COVID-19 Crisis – Impact of the Pandemic into the Perception of Business Risk through Romanian SMEs Sector

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Abstract

The aim of the study is to evaluate the impact of the COVID-19 crisis on the entrepreneurship sector in Romania, attempting to contribute with various solutions that can have a direct long-term impact on the sectors affected by the pandemic. As we know, small and medium-sized enterprises are the most vulnerable ones because of their size, limited financial resources, and influences on the market itself. In Romania, as in all of Europe, the SME sector has been severely affected by the COVID-19 pandemic. This element concludes to several measures of the Romanian government to maintain the sector afloat, in order to obtain better results in the strategical long-term position. In compliance with the official statistic, in Romania, in all sectors of activity, four out of ten companies, especially SMEs are in the red zone, that means the risk is very high, with outlays higher than incomes and with a total number of around 955.000 employees looking to find some other jobs in different sectors of activity.

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1. Introduction

While the evolution of COVID-19 pandemic is uncertain and difficult to forecast, its severity is unquestionable. From 31st of December 2019 as of 31st of March 2021, 130,438,088 cases of COVID-19 have been reported worldwide in accordance with the applied case definitions and testing strategies around the globe, including a total amount of 2,755,122 deaths. The fast evolution of the COVID-19 pandemic has been really challenging for the medical system, economy, and social system of world and EU Members, everything turning into a crisis of global proportions. In Romania, the actual crisis has affected thousands of businesses and

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lives and continues to put enormous pressure on the actual economic system. For these reasons, it is essential to identify some solutions in order to obtain some points of interest to sustain the sectors affected by the pandemic crisis. Worldwide, SMEs represent more than 95% of all the companies, with a total of approximately 56% of added value and more than 66% of the total employment rate, especially in the European Union. A large-scale collapse of small and medium-sized companies could have a negatively direct impact on medium and long-term development opportunities and growth prospects. Thus, the main priorities of the governments worldwide are to prioritized some support policies of the SMEs sector, in order to maintain economic stability.

The COVID-19 pandemic has affected all of the European and non-European companies, from the small ones to the biggest ones and every employee has been directly affected by this worldwide pandemic situation. Millions of companies have been directly involved in various strategic changes, where their strategic models have been drastically changed and where millions of work positions have been directly compromised. The entire economic mechanism does not allow a complete shutdown, because many business ties will stop, for a short period of time or permanently. The entire COVID-19 crises also have a direct impact on the socio-economic sector, as a result of a large area of the population being left in the poverty, cannot pay for their houses, loses jobs, which directly leads to health issues and depression, and therefore to a higher mortality rate on the global scale.

The problem of the individuals becomes the problem for the entire economic society. Romania is an open economical system and the ties between companies and final customers need to remain intact in order to have a better connection and natural economic growth. While the international demand will restart in the later of 2021, companies must start immediately the entire activities and get back to their new normal as soon as possible. Romanian unemployment statistics show an exponential increase on a local scale. A lot of Romanian companies, especially the Romanian SMEs, were disconnected from the local market, where they had to move their activity to the online market, or stop it at all. Loads of job profiles were directly changed in order to cover critical functions and thus, at least maintain the health of the economic system.

In Romania, SMEs were the most exposed to the risk resulting from the pandemic. The Romanian government, together with the EU representatives, worked intensively on adopting a set of measures of both economical and non-economical support such as tax stimuli, tax reliefs, loans at a lower level, etc.

In the context mentioned above, where the COVID-19 crises take a good advance in the last year, the article tries to analyze the direct effects of the pandemic on the SMEs sector in Romania, attempting to contribute with different solutions and recommendations for post-crisis economic recovery.

2. Literature review and our contribution

Economic literature casing the business and economic implications of COVID-19 can be considered plentiful considering the rapid evolution of the worldwide pandemic situation.

Short and long-term consequences on labour markets have been emphasized by a plethora of studies. Fana, Torrejon Perez and Fernandez-Macias (2020); Blundel and Machin (2020); Dingel and Neiman, (2020). The main focus of the whole situation generated by the COVID-19 pandemic on the emerging labour market is placed on the economies most vulnerable to the SARS-CoV-2 virus, namely seasonal work and in areas with high cyclicality. In the same vein, these types of savings have a high concentration of low value-added jobs, where the profit generated is negligible (Fana, Torrejon Perez, and Fernandez-Macias, 2020).

