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**Impact of Coronavirus Pandemic  
on Small Businesses in Romania**

Daniela Elena MOCANU<sup>1\*</sup>, Olimpia STATE<sup>2</sup>

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**Abstract**

*One of the biggest characteristics of entrepreneurs is seeking opportunities during hard times. One of these moments happened during Coronavirus pandemic, as most of the plans and strategies of the entrepreneurs were quickly changed. The industry status changed overnight and the Government imposed rules that affected everyone's daily activity. In order to survive, most entrepreneurs had to find gaps in the marketplace or rely on their savings and/or Government assistance. Besides that, all entrepreneurs are facing now the question of how to manage in the new business environment and furthermore how to sustain the business.*

*The purpose of this article is to find out the impact the Coronavirus and the restrictions the Government imposed had on the strategy of small businesses in Romania. Also, we need to discover if they managed to get new opportunities for their businesses. The main assumption of this research is that the Coronavirus pandemic helped most of the entrepreneurs to change their strategy and take some steps that they would normally have taken in a couple of years. As a research method, we used the questionnaire survey method using closed-ended and open-ended questions to help us get a better understanding of the situation. The survey includes aspects like the management of human resources, the adaptability to the new situation, the financial situation and the new strategy of the business. The results of this researching project are thought to lay the foundation for a future study, meant to provide entrepreneurs with more comprehensive and useful information.*

**Keywords:** Business Strategy, Small Businesses, Entrepreneurship, Resilience, Coronavirus.

**JEL Classification:** E22, L21, M10

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<sup>1</sup> Owner at Copilul Călător S.R.L., Bucharest, Romania, daniela.elena.mocanu@gmail.com.

<sup>2</sup> Bucharest University of Economic Studies, Bucharest Romania, state.olimpia@com.ase.ro.

\* Corresponding author.

## **1. Introduction**

The discovery of the Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2) at the end of 2019 followed by World Health Organization (WHO) declaration that the world is currently facing a pandemic of COVID-19, put the entire globe under shock (WHO, 2020). If we take in consideration the last pandemics declared by WHO, none represented such a significant risk, by doing so many damages worldwide, until now.

The World Economic Forum, in their Global Risk Report 2020, made a top 10 risks in terms of Impact on the Global Economy and the world. Half of them are caused by environment. The 10<sup>th</sup> risk is “infectious diseases”. This report was published on January 15<sup>th</sup>, 2020 and shortly after this the highly improbable risk appeared as a reality. The results are massively: the entire world turned upside down for many people.

The COVID-19 made most countries to close their frontiers and impose strict movement restrictions and lockdowns. Beyond the human tragedy of COVID-19 pandemic, major economies (both demand and supply) paralyzed and many financial markets experienced a decline. Organisations are facing tough choices regarding their strategy and how to survive these moments as well as dealing with all conflicting information and the steps they should follow in order to minimise the losses (GDA, 2020). All organisations, from entrepreneurs who are doing everything on their own to big corporations, had to adapt to this new situation.

The purpose of this papers is to find out the impact that COVID-19 pandemic had (has) on small companies in Romania. The focus is on small businesses because they are, usually, the first ones affected by the smallest change. Also, we have noticed that the current researches are based more on bigger companies, forgetting about the small ones. The research focuses on their strategy and how they adapted it until now and which are their future plans.

In Romania, the first case of Covid-19 was registered at the end of February. The Romanian government has also announced 14-day quarantine for citizens returning from the affected areas. The situation quickly escalated and on March 8<sup>th</sup> there a ban on all indoor and outdoor activities involving more than 1,000 people was announced. As from March 9<sup>th</sup>, all schools were closed and all flights and buses from Italy were suspended. Italy was the first European country badly affected by Covid-19. Moreover, more than 1 million Romanian people live and work in Italy. On March, 14<sup>th</sup> the state of emergency was declared and on March 24<sup>th</sup>, a National lockdown was instituted until May 15<sup>th</sup>. During this time, movement outside the home or household was limited and all non-essential shops were closed, allowing only food shops and pharmacy to be open. A ban was placed on international travel and also the export of certain basic food was prohibited. As for the economy, during the state of emergency and lockdown, the Bucharest Stock Exchange recorded losses in all five trading sessions, and the main index, BET, collapsed by 17.6%, the strongest decrease since December 2018 (Popescu, 2020). Also, on March 16<sup>th</sup>, BNR (2020) announced a historical maximum for the unique

European currency against the Romanian currency, Leu. In order to support the business environment, the Government announced a series of facilities and financial aids.

