

Effects of the COVID-19 Pandemic on the European Business Environment – Romania Case Study

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Abstract

The impact of the COVID-19 pandemic on the economy is multidimensional, affecting, among other things, supply chains, human resources or companies' revenues. Although this impact differs, from one economic sector to another, however, similar business responses to the crisis can be identified, especially in the case of SMEs. In this context, the present paper analyzes the effects of the COVID-19 pandemic on the European business environment in general and on the Romanian one in particular, as well as the measures adopted in response to them.

Key words: COVID-19 pandemic, crisis, business environment, SME

J.E.L. classification: H12, L26, L38

1. Introduction

Coronavirus has shaken the foundations of the entire world, challenging the health and social protection systems, the economies, and the way people live and work together. Without being an exception, the European Union has faced a public health problem that has quickly become the worst economic crisis it has ever experienced.

Of course, the virus as a threat is the same in all the Member States, but its impact and the recovery potential differs between them. However, each state has supported, as far as possible, its workers and enterprises, but not all to the same extent, that is why there is the risk of an unbalanced recovery, unfair competition and deepening disparities in the business environment.

2. Theoretical background

In defining their development plans, corporate executives must take into account four major forces that are transforming the global business landscape: globalization and the emergence of a new type of regionalization; accelerating global competition in technology; aging demographics and the race against climate change, as shown in an Ernst and Young Report (2020a). The COVID-19 pandemic does not fundamentally change the architecture of the effective geopolitical risk management, but will accelerate the trajectory of each of these trends.

The current crisis, generated by the COVID19 pandemic, does not resemble any of the crises the economies have faced so far, as it is disruptive and evolving, and many of the effects and discrepancies it generates will continue to materialize in an unexpected way or which was not anticipate (Ernst and Young, 2020b)

All the restrictions imposed by national authorities to limit the spread of the virus have led to a slowdown and, in some cases, almost to the cessation of economic activity. Supply chains and production lines were disrupted, as well was the trade in goods and services. Household spending and private investment have plummeted to an all-time low. The world economy and most of its

industrial ecosystems have functioned far below their capacity. (European Commission, 2020)

The economic impact of the current crisis differed, however, from one economic sector to another, with businesses that provided services involving physical contact with customers or where jobs and customer meetings were crowded being most severely affected. Also, the impact also depended on the demographic and economic structure of each country, as for example, those with a large number of small and medium-sized enterprises (SMEs) were more affected. (OECD, 2020a)

In this context, business leaders focused on managing the immediate effects of COVID-19 on supply chains, revenues and profitability. At the same time, they had to rethink their capital allocations and mergers and acquisitions (M&A) plans for the post-crisis period, according to an Ernst and Young barometer (2020c). With the need to respond urgently to the unprecedented effects of COVID-19 globally, the top priorities of company leaders have become employee welfare and job preservation.

From a strategic point of view, over a longer period of time, the COVID 19 crisis will bring about a change in the way business is conducted. Supply chains based on major suppliers located in a single country (eg China) will be rethought. The risks of supply and the entire business disruption are too high to offset the lower costs initially charged. The impact of technology will be major not only to redefine the way companies communicate, but also to implement more agile, flexible and resilient processes. Human capital remains the hardest hit in this pandemic, and it is essential that business and political leaders work together to maintain people's health and financial stability. (OECD, 2020b)

The pandemic and its impact on business environment have highlighted the importance of digitalization in all sectors of activity. Technology and innovation have proven to be an important key to business survival and success. Both short-term and long-term solutions to the situation caused by COVID-19 will depend on technology, all the more so as the rapid escalation of online social and professional activity has created a more vulnerable environment for disinformation campaigns and cyberattacks. The economic and national security implications of these changes and challenges will accelerate and intensify the geopolitical nature of technological competition. (OECD, 2020c)

3. Research methodology

This paper analyzes the information collected following the most significant opinion polls conducted among representatives of the Romanian business environment since March 2021 in order to assess the impact of the crisis generated by the COVID-19 pandemic on Romanian companies and their reaction to it.

4. Results

The COVID-19 pandemic has severely affected the European business environment, but especially small and medium-sized enterprises (SMEs) across the European Union. The economic stalemate and quarantine have led to severe declines in revenues, which have led many SMEs to or on the verge of survival, shows a study conducted by the Department of Economics, Law and Sociology of the Romanian Academy (2020). On average, at EU level about 90% of SMEs have been economically affected, mostly services (60% -70%), construction and industry (40% -75%). About 30% of all European SMEs report that they have suffered 80% loss of turnover, compared to an EU average of about 50%. (European Commission, 2020)

Since the beginning of the pandemic, EU Member States have taken unprecedented measures to protect people's lives and livelihoods. An inventory of support measures for SMEs underlines that these measures mainly consisted of the partial coverage of the salaries of companies with suspended activity, postponements of credit rates, stimulating loans for investments and liquidity by subsidizing interest and simplifying access procedures, setting up online platforms to facilitate access to information and procedures.