In the early stage of the pandemic, where a lot of unknowns were highlighted and analyzed by specialists in the field, Nicolaa et al. (2020) highlight the incipient economic sectors that were to be affected and that seemed the most vulnerable to the virus, namely: agriculture, petroleum and oil, manufacturing industry, education, aviation, the housing sector, and sports industry. While social distancing is the principal key to obtain safety and reducing the spread of COVID-19, the only concept that works properly in a world full of interactions is the concept of working from home, which increases in popularity and in some cases rests as the only way of working in order to remain anchored in economic and social life.

Unfortunately, in companies or public institutions, where social distancing could not be achieved, a new business program was needed that would work quickly, to supplement and align the entire business process that employees could follow, strictly. Frankly speaking, even if the new business model could be successfully implemented, the rigor of the work but also the results obtained by the respective companies were in a free decrease, given the fact that it took a while until the employees could get used to the new lifestyle and new work procedures. This has led to a direct improvement in communication within companies and in the way they perform the day-to-day tasks of employees.

Macroeconomically speaking, Rebelo and Trabandt (2020) highlight a necessary valid compromise that the short-term recession caused by COVID-19 and the consequences on public health that policymakers must consider in order to overcome this unpleasant event both economically and socially world. Generally speaking, the pandemic can be seen as an exogenous shock to the global economy, where global fiscal policies must work together to identify a set of rules that can be applied globally and that can have a direct impact on the liquidity of companies and individuals, involved in the local development process. The need for state intervention in the process of stabilizing the economic sector, by identifying medium and long-term economic perspectives that can restore the global economy is obvious.

The literature on the economic segment with a direct impact of the COVID-19 pandemic on this sector is in a rapid state of growth. In the foreground of the coronavirus outbreak, the companies are facing new challenges in terms of business development and they need to make some adjustments in order to adopt some new business models. While the evolution of COVID-19 is indefinite and difficult to predict, the severity of the entire pandemic is incommensurable. Now, the sustainability and stability of public finances are tested through the rising unemployment cost in every EU state and over the globe. Another test falls also on the governments and their decision-making strategies when they face a new and unseen enemy and the unique complexity of the problem itself.

The line of research is new, but we have identified some important papers that have analysed the business environment under these circumstances. The impact of the coronavirus on the economic sector has generated demand and supply shock, where many companies looking for some government support (tax reliefs, subsidies, etc) but also some financial and non-financial support from business angels. As a result, lots of companies facing a decline in the demand for goods and need to adopt new costly processes together with some new business models.

3. Research methodology

The methodology we have chosen to use in this paper consists mainly in presenting sets of economic assessments for the SME sector in Romania, during the COVID-19 pandemic. Scientific research and factor analysis models have a direct impact on how to implement the new management systems in order to obtain a clearer vision of the impact of the pandemic on SMEs in Romania.

All these estimates' data collection that we will present are made with the help of statistical data collected following a detailed analysis of the identified data, during the analysis period March - December 2020. This study contains certain qualitative and quantitative estimates on the economic effects generated by the COVID pandemic in Romania in the SME sector. A small part of the analysed data presented in the below paper is limited to the effect on the short-term period.

4. SME sector before COVID-19 crisis in Romania

Before the strong impact that the COVID-19 pandemic had on the development of the Romanian economy, especially on the Romanian SME sector, the national economic evolution of the local SME sector was one on an upward trend with a record growth of over 15 % in 2019 compared to 2013 from over 942,000 to over 1,100,000. The highest growth was identified in the SME sector, as expected, with a value of over 17%, followed closely by large companies with over 250 employees with an increase of 8%. The slowest evolution was identified at medium companies with an average number of employees between 50 and 249, with an average of only 3.66%. (Table 1)

Active companies within the national economy, on size classes over 2013-2019 period

Table 1

Year of analysis	Total	Micro	Small	Medium-sized	Big company	Increase against the previous year
2013	942.266	869.641	57.820	12.646	2.159	-
2014	1.002.177	929.991	57.716	12.288	2.182	59.911
2015	1.013.907	940.881	58.153	12.630	2.243	11.730
2016	1.024.186	950.560	58.508	12.844	2.274	10.729
2017	1.050.797	976.377	59.324	12.813	2.283	26.611
2018	1.077.536	1.003.365	59.139	12.729	2.303	26.739
2019	1.109.862	1.033.465	60.913	13.110	2.374	32326
2019/2013	*117.78%*	*118.83%*	*105.34%*	*103.66%*	*109.95%*	