After May 15<sup>th</sup> until this moment, i.e. end of July, Romania continues to be in a state of alert and relaxations measures. Most of the bans were lifted; people can easily travel inside the country and book a hotel. Restaurants and pubs are open only if they can provide an open space and all people must wear masks inside a closed space and in public transport and respect social distancing. Gatherings are still banned and private events can be made with just a limited number of people. The Government is currently preparing a National Investment and Economic Relaunch Plan (Romanian Government, 2020). Regarding the future context, the situation is volatile. The number of cases is following an ascending curve, increasing daily and already surpassing 1,000 cases per day at the time we are writing this article, causing difficulties to travel to other countries (quarantine, submission of a negative test or interdictions).

Business Confidence in Romania increased to -9.80 points in June from -17.40 points in May 2020. At the beginning of January 2020, it was -0.7 points. Business confidence started to decrease since May 2019. When it comes to the ease of doing business, Romania is ranked 55 among 190 economies in 2019. The rank failed to 55 in 2019 from 52 in 2018. These statistics were retrieved from TradingEconomics.com in order to establish the context in which entrepreneurs in Romania are doing businesses.

This is the context all companies from Romania had to face until this moment. It is briefly described and we did not mention the psychological impact that Covid-19 had on the population: impulsive food shopping, anxiety from facing uncertainty, stress, loneliness, fear, negativity, etc. This is also an important factor to take in consideration. But even in the darkest times there is still hope, as other disasters showed us.

This moment makes it interesting and makes it a perfect time to assess how the evolution of COVID-19 pandemic impacted small businesses in Romania, especially since the 2<sup>nd</sup> semester will be worse (Fernandes, 2020). In this research, we want to find out if there was hope for some small businesses, if they found opportunities and how they managed until now. The pandemic and its effects will be longer and this research makes it a starting point and lays a foundation for a more elaborate future study.

## **2. Problem Statement**

When it comes to the social and economic impact of a pandemic/crisis on small or even larger businesses, Doern (2016), Kuckertz et al. (2020) and Rizvi et al. (2020) noticed that there is scant evidence in entrepreneurship literature. To our best knowledge, we also noticed that. Moreover, this COVID-19 pandemic is different from others by making us face new challenges that create a unique situation (Fernandes, 2020): e.g., some part of production and economic activities were partially or totally interrupted in some countries and Romania makes no

exception. This particularity makes us search about crises management, leadership in crises and resilience.

Grint (2020) made a parallel between COVID-19 and tame/wicked/critical problem framework. We will take it on the next level and use this model to apply it on small businesses strategy and entrepreneurs. Tame problems could be the procedures and operations in a company, wicked problems – asking employees to collaborate and support each other and the company during a crisis and critical problems are the decisions the entrepreneur takes in order to protect the future of the company. But taking decisions during a crisis requires preparation and only a few small businesses would have been prepared for a crisis like COVID-19 pandemic. At the same time, businesses do not always have the ability to recognize the actual threat that a crises event can imply (Kuckertz et al., 2020) and the majority of businesses were taken by surprise by the COVID-19 pandemic.

Entrepreneurs, in order to be prepared, should practice resilience. Resilience is the ability to bounce back when the business is under continuous threat and search for new opportunities and develop new ideas (Rapaccini et al. 2020). Basically, resilience means to reinvent the company so it can face the challenges of the crisis. One of the resilience principles is called the theory of bricolage which means to have the ability to create solutions on the spot using the materials you have on hand (Mallak, 1998). But in order to do that, companies should accumulate experience from previous crises and develop a mind-set which includes anticipation and orientation to solutions and should invest in building resources and networking (Doern, 2016), (Rapaccini et al., 2020). Also, Doern et al., (2018) points out that the way an entrepreneur responds to a crisis depends on various factors which depend on their experience, stage of business development, the way the crises impacts their business and the resources they have to spare and how good they are to be used. Crisis management correlated with resilience is the utter most important during crises and especially COVID-19 pandemic, which is unique.

Most companies found survival in digitalization. A McKinsey (2020a) report shows that adoption of digital sales channels is increasing in both B2C and B2B. An interesting fact is that B2B decision makers believe that digital sales interaction will be almost twice more important than traditional interactions in the next few weeks. Digitalization makes companies less dependent on human interaction and travel. But this process sometimes can require a lot of time and resources and they have impact on the business model of the company (Rapaccini et al., 2020). Still, going digital is different than a measure which is urgently needed to recover from the pandemic. It is a totally new strategy and it has catapulted us 5 years forward (McKinsey, 2020b). But as the economy will recover, we will not know yet if companies will maintain this path, combine it or go back to their initial setup. It is still too early to understand how the new normality will look like. In Romania, at the end of 2019, small businesses which received online orders were just 12% compared to 2018, when they were 7% (Trading Economics, 2020).

