million workers before the beginning of 2020. The European Union must help them survive the Covid-19 crisis (Guillot, 2021).

A business survey conducted by Eurochambres (2020) reveals that excessive bureaucracy affects the growth potential of SMEs across the European Union and is a major challenge for 78% of SMEs in 2019. It also points out that the European Parliament aims that SMEs should be taken into account in investment for innovation. This includes the need to develop pilot initiatives to accelerate the adoption of e-commerce by SMEs since the pandemic pushed small businesses to digital business models. Only 17% of SMEs have successfully integrated digital technology into their businesses. They need support to use innovation opportunities and maximize synergies with EU programs.

An analysis conducted in 15 countries in Europe, including Romania, and 2 countries in Asia (Japan and Korea) (Foy, 2020) highlights that the COVID-19 pandemic has hardly hit small and medium enterprises. In the absence of government support, the bankruptcy rate in 2020 would have doubled on average to 18% on average, but with differences by country (e.g. Italy 13%, Czech Republic 5%). Risky jobs in SMEs related to COVID-19 account for 3.1% of the private sector workforce, with accommodation and food, arts, entertainment, and recreation services

particularly affected, education, etc. SMEs have few liquid assets, limited access to bank credit and no large equity reserves, underlines the author.

Government interventions in most countries have mitigated some of the blow, and despite the severity of the shock, the banking sector has shown resilience and does not appear to be significantly affected by the increase in defaults (Gourinchas, 2020).

In Romania, in the conditions of the COVID-19 pandemic and the situation of SMEs in Romania has changed significantly compared to the previous period, respectively in 2019, both in terms of the number of those in operation and in terms of turnover.

In 2019, Romania had about 487,000 companies, of which 99.7% are SMEs. By comparison, at EU level (28 countries), the share is 99.8%, so close. Regarding the number of employees, SMEs have 65.8% of the total employees, slightly below the EU average of 66.6% (<https://www.zf.ro>, a.). Among SMEs, the largest share has micro-enterprises (79% in 2019), with an average number of 1.08-1.10 employees per enterprise. Their evolution is presented in table 1.

Table 1: Evolution of active micro-enterprises in 2020 compared to 2019

Year	No. enterprises	No. employees	New registrations	Suspensions, dissolutions and cancellations
2020	390443	426404	135137	88012
2019	378742	414678	133918	149721

Source: National Office of the Trade Register (<https://www.onrc.ro>); processed data

It is found that in 2020, in the midst of the pandemic, the number of micro-enterprises has increased compared to recent years, except for 2018. Also, the number of new registrations was higher in 2020 compared to 2019, and the number of cancellations, dissolutions and suspensions of activity decreased in 2020 by 59% compared to 2019. This paradox is explained by the reorientation of the dismissed or

temporarily suspended workforce with a minimum living allowance to the private sector, in order to maintain a decent standard of living for the family.

The Romanian economy seems, at first sight, to be on a positive trend, according to a study conducted by Sierra Quadrant in 2019 (cited by Bursa). The number of newly established companies is growing, insolvencies and bankruptcies are declining, in official statistics it seems that business is going smoothly. Beyond these data, in the real economy, however, the business faces more and more challenges. The financial deadlock is in the forefront. More and more companies become insolvent, given that they do not have the necessary capital to withstand the collection of money from partners (<https://www.bursa.ro>).

3. Comparison between the conditions and consequences of the pandemic

Based on the information gathered from the bibliographic references, a series of comparison criteria were selected, taking into account the main consequences of the pandemic on SME management. In summary, the comparison of the consequences of the pandemic in Romania, Europe in general and the United States is presented in table 2.

Table 2: Comparison between the conditions and consequences of the pandemic

Criteria	Romania	Europe	USA
a) Conditions imposed by governments to slow the spread of the virus			
1. Temporary closure of the activity of most companies with service activity	x	x	x
2. Application of social distancing restrictions	x	x	x
3. Investing in testing and tracking contacts	x	x	-
4. Government measures to support SMEs in keeping their business afloat	x	x	x
5. Unequal distribution of support funds	-	-	x
b) Consequences			
1. Bankruptcy of small and medium active	x	x	x

Criteria	Romania	Europe	USA
companies x x x			
2. Loss of jobs of a large number of people	x	x	x
3. Decrease in turnover in industries with companies closed in 2020 (construction, restaurants, hotels, entertainment, transport and personal services (laundry, fitness, beauty salons, etc.) except agriculture and declining profits.	x	x	x
4. Cash flow deficit and interruption of development investments	x	x	x
5. The losses were spread over demographic groups (minorities)	-	-	x
6. Drastic decrease in consumption and expenditure	x	x	x
7. Drastic reduction of travel in the interest of business	x	x	x
8. Transfer of remote activity in some industries: financial, professional, IT, etc.	x	x	x
9. Development of micro-enterprises	x	-	-
10. Growth of online business and in the pharmaceutical industry	x	x	x
11. Increasing online communication and endowments with ITC equipment	x	x	x
12. Direct correlation between declining business revenues and local infection rates	x	x	-

Analysing the table above, it is found that, in most cases, the management of SMEs has faced similar conditions and consequences in European countries, including Romania, and also in the United States.

The most important common conditions are: the decisions of the governments to temporarily close the activity in some industries, the social distance and the granting of the financial support.

