

THE SMALL AND MEDIUM-SIZED ENTERPRISES IN THE FACE OF THE COVID-19 PANDEMIC

FEHER ANDREA*¹, SÎRBULESCU CLAUDIA¹, PAȘCALĂU RAUL¹, BĂNEȘ ADRIAN²,
RAICOV MIROSLAV², BODNAR KAROLY³, PRIVOCZKI ZOLTAN⁴

¹*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timisoara, Romania*

²*Romanian Academy, Branch of Timisoara, Romania*

³*Hungarian University of Agriculture and Life Sciences, Szarvas, Hungary*

⁴*Agro-Assistance Kft., Csongrad, Hungary*

*Corresponding author's e-mail: andreafeher@usab-tm.ro

Abstract: *The COVID-19 pandemic has severely affected the small and medium business sector around the world. Restrictions and limitations on mobility, closure or restriction of economic activities in many units, have led to economic deadlock and severe declines in incomes of many segments of the population. Restricted demand has led SMEs to reach the brink of survival. In Romania, the effects of the crisis began to appear in March 2020. The SME sector is one of the most affected by this pandemic. The study aims to analyze the effects of the COVID-19 crisis on the Romanian SME sector, trying to formulate post-crisis recovery solutions.*

Key words: *entrepreneurship, crisis, Romania, recovery, opportunities*

INTRODUCTION

Small and medium-sized enterprises (SMEs) are the pillar of many economies [4,7]. Systemic shocks such as the COVID-19 pandemic affects performance and even the existence of SMEs [7]. The current pandemic of COVID-19 (associated acute respiratory disease, called coronavirus disease 19) [8] affected the lives of all people all over the world. As a side effect, many economies were strongly impacted [10]. The SARS-CoV-2 virus has induced fear [11] and significant uncertainty among people [5] and chaotic conditions in many industries. The measures to stop the spread of SARS-CoV-2, such as community blocking, social distancing, travel restrictions and mobility, have led to a drastic decrease in demand or to the total closure of SMEs [2].

The impacts of lockdowns have affected all economies, and are causing a global recession, from the top economies to developing countries [18]. The SMEs (small and medium-sized enterprises), SBs (small businesses) [2] or SMBs (small and medium businesses) [3] are the most vulnerable in the face of COVID-19 pandemic. Their scarcity of financial resources and gaps in specialized knowledge make it difficult for them to respond to the challenges posed by the COVID-19 crisis [10]. There are several factors that explain the greater vulnerability of SMEs to this crisis, such as: lack of human resources, limited managerial capacity (procedures, techniques and tools), limited capital resources and tacit knowledge management.

The COVID-19 crisis in Romania began to be felt in the first part of March 2020. The fast evolution of the COVID-19 pandemic has posed challenges for both the medical system and the economic and social systems. This crisis has affected thousands of lives and continues to put enormous pressure on economic systems. For these reasons, it is necessary to manage economic and social problems as soon as possible, but also to support / promote solutions that will support the sectors affected by the pandemic crisis.

MATERIALS AND METHODS

The national normative act that establishes the criteria for defining micro-enterprises, small and medium-sized enterprises, in accordance with the relevant European regulations, is Ordinance no. 27 of 26.01.2006 for the amendment and completion of Law no. 346/2004 on stimulating the establishment and development of small and medium enterprises. According to these regulations, small and medium-sized enterprises are classified according to the average number of employees, the net annual turnover or the total assets they hold, in the following categories:

a) *micro-enterprises*: have up to 9 employees and achieve a net annual turnover or hold total assets of up to EUR 2 million, equivalent in lei;

b) *small enterprises*: have between 10 and 49 employees and achieve a net annual turnover or hold total assets of up to EUR 10 million, equivalent in lei;

c) *medium-sized enterprises*: have between 50 and 249 employees and achieve a net annual turnover of up to EUR 50 million, equivalent in lei, or hold total assets that do not exceed the equivalent in lei of EUR 43 million.

In the classification of SMEs, compliance with the threshold regarding the average number of employees is a mandatory condition. For the other two criteria, namely the value of turnover and the value of total assets, an SME can choose between meeting either the threshold for turnover in a year or that for total assets. It is not necessary to meet both criteria and one of them can be exceeded without losing SME status.

In the first part of the paper we made a general characterization of the SME sector in Romania in the period before the pandemic. The primary data used were extracted from the Tempo online database of the National Institute of Statistics. This radiograph is the basis of the analysis suffered by the SME sector following the onset of the COVID-19 crisis in early 2020, research conducted in the second part of the paper.

RESEARCH RESULTS

1. Characterization of the SME sector in Romania before the COVID-19 crisis

The small and medium enterprise sector has an important role to play in shaping the national economy [7,17]. Before the COVID-19 crisis, the evolution of active enterprises in Romania had an increasing trend in the last eight years (period 2012-2019, ie the period after the financial crisis started in 2008) (Table 1).

Table 1.

