

CHALLENGES FOR ENTREPRENEURS AMIDST THE COVID-19 CRISIS

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Abstract

There is consensus on the fact that the current crisis that the entire world is facing nowadays is unique and therefore not comparable with the previous ones regarding its effects, challenges it poses or possible approaches in order to effectively address it. COVID-19 crisis has direct implications not only on the global and national health system, but also on the deepest structures of the society, human nature and world economy. The present paper focuses on the major challenges that entrepreneurs from various domains are facing and some of the main approaches they adopted. Considering the novelty of the topic and the ongoing events in the field, the research is based both on scientific literature from academic journals and on the latest news from prestigious magazines, newspapers, news agencies etc. which provide last minute information in the field of economics and business administration. Therefore, after delivering a brief introduction on the COVID-19 crisis, the present paper aims at providing an overview of the main challenges faced by various entrepreneurs with a special focus on the Romanian business environment. Next, it presents various approaches of these challenges adopted by entrepreneurs within the broader framework of national and global support schemes. It also tries to envision new emerging trends in the entrepreneurial field which might extend beyond the crisis period and (re)shape the business model of existing and new enterprises.

Keywords

Entrepreneurship, COVID-19, crisis, challenges, Romania

JEL Classification

M00, M13, M20, O10

Introduction

COVID-19 crisis started as a medical event at the end of 2019 in the Wuhan city, Hubei province of China. It rapidly spread all over the world: after Asia, in spring 2020 most of the European countries and also the United States of America have been severely hit by the virus. However, based on current data, none of the continents besides Antarctica have been spared

from the devastating effects of the new potentially deadly coronavirus outbreak (John Hopkins University, 2020; Wang et al., 2020). In some of the wealthiest countries of the world the medical system experienced an unprecedented crisis and proved to be overwhelmed by the large number of patients infected with the novel coronavirus, some of them exhibiting severe symptomatology and therefore necessitating special medical assistance and hospitalization in intensive care units. Many hospitals were overcrowded nearing collapse, lacked protection and medical equipment, the medical and administrative personnel had to cope with very long and exhausting working hours and emotional challenges, many hospitals had to operate well below the regular standard of care. The critical situation in many medical units unveiled the vulnerabilities and shortcomings of the healthcare system and the very limited capacity of reaction to a global biological crisis, like the novel coronavirus pandemic, even in the most prosperous economies of the world and brand-new state-of-the-art facilities (Nacoti et al., 2020; Nicola et al., 2020; The Guardian, 2020). This situation urges a global medical, social and economic response, not just as manifestation of solidarity, but also considering the common interest in a globalized world and the cross border transmission risk. According to Worldometers (2020), as of 23rd of April 2020, almost 2.650.000 cases of the novel coronavirus were reported worldwide, out of which almost 185.000 deaths. The most affected countries considering the number of cases and deaths reported are the United States of America, Italy, Spain, France, Germany and United Kingdom. Romania ranks 32nd according to the number of cases (John Hopkins University, 2020) with 10.096 cases and 527 deaths reported on 23rd of April 2020 (Grupul de Comunicare Strategica, 2020). For more detailed information you can consult Figure 1.