According to INS (2020), the trends in economic activities evolution from July to September 2020 are the following: there will be a slightly increase in the

operations of Industries and Trade fields of activities, a slightly increased number of employees in Services (Construction field of activity) and Trade.

### **3. Research Questions / Aims of the Research**

The purpose of this research is to find out the influence the COVID-19 pandemic had on small businesses in Romania during lockdown and the state of alert. The objectives are to notice if they designed new business strategies, how they adapted to this new situation and if they found opportunities for their businesses or not. We also detected some hypotheses:

- COVID-19 pandemic helped most businesses to accelerate their strategy. Normally, it would have taken a couple of years to reach that point.
- Most companies went online and found a way to continue their activity using the Internet.

### **4. Research Methods**

For this research, we used the quantitative method. A survey was created including closed-ended and open-ended questions. Because we wanted to find out which are the most important things for them, most of the questions had a single answer.

The survey was applied in July 2020, between July 13<sup>th</sup> and 27<sup>th</sup>. In this time, the number of cases of COVID-19 illnesses exceeded 1,000 people and the state of alert was again prolonged. We divided the survey in 3 parts: before pandemic and general questions, during lockdown (March 16<sup>th</sup> - May 15<sup>th</sup>) and after lockdown, during the state of alert (May 15<sup>th</sup> - present).

The population of the study were small businesses from Romania with maximum 49 employees. The survey was sent to entrepreneurs, networking groups and hubs. The fields of activity were non-agriculture. A number of 47 companies answered to our survey.

A second method of analysis used in the paper is scientific documentation using scholarly literature written in the field.

### **5. Findings**

The entrepreneurs who answered our survey were 17 women and 30 men. The average age was 36.9. 97% of the entrepreneurs have a university degree.

The percentages of companies which answered this survey are from the following fields of activity: 14.9% Industries, 63.8% Services and 21.3% Trade. In 2018, according to INS (2020), there were 7.6% companies from Industries field, 57.89% from Services field and 34.42% from Trade field. Our survey respects the statistics and the trends. Most of the companies (48.7%) operate in Bucharest-Ilfov while the next big development region is South Muntenia (12.8%) and South-East (10.3%). All other regions have less than 10%: South-West, North-West with 6.4% and Centre, North-East and West with 5.1%.

For a better understanding of the results, we divided them in three parts: strategy, employees and sustainability.

**A. Strategy**

More than a half of the questioned entrepreneurs (53.2%) wanted, at the beginning of 2020, to expand their business at local level. A quarter wanted to expand at national level and 8.5% to internationalise their business and the same percentage to keep it at the same level. There were 4.3% who wanted to expand in other field of activity. We asked what their main strategy was and we took in consideration just one objective. After the lockdown, in July, 55.4% said that they will maintain their strategy but they will make small changes, 34% will switch to other strategy and 10.6% will keep the one they set before the pandemic started.

As highlighted in table 1, small businesses were mostly slightly affected and more than a quarter found new business opportunities (developing a certain product to help people in these times and going online with their businesses). Those who declared that they continued their activity as usual have as main activity business consultancy (legal, engineering, advertising, etc.). There are significant percentages of companies which had a better activity and higher revenue than last year. We could associate this with the resilience the entrepreneur has and the capacity to spot opportunities.

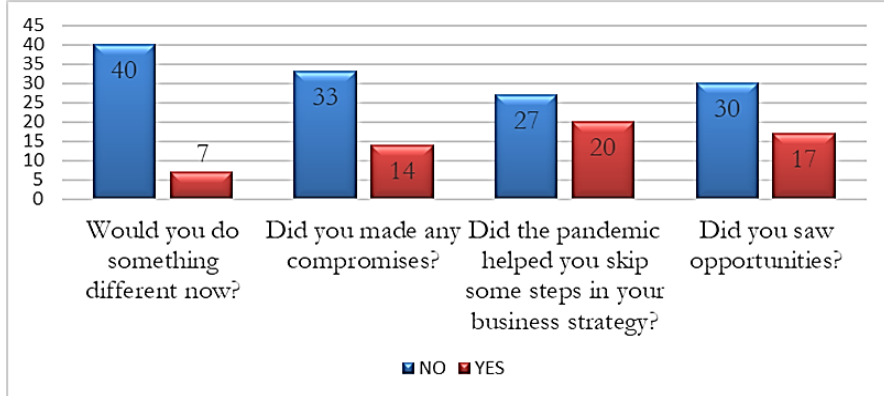
**Table 1. Impact of COVID-19 on small businesses in Romania**