Source: Romania's Statistical Yearbook 2019, Bucharest

The evolution of the active Romanian companies based on size classes led to an increase in the weight of small companies (0-9 employees) from 92.29% in 2013 to 93.12% in 2019, while the weights for the others types of companies records significantly decreases. The highest negative impact registered in the analyzed period was identified among small companies, with an average of employees between 10-49, where the gap was about 0.65%, being a fairly high percentage, compared to the economy of scale of Romania.

Evolution of the active Romanian companies on size-classes

Table 2

Year of analysis	Micro	Small	Medium-sized	Big company
2013	92.29	6.14	1.34	0.23
2014	92.80	5.76	1.23	0.22
2015	92.80	5.74	1.25	0.22
2016	92.81	5.71	1.25	0.22
2017	92.92	5.65	1.22	0.22
2018	93.12	5.49	1.18	0.21
2019	93.12	5.49	1.18	0.22

Source: Romania's Statistical Yearbook 2019, Bucharest

The most active Romanian companies are in the order of SMEs according to the information provided in the tables above. The main fields of activity, among the Romanian companies, which met a flourishing period at the end of 2019, were also the most affected by the COVID-19 pandemic. 95% of Romanian SMEs are found in the industry, construction, services, retail sector, and a small increase in the agricultural sector since 2017.

Evolution of the active SMEs in the national economy on size-classes 2013-2019 (% in total)

Table 3

Sector of analysis	2013	2014	2015	2016	2017	2018	2019
Industrial, constructions and other services companies	95,09	95,17	94,98	94,79	94,90	94,95	**95**
Agro-companies	3,45	3,44	3,58	3,63	3,60	3,63	**3,66**
Finance companies	1,46	1,39	1,44	1,58	1,51	1,42	**1,34**
Total companies	100	100	100	100	100	100	100
Freelancing	18,66	18,24	18,72	19,08	18,61	18,66	**18,99**
SME's companies	51,51	50,65	50,69	51,55	52,72	53,52	**53,76**
Public administration	1,38	1,28	1,28	1,28	1,27	1,23	**1,25**
Entrepreneurs	28,45	29,83	29,31	28,10	27,41	26,59	**26**
Total	100	100	100	100	100	100	100

Source: Romania's Statistical Yearbook 2019, Bucharest

For the moment, the number of SME's companies had an increasing trend from 51.5% in 2013 to 53.76% in 2019, this information is defining in order to obtain a positive result from a macroeconomic point of view. Another important that is necessary to be taken into consideration is the decreasing number of the entrepreneurial sector, from 28.45% in 2013 to 26 in 2019.

5. SME sector before COVID-19 crisis in Romania

Starting with the end of April 2020, the Romanian business environment registered a massive depreciation in terms of working at a national level and business initiative at the level of the SME sector in Romania. The impact of the pandemic on Romanian companies, especially on small companies, where the investment rate is much lower and the need for capital is much higher, has been overwhelming. 2020 was the year with the lowest percentage of new companies established in Romania, in the last at least 10 years. (National Office of the Trade Registry). From the beginning of the current coronavirus crisis until the last analysed period, namely December 2020, the Romanian business environment was severely affected, with over one million people entering technical unemployment, over 40,000 companies in the HoReCa industry were closed and not less than 25 billion euros of the companies' turnover was lost during the analysed period.

The most affected by this health crisis was neither more nor less than SMEs, with a share of over 70% of companies no longer able to pay debts, suppliers, customers, and at the same time not being able to be competitive. in the market. The markets where SMEs in Romania were active closed unexpectedly and the lack of managerial knowledge together with the lack of funds for investments led to their entry into an uncertain economic area. Since April 2020, the COVID-19 pandemic has directly and irreparably influenced the entrepreneurial initiatives of small and medium-sized companies, regardless of their legal nature. Whether they were LLCs, authorized individuals, individual enterprises, or any other form of legal organization, there were semi-significant decreases compared to 2019 with approximately 75% of total sales.