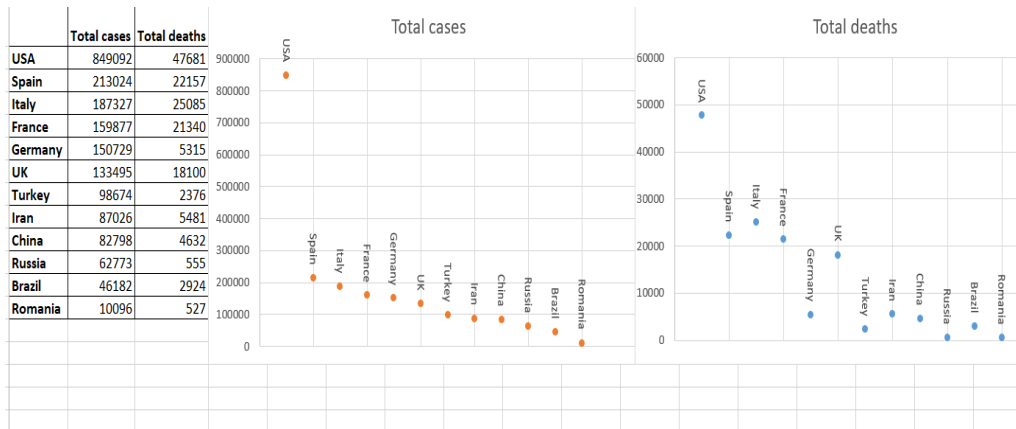


Fig. no. 1 Total cases and Total deaths in selected countries COVID-19, 23rd of April 2020

Source: Own illustration based on data from Worldometers 2020, <https://www.worldometers.info/coronavirus/>

Socio-economic aspects of COVID-19 crisis

The medical crisis has a turmoil effect on the economy, some authors comparing the current economic situation with the economic scene of World War Two (Nicola et al., 2020). The International Monetary Fund (2020) forecasts that the economy will suffer its worst year since the Great Depression with the global gross domestic product shrinking by 3%, which is much worse than the decrease of 0.1% in the recession year of 2009 after the financial crash. One of the main challenges of COVID-19 crisis is that we deal with competing and conflicting priorities: authorities have to struggle to keep businesses running, while keeping people safe

in their house (Leonard and Kaplan, 2020). This means reduced consumption, while economic growth models are based exactly on stimulating consumption as economic trigger.

The European Union announced at the beginning of March 2020 a five step program that shall respond to the present situation. Depending on the evolution it should be able to deepen or take new decisions for both population and economy. These steps focus on the solidarity principle between the Member States by supplying with protective equipment and medicine in the entire region, liquidity measures to help especially small and medium-sized enterprises (SMEs) by making available the sum of one billion euro for at least 100.000 SMEs, allowing the state aid in more flexible conditions than before, providing state guarantees for banks if they are experiencing difficulties in accessing liquidity and applying the flexibility of the European Fiscal Framework allowing Member States to address the crisis more specifically to the local conditions (European Commission, 2020). With the so-called “Coronavirus Response Investment Initiative” the European Commission is directing 37 billion euros under the Cohesion Policy to fight the Coronavirus impact.

On 2nd of April 2020 another measure with impact was launched, SURE – Support mitigating Unemployment Risks in Emergency – an initiative that will provide 100 billion euros in loans helping people to preserve their jobs and support families. It means financial assistance for Member States in form of loans in order to complement national efforts, a fast deployment and a temporary financial support for workers (European Commission, 2020²). Other impact decisions regard more specifically the agricultural sector, the fishing industry, the most deprived citizens of the European Union and ways of assuring food, clothes, and basic products.

On national ground, Member States are allowed to be more flexible and implement measures that should help on short term economies and citizens. Romania is one of the countries that besides the economic and social lockdown established also the emergency status with a high impact on the human rights and economic activity. Starting with 16th of March 2020 the mobility of citizens is very restricted and only people who cannot do telework are allowed to travel. People have limited access to physical stores shopping for basic needs and individual sports activity.

Regarding the economic decisions in order to minimize the socio-economic impact of COVID-19, the Romanian Government decided to subsidy 75% of the technical unemployment support related to the average national income, negotiated with banks the possibility to postpone up to nine months the payment of loans for individuals and companies, introduced state aid guarantees for SMEs (5 million RON for capital and 10 million RON for investments at 0% interest rates and commissions), introduced taxes reductions for in time payments, assures a rapid return of Value-added tax (VAT) and enforced digitalization of the public services (Guvernul Romaniei, 2020). One important instrument that should help SMEs is the possibility to register for the so-called *Emergency State Certificate* which allows companies to postpone the payment of utilities, to invoke the force clause in different contracts or to suspend loans payments. The condition to receive this certificate is to register starting with March 2020 a significant decrease of at least 25% of the turnover or to be in the situation of a forced lockdown due to national emergency state (e.g. restaurants, bars, hotels, clinics, shopping malls, sports clubs etc.).