<b>Impact of COVID-19 on their businesses</b>				
Slightly affected	Extremely affected	Temporary closed	The business went better	
40.46%	25.5%	21.3%	12.74%	
<b>Business activity during lockdown</b>				
Temporary closed	Reduced activity	Found new opportunities	The same	
27.7%	25.5%	36.2%	10.6%	
<b>March – June 2020 Revenue compared with same period 2019</b>				
Decreased max. 25%	Decreased 25-50%	Decreased 50-75%	Decreased >75%	Increased
21.3%	21.3%	23.4%	14.9%	19.1%

*Source:* Results from the survey applied

Half of the companies did not access any Governmental facilities, 30% asked help to pay the technical unemployment (the employer set its employees at home for the period of time in which it had nothing to give them to work; it paid them a percentage of their salary) and 20% got a discount for paying their fees on time.

**Figure 1. Entrepreneurs' behaviour during COVID19 pandemic lockdown**



Source: Results from the survey applied

The first five challenges entrepreneurs faced during the lockdown were: the threat regarding the future of the company (26.2%) followed by economic and political instability (25.4%), lack of cash flow (15.1%), barriers in communication with public authorities (8.7%) and challenges related to the entrepreneur's personality and manner of thinking (7.9%).

Figure 1 shows how entrepreneurs behaved during pandemic. Almost all entrepreneurs consider that they did everything they could during lockdown and only 7 will do now things differently: different approach, more research, temporary lockdown of everything, The compromises made by 14 entrepreneurs are: new strategy, lowered prices and mitigated development plans, personnel fired, loans made and expenses cut. More than half did not see any opportunities for their businesses during lockdown and they feel like they regressed. Only 20 companies feel that COVID-19 pandemic helped them skip some steps and all of them moved in online (working and/or selling).

In the future, in order to avoid future risks, 59.6% of the entrepreneurs consider that it is opportunistic to diversify the company's activity. Only 17% want to save money and 12.8% think that planning the company's strategy in the smallest detail will help them avoid future risks. 10.6% of the entrepreneurs' strategy is to do a combination of the above.

### B. Employees

As seen in Table 2, entrepreneurs managed employees depending on the period of time. The percentage of working from home was bigger during lockdown and decreased during the state of alert. Technical unemployment was a facility allowed just during lockdown. During the state of alert, the number of entrepreneurs who fired personnel and reduced working hours and salary increased.

We have asked entrepreneurs how many employees they had before and after the COVID-19 pandemic and we noticed that from a total of 47 companies, ~30% fired personnel and 12.76% hired personnel (60% in the Services field of activity and 40% in Trade) after the lockdown.

**Table 2. Managing employees during lockdown and state of alert until present**

<b>Managing employees during lockdown</b>				
Work from home	Work from office with safety measures	Fired personnel	Reduced working hours and salary	Technical unemployment
53.2%	12.8%	6.4%	2.1%	25.5%
<b>Managing employees during the state of alert – now at end of July 2020</b>				
Work from home	Work from home & Office	Fired personnel & the rest WFH/Office	Reduced working hours and salary	N/A
12.8%	34%	25.5%	27.7%	N/A

Source: Results from the survey applied

### C. Sustainability

During lockdown, 63.8% of the companies did not donate but they kept their resources to maintain the salary of their employees helping the community in this way. Companies who donated food and equipment for hospitals were 14.9%; 12.8% donated money. Other companies offered their services to the community. After this experience with the COVID-19 pandemic, 93.6% of the companies consider that it is important to take care of the environment and create a sustainable company. 66% of the entrepreneurs plan to do this by helping their employees to develop professionally, 23.4% using ecological technologies and 10.6% through making the company's activity efficient and by reinvesting.

## 6. Conclusions

During the COVID-19 pandemic, most small businesses from Romania were slightly affected and lost around 50% of their revenue compared to last year. Also, 30% had to fire personnel and almost the same percentage had to cut working hours and salary. A quarter of the companies declared that they had a better activity and their revenue increased. Almost all companies went online and adapted their activities in order to survive, validating hypothesis 2. Hypothesis 1 is not validated since most entrepreneurs felt that they regressed and only a few felt that this pandemic helped them improve faster. But hypothesis 1 is based on a subjective point of view and depends on how each entrepreneur sees himself.

The limits of the study refer to the methodology we used, that reflects a subjective perception and judgements. We also used most of the questions with a single answer limitation, the entrepreneur's answer. Even though the limits of the study cannot be overlooked, the importance and significance of this research cannot be disputed. It contributes to better understanding the impact that COVID-19 pandemic had on them and the behaviour of entrepreneurs during these times.



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