Total number of registrations in 2020 compared with 2019

Table 4

County	Total no. of registrations over de period 01.20 – 12.20	Total no. of registrations over de period 01.19 – 12.19	Dynamics	Total no. of registrations over the period 01.20-12.20
Alba	**2155**	**3080**	**-30.03%**	**173**
Arad	**2443**	**3136**	**-22.10%**	**195**
Argeş	**2729**	**4102**	**-33.47%**	**224**
Bacău	**2486**	**3332**	**-25.39%**	**178**
Bihor	**3617**	**4834**	**-25.18%**	**280**
Bistriţa-Năsăud	**1571**	**2019**	**-22.19%**	**81**
Botoşani	**1133**	**1359**	**-16.63%**	**79**
Braşov	**3752**	**4862**	**-22.83%**	**305**
Brăila	**1317**	**1458**	**-9.67%**	**101**
Bucureşti	**19096**	**19057**	**0.20%**	**1582**
Buzău	**1874**	**2089**	**-10.29%**	**136**

County	Total no. of registrations over de period 01.20 – 12.20	Total no. of registrations over de period 01.19 – 12.19	Dynamics	Total no. of registrations over the period 01.20-12.20
Caraş-Severin	**901**	**1342**	**-32.86%**	**67**
Cluj	**5784**	**6537**	**-11.52%**	**484**
Constanţa	**4041**	**4886**	**-17.29%**	**281**
Covasna	**805**	**1107**	**-27.28%**	**46**
Călăraşi	**1025**	**1398**	**-26.68%**	**58**
Dolj	**3265**	**4281**	**-23.73%**	**264**
Dâmboviţa	**2056**	**3098**	**-33.63%**	**167**
Galaţi	**2016**	**2762**	**-27.01%**	**148**
Giurgiu	**1164**	**1476**	**-21.14%**	**86**
Gorj	**1314**	**1864**	**-29.51%**	**117**
Harghita	**1175**	**1485**	**-20.88%**	**66**
Hunedoara	**1806**	**2495**	**-27.62%**	**110**
Ialomiţa	**799**	**1122**	**-28.79%**	**59**
Iaşi	**4713**	**5426**	**-13.14%**	**359**
Ilfov	**5510**	**5209**	**5.78%**	**456**
Maramureş	**2391**	**3277**	**-27.04%**	**190**
Mehedinţi	**949**	**1326**	**-28.43%**	**71**
Mureş	**2738**	**3458**	**-20.82%**	**160**
Neamţ	**1859**	**2373**	**-21.66%**	**117**
Olt	**1335**	**1873**	**-28.72%**	**95**
Prahova	**3449**	**4785**	**-27.92%**	**232**
Satu Mare	**1565**	**1865**	**-16.09%**	**111**
Sibiu	**2502**	**3136**	**-20.22%**	**164**
Suceava	**2328**	**2666**	**-12.68%**	**168**
Sălaj	**1516**	**1785**	**-15.07%**	**74**
Teleorman	**1121**	**1425**	**-21.33%**	**93**
Timiş	**4859**	**5934**	**-18.12%**	**325**
Tulcea	**892**	**1183**	**-24.60%**	**59**
Vaslui	**1060**	**1495**	**-29.10%**	**75**
Vrancea	**1318**	**1703**	**-22.61%**	**85**
Vâlcea	**1510**	**2120**	**-28.77%**	**112**

Source: National Trade Register Office (https://www.onrc.ro/index.php/ro/statistici)

Referring to the data provided by the National Office of the Romanian Trade Register, the number of companies registered in 2020 compared to 2019 was in a continuous decrease, registering a decrease in some counties of over 30 percent. Regarding the limited liability companies, the number of registered companies in 2020, numbering 78419, is 20% lower than in 2019, where the number of registered companies was in the amount of 94869. In the first quarter of the year, the difference between 2020 and 2019 was -77%, registering a higher percentage towards the end of 2020. The most affected activities areas of activity for 2020, with the fewest records made during the entire year, according to statistical data collected, are agricultural activities and cultural activities, with a decrease of about 50%. Together with these, the manufacturing industry and the public administration register a considerable decrease by approximately 39%, an aspect that offers a different vision on the ways of adjusting the new market economic strategies.