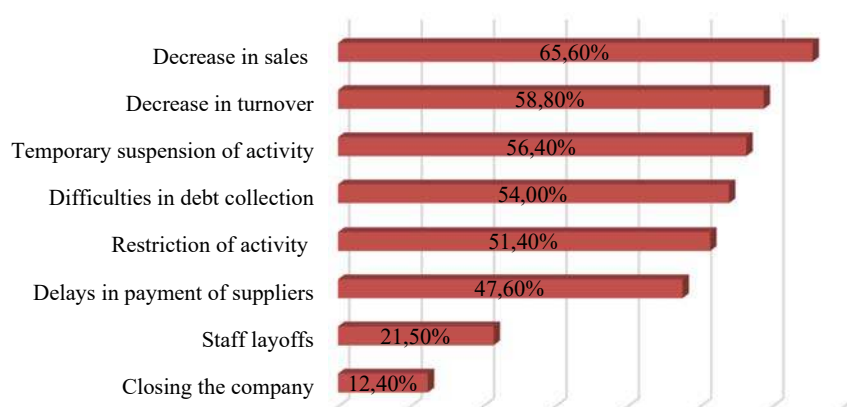
The EU has supported national efforts to mitigate the economic impact of this crisis, proposing, for example, the establishment of SURE, a new tool to help citizens keep their jobs. This initiative is only part of the package of immediate response measures, amounting to EUR 5 hundred billion, made available by the EU to support Member States' workers, small businesses and economies. In total, the European Recovery Plan proposed by the European Commission in May 2020 will

contribute EUR 1.85 trillion to the restart of the European economy and will ensure the relaunch of Europe. (European Commission, 2020a)

The situation of SMEs in Romania is far from the European level, where they provide and occupy more than 2/3 of private sector jobs and contribute more than half of the value added at national level. With about 30 SMEs per 1,000 inhabitants, Romania ranks last in Europe, where the average is about 60 %. (European Commission, 2019) The impact of COVID-9 also strongly affected this sector, as in January 2020 6,897 companies were registered, in February - 11,314, and in March - 6,023 companies according with National Institute of Statistics.

A survey conducted by the National Council of Small and Medium Sized Private Enterprises in Romania in March 2020 showed that 98.6% of the SMEs declared themselves as being affected by the pandemic. Among the main effects mentioned are: decrease in sales (65.6%), decrease in turnover (58.8%), temporary suspension of activity (56.4%), difficulties in debt collection (54%), restriction of activity (51.4%).

Chart no. 1 Immediate effects of COVID-19 pandemic on Romanian SMEs



Source: (National Council of Small and Medium Sized Private Enterprises in Romania, 2020)

Also, according to a HR Barometer study, conducted by PwC Romania at the end of March this year, 37% of the surveyed companies totally or partially stopped their activity after declaring a state of emergency due to the Coronavirus and 20% have restricted their activity. (PricewaterhouseCoopers Romania, 2020)

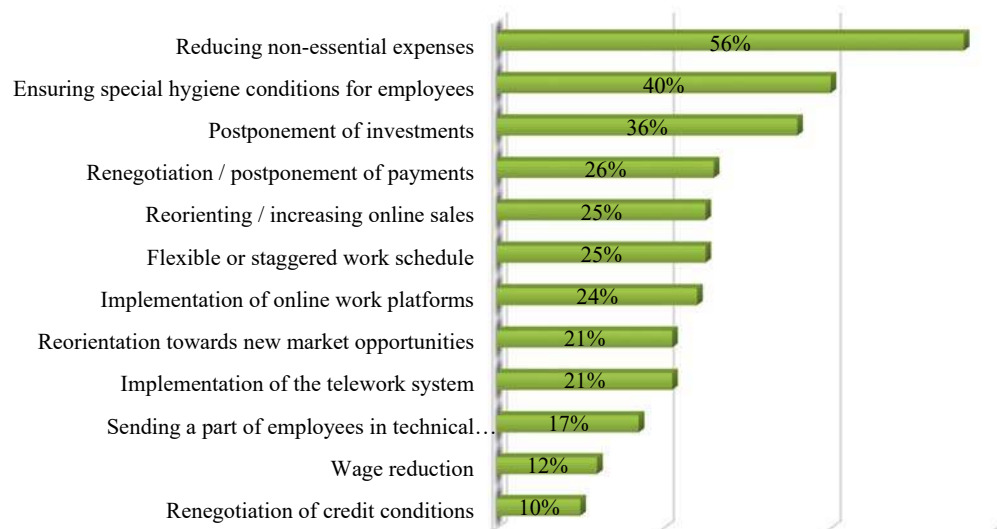
Unfortunately, in these conditions, as shown by the results of a barometer conducted by the consulting company Frames to order FACTORY 4.0 conference also in March 2020, most Romanian companies (72% of the 300 companies surveyed) do not have a risk strategy for situations such as the coronavirus pandemic. (<https://framesmedia.ro/blog/efectele-coronavirusului-pest-70-dintre-companii-nu-au-o-strategie-pentru-astfel-de-situatii/>).