In order to prevent a very severe economic and financial downturn, many countries started or plan to gradually relax the restrictive measures despite of the fact that the medical issue of COVID-19 is far of being solved. Given this situation, some specialists warn that a second peak is likely to occur in autumn (Anderson et al., 2020) and claim a long-term plan to fight this outbreak, but also to improve our ability to respond to pandemic in general (Gates, 2020; Nacoti et al., 2020).

In the next section we will discuss some of the main challenges posed by COVID-19 crisis faced by entrepreneurs, with a special focus on Romania.

Main challenges for entrepreneurs

Economic lockdown, social distance, limited physical mobility of people have a major impact on the consumer behavior and on the economic activity of companies. Very affected are small businesses and entrepreneurs who belong, in general, to the most vulnerable groups of actors in the economy. It is not the first pandemic in the history of humans, but for sure the first one in the modern history where the control measures have forced businesses to an abrupt halt (Kuckertz et al., 2020). This crisis brings businesses on new grounds and obliges them to reconsider business plans, strategies, objectives and investments.

We can divide challenges faced by entrepreneurs and small businesses into two main categories: internal challenges influenced by specific factors of the company and external challenges coming from the business environment and society.

Internal challenges refer mainly to money and resources, employees, managers, company culture. This economic crisis means already for many businesses a financial crisis. The high decrease of demand in almost all economic fields makes money a very limited resource for companies and *the lack of liquidity* brings them in the situation of asking for loans. But today few businesses can fulfil the banks' conditions for crediting. Therefore, one good solution is to access the national instruments sustained also by the European Commission. The lack of money forces companies to cut and restructure budgets, postpone or decrease/cancel future investments.

A second challenge refers to the need to *adapt the entire business strategy to the new situation and shifts in demand*. This implies besides innovation, in many cases also restructuring the business model and in some cases the production lines. In order to illustrate this, we have several examples of Romanian companies from the textile industry (for which demand decreased sharply) which reorganized their production process and facilities so that they can produce protection equipment for medical staff and population, which is lacking during this period (Panduru, 2020; Radu, 2020). In a similar way, some cosmetics companies adapted their production line in order to produce the scarce biocides (Digi24, 2020; Farmec, 2020). Even small companies focused on herbs products developed recipes for natural biocides (e.g. Nera Plant). Romanian authorities aimed at supporting this kind of initiatives through a faster accreditation process with simplified procedures and steps, allowed within the state of emergency declared in Romania (News, 2020; Start-up Café, 2020¹).

Another challenge refers to *changing the supply chain and finding new distribution channels*. For many businesses, adaptation within this lockdown crisis means to go online or to further develop their online platforms and applications. And this statement applies both for larger institutions such as operas (e.g. Romanian National Opera, The Comic Opera for Children), national theaters (e.g. National Theatre Bucharest), museums (e.g. The National Museum of Art of Romania), medical clinics (e.g. Regina Maria), but also for smaller and more flexible companies, such as fitness centers (e.g. World Class), dance studios (Victoria Dance Studio), various classes for children and adults in form of webinars or live streaming (e.g. British Council, MimaMuzica, Music Together) and the list might continue. One interesting example are the farms in Romania who traditionally sale their goods to supermarkets chains or in the big markets. Because of the demand decrease they risk to lose a very perishable production and therefore many of them started to sale online, accept credit card payments and deliver directly to end-customers (e.g. Piata pe Roti).

Next challenge refers to the *management of the human resources*. The social distance imposed by the health crisis obliged companies to switch to remote work, temporary or permanent layoffs, flexible working time and work in shifts, even unemployment or cutting off salaries. Managers have to show their people skills and be prepared to reorganize operations and teams in order to assure the same valuable service.