Alternatively, the areas of activity with the highest increase related to the crisis generated by the COVID-19 crisis are few in number. Apart from the field of production and supply of electricity and heat, gas, hot water, and air conditioning where there was an increase of about 120% compared to 2019 and the field of transport and storage with an increase of about 6%, all others areas of activity registered negative values, which once again shows the severe impact of the coronavirus pandemic on the Romanian economic system.

6. SME's opportunities over the COVID-19 crisis period

Based on the analysis made in the field by different specialized companies, it is considered that the next period will become for the Romanian SMEs one of the most challenging stages in their recent history. This new stage in the life of SMEs comes with both negative aspects and positive aspects, which can intensify the sales or production activity of companies in the field, following the decisions they will consider necessary. The positive aspects can really be transformed into real opportunities for SMEs, if they are implemented correctly on a legal basis, with a series of specialists who can help and increase the development of this sector in Romania.

A first negative aspect, which destabilized the activities of Romanian companies, mainly the activities of companies in the SME sector, was the destabilization of the external supply chain. This destabilization has led to an increase in sales of local goods, which are produced in very small quantities to support the entire SME sector. A study conducted by NIS shows that approximately 55% of Romanian SMEs made regular imports at least once a month. With the intensification of restrictions, they had to identify new ways to procure their goods and the main market they considered was the local market. The local market has re-entered the spotlight since April 2020 and has remained active at the top of local searches for various goods or services. Unfortunately, in order to create new opportunities, there is a need for a considerable improvement of the production sector in Romania, by identifying solutions to relaunch this sector. In order to be competitive in the market and to be able to offer long-term sustainability, fast solutions are needed to relaunch the production sector before relaunching the actual consumption. In the long run, a consumption-based economy will only generate a destabilization of the market and a weak organization of the production sector with oscillating price increases and the lack of safety stocks in the case of large companies.

For Romanian SMEs, there are several development possibilities on the Romanian market, but the handiest in the current situation of the COVID-19 crisis is to access non-reimbursable funds through the SME Invest program, a program that aims at economic recovery of small companies in Romania, in the production sector and not only. This program aims to integrate participatory management processes together with a series of economic and social elements that will have a direct impact in the medium and long term on the current market in Romania. Compared to the crisis of 2008, the banking system does not lack capital. In Romania, unlike other EU countries, the degree of indebtedness for the development or establishment of a business is very small, giving the possibility to the new players in the market, to penetrate different other markets to which they will bring added value. Romanian entrepreneurs, together with SME owners, must focus on developing a sustainable economic platform, where both individuals and companies need to identify new solutions to overcome the current health crisis.

The main pawn in the development of the sustainable relationship between consumer and producer is the production and supply chain. It is necessary to implement among small and medium companies in Romania, an ideology that allows the simultaneous resumption of production and consumption, which must operate in complete bloodshed to have effects as quickly as possible. From an economic point of view, the state should focus its full attention on supporting the value chain in order to stimulate consumption and production, as a whole, but also on a series of systemic investments that can support small Romanian companies to succeed. Macroeconomically speaking, it is necessary to identify new opportunities in order to get over this health crisis. The handiest tool the state has at its disposal is to increase investments in education, in the agricultural system but also in the health industry, to reactivate systems that have been hard hit by this pandemic.

Thus, there may be several opportunities that small and medium-sized companies can identify and bear fruit at full capacity. Another sector with massive growth during 2020, was represented by the telecommunications industry which had record demands given the fact that most individuals and legal entities needed a fast internet service anywhere, anytime, at maximum speed. In this way, the opportunities for small and medium-sized companies have expanded considerably, allowing them to penetrate the online market and operate outside the big cities, while being concerned about the benefits of clean air and the identification of new green solutions. At the same time, most companies, be they SMEs or large companies, have implemented within the company's management systems, the concept of "work from home", a concept that was not so well implemented in SMEs in Romania. The WFH concept has proven to be a useful solution for Romanian companies, especially for companies, be they SMEs or large companies, with predominant office activities.

This concept could be used after the end of the health crisis, positively changing the dynamics of an employee's work schedule but also increasing employee productivity. Also, for companies, working from home comes with financial advantages, especially through the exemption of workspace but also the overcrowding of large cities. At the same time, they can hire people from other parts of the world indefinitely, without having to physically travel to the office, if the job allows it. According to specialized studies, WFH will become a very commonly used concept in the future, with an increasing rate of predictability. Thus, Romanian

SMEs could outline a business plan that would include this defining activity in order to identify and systematize the management process of their company.