At the end of April 2020, the MKOR consulting research agency launched a study conducted on Romanian companies, which illustrates how the impact of COVID-19 is felt in the Romanian Business Environment. According to the study, 91% of companies feel affected by the Coronavirus pandemic, with an average total impact of -10.2% by 2020. The average impact estimated by a typical organization is 100,000 Euros, with up to 100% of turnover. (Market Opportunity Research Consulting, 2020)

Microenterprises tend to be most affected by the effects of the COVID-19 pandemic. However, they are less sensitive to the effects of staff unavailability, probably due to the fact that these organizations tend to have very few employees.

95% of companies took measures to survive the crisis caused by COVID-19, and 90% took them immediately after the start of the emergency. The study shows that the most common are financial measures, which protect cash flow in the short and medium term, followed by measures to protect employees and measures to pivot the business.

Chart no. 2 Measures taken by companies to survive the crisis caused by COVID-19



Source: (Market Opportunity Research Consulting, 2020)

According to the same study, representatives of the business environment have a low level of trust, of only 2.7 points out of 7 compared to state institutions. Thus, the authorities must prove to the business community that it can manage the current crisis through a strategic approach, through which to secure itself for the private environment, on the one hand through tax exemptions and, on the other, through investment support.

The second wave of the COVID pandemic and the new restrictions imposed by the authorities have affected the Romanian economy even more strongly, mainly the SME sector, where financial problems have worsened. 58% of company representatives, surveyed in the November's Sierra Quadrant barometer, say they still have funds available for only 1-2 months. November brought, unfortunately, an accentuation of the problems in the Romanian economy, against the background of the difficulties generated by the pandemic. Decreased sales, increased financial bottlenecks and, in general, the contraction in business and consumption, have significantly influenced the finances of companies, especially small and medium-sized ones, show the conclusions of the new Sierra Quadrant barometer. According to the results of the research, most of the investors reached the bottom of the bag. (<https://www.sierraquadrant.ro/barometru-sierra-quadrant-58-dintre-imm-uri-mai-au-bani-de-supravietuire-pentru-1-2-luni>)

Asked about the current financial situation, 58% of respondents indicated that they have funds available for 1-2 months. 22% estimate that the money in the company reaches them for 2-4 months, 8% do not have liquidity and only 12% have financing available for a period longer than 4 months.

According to the second edition of the Moneycorp Barometer on the state of the economy, conducted between December 1-8, the perception of the business environment generally shows a moderate optimism regarding the economic evolution of 2021. The return will be asymmetric. On the list of sectors that will register a significant advance are mainly those that have performed in the lockdown generated by the pandemic, such as online commerce, courier services, construction, or electro-retail sector. (<https://framesmedia.ro/blog/barometrul-moneycorp-impactul-covid-in-2020-si-asteptarile-economice-pentru-2021/>)

According to the results of the barometer, in the conditions of moderate optimism regarding the economic outlook, most companies (61%) expect that it will not reach the level of turnover in 2019 until 2022. 15% estimate that they will recover in 2021 the turnover from 2020, while 23% estimate that business, in 2021, will follow a stable trend, not being influenced by the effects of the pandemic (generally companies that have benefited from the pandemic).

5. Conclusions

The pandemic highlighted the interdependence of the economies of the EU member states and the value of a fully functioning single market.

Currently, European companies in general and Romanian ones in particular are focusing on business continuity, but they must also monitor the situation and assess the risk of their employees' exposure to the new coronavirus and the effects on their entire value chain. Companies should start thinking about the next step, which is to resume or return to a normal level of activity. Thus, the adjustment of plans for 2021 must start from the reassessment of market conditions and long-term implications. Active management of financing lines, release of additional amounts from the balance sheet, in general rebalancing costs based on revised revenue forecasts, along with reconsideration of investments will best help companies, no matter how long the epidemic lasts.

Unlocking money from non-core business assets (land, warehouses, commercial spaces, vehicles or equipment for secondary functions), avoiding non-business expenses along with analyzing customer performance, from bad payers to unprofitable ones, it must also be in the focus of managers, regardless of the field of activity.

Last but not least, the current crisis has emphasized the need and value of a coordinate European response in times of crisis, and in this direction, there is still much to be done.

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