The evolution of the number of active enterprises in Romania

Enterprise type	2012		2019	
	Number	Share in total (%)	Number	Share in total (%)
Micro	413,783	87.63	531,211	89.84
Small	48,215	10.21	49,869	8.43
Medium-sized	8,549	1.81	8,415	1.42
TOTAL SMEs	470,547	99.65	589,495	99.69
Large	1,640	0.35	1,764	0.31
TOTAL COMPANIES	472,187	100.00	591,259	100.00

Note: *micro-enterprise*= 0-9 employees; *small enterprise* = 10-49 employees; *medium-sized enterprise* = 50-249 employees; *large enterprise* = over 250 employees. Source: NIS [16]

There is a numerical increase of 25.27% in the number of SMEs in 2019 compared to 2012. The highest increase (28.37%) was recorded at the level of micro-enterprises (class 0-9 employees), followed by of small enterprises, with 0.34% growth. Medium-sized enterprises decreased during the analyzed period by 1.57%. Overall, the SME sector in

Romania increased by 25.27% in the analyzed period. Large companies (with over 250 employees) also registered an upward trend, their number increasing by 7.56%.

Before the crisis year 2020, Romania registered 591,259 enterprises, of which a number of 589,495 were SMEs (99.69%) and only 1,764 large companies (ie 0.31% of total companies). The share of SMEs in Romania is close to the European Union average (99.8%) [13]. Differences appear in the structure, the Romanian local market having fewer micro-enterprises as a share in total compared to the EU average (89% versus 93%), but more small and medium businesses. In conclusion, we can say that the share of SMEs in business is not significantly different from the general situation in the European Union.

Table 2.
Evolution of the number of employees in the business environment in Romania and the EU (2018)

Enterprise type	Number of employees	Share in total Romania (%)	Share in total EU (%)
Micro	930,720	22.8	29.7
Small	903,635	22.1	20.1
Medium-sized	857,129	21.0	16.8
TOTAL SMEs	2,691,484	65.8	66.6
Large	1,397,566	34.3	33.4
TOTAL COMPANIES	4,089,050	100.0	100.0

Notes: The data refer to companies in the non-finance field and include companies in industry, construction, trade and services. Companies in agriculture, fish farming, education and health are not included.

Source: Roșca C., 2019 [13]

In terms of the number of SMEs, they clearly dominate the business environment. If we refer to the number of employees, the situation seems to be different (Table 2). One third of non-financial sector employees are found at the level of large enterprises, both in Romania and at EU level. SMEs employ 65.8%, just below the EU average of 66.6%. Compared to the EU average, the biggest differences are in micro-enterprises. If we take into account the average number of employees in a company, it is on average of 5.5 employees in Romania for a small or medium company, and of 3.9 employees in the EU. The lower average number of employees in an EU company is explained by the fact that western SMEs rely more on technology and automation and less on human labor. In fact, Romania ranks last in the EU in terms of skills and innovation.

The main economic and financial indicators of enterprises before the COVID-19 pandemic are presented in Table 3.

Table 3.
Main economic and financial indicators of enterprises (2018, %)

Enterprise type	Turnover	Gross investment	Direct exports	Value added at factor cost
Micro and small	35.54	41.72	6.81	37.09
Medium-sized	22.80	14.64	16.98	19.37
TOTAL SMEs	58.34	56.36	23.79	56.46
Large	41.66	43.64	76.21	43.54
TOTAL COMPANIES	100.00	100.00	100.00	100.00

Notes: The data refer to companies in the non-finance field and include companies in industry, construction, trade and services. Source: NIS [17]

Before the pandemic, the SME sector in Romania achieved over half of its turnover, added value and gross investments in the Romanian economy. In terms of exports, the SME sector does not excel here, given the fierce competition in the external

market. It can be seen that the largest contribution to turnover and value added in the SME sector was made by micro and small enterprises together (35.54% and 37.09% respectively). All these companies together make the most investments (41.72%), a value comparable to that allocated by large companies (43.64%).

2. The effects generated by COVID-19 on the SME sector

In late 2019 in Wuhan, China, a new coronavirus (SARS-CoV-2) was identified that causes a highly communicable respiratory disease called COVID-19 [8]. It has quickly become a global pandemic spreading to all countries around the world. In order to control the spread of the pandemic, critical global responses have been formulated, embodied in travel restrictions, quarantine and social distancing. One million people who went into technical unemployment, EUR 22.5 billion in losses in the turnover of companies and 35,000 companies in the closed HoReCa industry [1], are the immediate effects felt by the Romanian economy after the COVID-19 pandemic in the spring of 2020.

In April 2020, the Romanian business environment registered a drastic decrease in terms of entrepreneurial initiative. Compared to the same period of 2019, the number of company establishments was 81.25% less (2,651 company registrations in April 2020, compared to 14,142 in April 2019) [15]. The situation improved during the year. With the relaxation of some measures, the consumption demand from the population also increased, with a positive effect on the relaunch of the business environment. There is an increase in the number of business start-ups, but, overall, comparing 2020 with 2019, against the background of the pandemic, the registration rate of new companies decreased by 18.09% (Table 4). In the first quarter of 2021, a number of 41,251 new companies were set up in Romania, 52.05% more than in the same period last year [15], a sign that the economy is starting to recover.