Perhaps one challenge that will turn into a permanent concern and that was not on the top line for many businesses is *risk management and crisis management*. Companies will start to

worry more about their present and future even in more peaceful times and develop procedures and instruments that enable them to react more quickly and efficiently to crises (Kuckertz et al., 2020).

External challenges are influenced by factors that the company cannot change directly, usually businesses react or try to prevent negative influences or benefit from positive ones.

How to conquer such challenges in a world that has stopped? In general, people become entrepreneurs forced by external push factors, by economic crisis and high unemployment (Devece et al., 2016). But today, an economic crisis forces entrepreneurs to close their businesses in a very abrupt way. One recent study shows that one external challenge is represented by the *changes in the consumer behavior*, which creates also some possible new business opportunities. The study which is conducted by the global fintech company Revolut, which has one million customers in Romania (Start-up Café, 2020) describes the current situation: exponential increase of online entertainment (online movie platforms, but especially online gaming services), a tremendous drop of transport (the ridesharing companies register decreases of more than 80%), decrease of spending in restaurants but an important increase of home deliveries (60% more transactions with more than 90% increase in value), a high spending for “Do it yourself” (DIY) products, clothes, shoes, medicines and electronics (e.g. eMAG, the biggest online retailer in Romania, registered an increase of 162%).

This study shows that people adapted rapidly to this crisis, and it is more likely to keep the trend due to the fact that the relaxation measures will be introduced slowly. Companies are now very sensitive to the power of demand of customers and changes in their needs. In this context it is very important how the Romanian state is encouraging the consumption and if the almost 1.050.000 people that have a suspended contract or the 270.000 unemployed people will return soon to the labor market (Ministerul Muncii si Protectiei Sociale, 2020).

The economic lockdown brings companies into new, unusual associations. For instance, the well-known bookstore chain Carturesti which closed all the physical shops entered in an association with the biggest supermarket chain in Bucharest, Mega Image, and installed for the first time in Baneasa store a mobile book shelf, so that customers can have access also to “brain food” (Adevarul, 2020).

Conclusions

In a very short period of time our lives changed dramatically and it is unlikely that we will be able to fully return to our way of living as we know it in the next months or maybe even until a vaccine will be discovered, tested and implemented on a large scale. Words like social distancing and self-isolation belong now to our routine. As the present article shows, the current crisis goes beyond its medical roots and significantly impacts economies and businesses. The large unemployment rates, social isolation and uncertainty regarding the future might have consequences on the mental health of the population and trigger anxieties and concerns which will further influence people’s financial, professional and personal planning.

As depicted before, many entrepreneurs had to restructure their business models and innovate rapidly and under stress, in order to adapt to a continuously changing situation. We consider that some of the common new realities of the business environment will remain and will be used to increase efficiency also after the crisis would have passed. Therefore, we anticipate that remote work will be used in the future at a much larger scale: during the crisis companies developed various mechanisms which would enable them to better manage this process and these could be further deployed in order to cut costs (e.g. with rent and office supplies) and also confer more flexibility to certain categories of employees. Another trend, which has already existed, but amplified exponentially during this lockdown is to switch to online activities or at least to have an online option for certain activities (such as sport activities, cultural activities, courses etc.).

Businesses might now consider more the usage of analysis instruments, predictions tools or strategical and decisions making instruments. Thinking in various scenarios should be a must in business development and learning to function through a disruptive event forces and entrepreneurs and companies to become more resilient.

This paper is just the first step of a more complex project that deals with challenges faced by entrepreneurs during the COVID-19 crisis. In a next phase we aim at concentrating on a qualitative analysis of the challenges faced by companies based on interviews with Romanian entrepreneurs. According to different medical specialists (WHO, 2020) it is likely to register new waves of sick people and for business people, economists and financial institutions (IMF, 2020, OECD, 2020) the consequences of this crisis will prolong till 2021-2022.

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