In terms of government support in Europe, including Romania, subsidies have saved many jobs. However, researchers estimated that over 80% of grants were awarded to companies that would have survived without it (Foy, 2020).

In contrast, in the United States, financial support has been unevenly distributed, with major consequences for small minority companies (women, African Americans, Asians, and Latinos).

Among the common consequences resulting from negative effects, the most important are: bankruptcy, job loss, reduced turnover, profit and lack of liquidity. In Europe, compared to the USA, there was a direct correlation between the decrease in business revenues and local infection rates. In Romania, as an exception, the number of micro-enterprises has increased. More and more entrepreneurs-managers have reoriented themselves to put into practice innovative ideas in small businesses, but to ensure a decent standard of living.

However, there are also common positive consequences, among which: the increase of the online sales volume and the increase of the sales of ITC devices.

Given these consequences of the pandemic, SME managers continue to face a number of challenges, such as:

- Reduction or lack of liquidity for current activity and for investments;
- The need to reduce some jobs and put some employees into unemployment;
- Reorganization of activities in order to ensure distance and remote;
- Increasing expenses with ITC equipment and software;
- Attracting talents in order to promote innovation (Fatol & Draghici, 2020);
- Increasing the expenses for the purchase of disinfection and protective materials against the spread of the virus;
- Organizing online product sales;
- Difficulties in accessing financing through bank loans;
- Reducing the interest of foreign companies for direct investments.

These challenges lead to a reconfiguration of managerial and organizational functions.

4. Opportunities for the recovery and development of SMEs in the next period

The European Parliament proposes for European countries two priority measures for the recovery of SMEs: the elimination of bureaucracy and the support of SMEs in the development of IT and innovation (Guillot, 2021).

In Romania, many SMEs have adapted to the crisis and reinvented their businesses. For example, some companies have started to produce masks, restaurants have started to produce food for home, businesses in the field of online training have grown (meditations for children, training programs for adults in different fields, from foreign languages to gastronomy), sales of food (including agricultural) and non-food online increased.

In the US, in order to stay afloat, owners have adapted on the fly and found creative ways to operate. Although many small businesses have failed, others have survived through the innovations adopted during the pandemic to generate revenue and generate new opportunities as the economy recovers, but the impact on millions of employees nationwide is uncertain (Gurchiek, 2020).

In particular, in order to recover SMEs in Romania, the following actions are necessary:

- Increasing the level of skills, especially in the field of ITC by education and training (Dragomir & Munteanu, 2020);
- Increasing the level of innovation in all areas of activity and participation in the Fair of Inventions and Innovations. China IPR SME Helpdesk – supports small and medium-sized enterprises (SMEs) in the Member States of the European Union to enforce and protect intellectual property rights in relation to China, Hong Kong, Macao and Taiwan, based on the provisions of information and free services (Source: China **SME help desk**, 2021, ccir.ro);
- Reorienting the activities of SMEs towards the green industry. In the period 2021-2027, the EU's Next Generation Instrument will contribute

to a sustainable and prosperous recovery that will accelerate the transition to a digital and green Europe. It will be invested in the Member States through three pillars – 500 billion euros in grants and 250 billion euros in loans (Source: Noul plan de redresare, 2020, ccir.ro).

- Efficient use of available governmental and European funds and application for:
 - loans with subsidized interest and non-reimbursable financing / state aid, being available the programs IMM INVEST ROMANIA, IMM FACTOR and the sub-program AGRO IMMINVEST, with the allocation of guarantee ceilings on each program (source: *Fonduri europene, 2021*, startupcafe.ro);
 - the support scheme for HORECA companies, established by GEO 224/2020. The aid will be granted to the beneficiaries in the form of grants that will cover 20% of the loss in turnover or turnover, in the case of travel agencies, resulting from the activities related to the codes of certain CAEN HoReCa codes, suffered in 2020, compared to 2019, with amounts of up to 800,000 euros / enterprise.
 - the program for the digitization of SMEs regional development agencies, which will be opened in 2021. In order to increase the digitization skills of SMEs, a private fund was set up with the contribution of 18 IT investors to finance projects in the amount of maximum 50,000 euros per project, against a percentage of 10-15% of the business (source: Business Hi Tech, zf.ro).
- In general, with the involvement of SMEs, making government investments, especially in transport and energy infrastructure to create new jobs, economic growth and increase the living standards of the country's citizens.

Conclusion

The paper highlights the main consequences of the COVID-19 pandemic in the world and especially in the USA and Europe, including

Romania on SMEs. Comparing the consequences of the pandemic in the two parts of the world, it is found that there are not only similarities, but also some differences, respectively:

- In Europe and Romania there are no losses caused by pandemics differentiated on minorities and the distribution of government support funds was not uneven, but according to the decisions of the European Parliament and the Government of Romania.
- In the USA, no investment was made in testing and tracking contacts with coronavirus, as in Europe.
- In Romania, unlike the USA and the rest of Europe, there was an increase in the number of micro-enterprises.

These consequences have led to a number of challenges for SME management and the reconfiguration of managerial functions.

The highlighting of the consequences and the differences found allowed the identification of the main ways of recovery and development in the near future of SMEs.

The research can be developed in the direction of deepening the vulnerabilities of the SME sector in Romania and finding new actions to be implemented with priority by managers.

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