7. Solutions for SMEs recovery

First of all, the most important tool that should be used is to use and develop a series of online platforms, where small local producers together with businesses with low visibility and a low budget for these activities. With the help of this tool, small companies would have visibility and could benefit from a real increase in turnover and their impact on the business system developed in the market. At the same time, this tool must be implemented on a sustainable basis, with a series of realistic implementation and anticipation activities, which can provide SMEs with the support they need and provide them with sustainable development opportunities. At the same time, in order to have a continuity and a well-integrated program within the European community, a SMART strategy is needed, through an online platform for adapting and systematizing the organization's management process. This SMART program can help Romanian SMEs obtain non-reimbursable funds through public-private partnerships with the EU, by implementing new green market systems, which protect nature and at the same time offer companies sustainable development opportunities.

Secondly, supporting a national investment program that could help Romanian SMEs to penetrate new markets by developing new sectors of activity. Thus, all SMEs with a desire to develop can identify new solutions for modernization and digitalization, through which they can add value to the environment they belong to. For tourism SMEs, the main economic recovery fund could be the launch of holiday vouchers, which should be limited in the budget by capping the prices of the accommodation offered by owners. Therefore, both the provider of travel services who would know what would be the added value they would gain by attracting new tourists and the beneficiary who would be sure that through those holiday vouchers could enjoy a stay according to European standards. At the same time, the SMEs active in Romania in the field of tourism has the most to recover. During 2020, they did not benefit from real solutions to their problems and were in a continuous area of uncertainty, given that pandemic measures with a direct impact on them have always been surrounded by ambiguity.

Consequently, during 2020, they failed to structure a business plan, they failed to outline their marketing strategy and the ways of business development. Therefore, the development strategies of SMEs can benefit from real solutions, marked by the direct involvement of companies, the state, and all those who want to restore and implement a new management system, outlined for the new normality in which the world falls. By identifying new sets of rules, the vision of SMEs could be much clearer and the results can accurately impact the new business models of the future.

8. Conclusions

Globally, the SME sector was the hardest hit during the COVID-19 pandemic. This aspect has led to a mobilization of global economic and social forces, which have managed to take a series of measures to keep this hard-fought sector on a line of survival. The European Union, as well as the United States, have tried to identify the main ways in which the global economy can avoid a new economic crisis, in addition to the health crisis we have been living with for more than a year and a half.

Unfortunately, Romania is not so good in terms of measures to support SMEs. While the average of the European Union countries allocates approximately 12% of GDP to support SMEs, Romania manages to allocate only a percentage of 3% of GDP, this percentage being totally unrealistic if we take into account the number of closed companies and the number of employees sent to technical unemployment. The main measures that the Romanian state has managed to identify to save SMEs from financial collapse and for the economic recovery of the HoReCa sector are almost non-existent. The measures applied so far by the Government aim to protect as many companies as possible, without being able to identify solutions for economic recovery for them. Apart from ensuring the technical unemployment in the amount of 75% of the value of the gross salary and the guarantees of the loans for investments and the safety fund of the SMEs, the rest of the measures are devoid of economic importance.

These measures packages have the role of recovering and keeping afloat, the basis of the economy of any state, namely SMEs. The measures packages should involve all national resources, including all resources obtained from the European partnership with the EU. The prioritization of measures, based especially on the support of social measures but also on the economic protection of SMEs, aims to complete business relations in Romania. Therefore, this period needs direct communication between the business environment and the local authorities, in order to identify the needs and problems that appeared during the whole process of economic revitalization. The Romanian business environment must know what the government's priorities are and what other new taxes will be introduced, in order to be able to outline a new business model applicable in the new world economy.

In conclusion, the COVID-19 crisis has a different impact on the Romanian business environment, compared to the financial crisis of 13 years ago. The important measures that the state must take regarding tax flexibility, private investments but also public ones, must be discussed and analysed together with Romanian businessmen in order to be able to identify the best solutions to get out of the crisis. All these actions taken during this period must aim at rebuilding a new management ecosystem.

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