Table 4.

Setting up companies during the COVID-19 crisis (2020 vs. 2019)

The period for 2020	Number of start-ups	The period for 2019	Number of start-ups	Dynamics
01-30.04.2020	2,651	01-30.04.2019	14,142	-81.25%
01.01-30.04.2020	29,780	01.01-30.04.2019	56,176	-46.99%
01.01-31.12.2020	109,939	01.01-31.12.2019	134,220	-18.09%

Source: Ministry of Justice, National Trade Register Office [15]

The cessation of the companies' activity through the three forms (suspension, dissolution and then strike off) experienced a downward trend, despite the COVID-19 crisis (Table 5). The measures taken by the government to support companies as well as the regulation on the suspension of the right to oppose the dissolution of a company during the state of emergency (March 16 - May 14, 2020) have led to a decrease in the number of companies that ceased operations in the crisis year 2020 compared to the previous year.

Table 5.

Cessation of companies during the COVID-19 crisis (2020 vs. 2019)

Form of cessation of activity	2020	2019	Dynamics
Suspension	10,913	14,040	-22.27%
Dissolution	25,384	34,080	-25.52%
Strike off	51,715	101,601	-49.10%

Source: Ministry of Justice, National Trade Register Office [15]

In an attempt to help the SME sector not to collapse completely and irreparably in this COVID-19 crisis, a number of actions have been promoted [9]. The types of SME support measures after the onset of the crisis mainly concerned the following:

- debt financing, by granting loans with deferred payment of interest, late repayments, lower guarantee requirements;
- support for the business climate, through the SME Invest program for guaranteeing loans for investments or working capital;
- support for employment, by covering from the state budget 75% of the salaries of employees who became technically unemployed during the state of emergency, a measure that continues during the state of alert with an amount of 41, 5% settled from the state budget under the conditions of observing the legal provisions;
- delay of the payments for utilities, rent, taxes and fees;
- extending the deadlines for financial reporting to reduce the administrative burden and the risk of viral spread by visiting offices;
- implementation of the EU Insolvency Directive and introduction of a moratorium on coercive measures by large creditors against SMEs, in order to prevent them from being closed / liquidated due to late payments.

The extent to which SMEs have used these levers is shown in Figure 1.

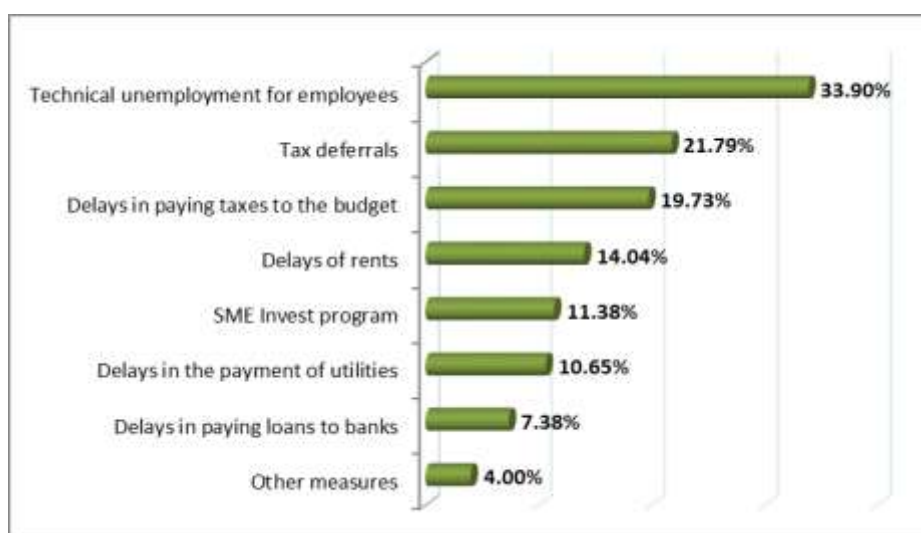


Figure 1. Support measures used by SMEs in 2020

Source: White Paper on SMEs in Romania 2020 [14]

Entrepreneurship experts believe that SMEs are facing the biggest challenge of the last three decades [1]. This challenge comes with both negative and positive aspects, which can turn into real opportunities for this sector so important in the economy of each country / region. A study conducted in the first half of 2020 on a sample of 826 SMEs in Romania [14] highlighted the following dynamics of SME activity during 2020 (Figure 2). Most companies (almost half) reduced their activity during 2020 due to the decrease in demand caused by the pandemic. A percentage of 38.27% of SMEs operated at the same parameters, and another part, representing 13.33% of the total companies, amplified their activity finding development opportunities in the conditions of the COVID-19 crisis.

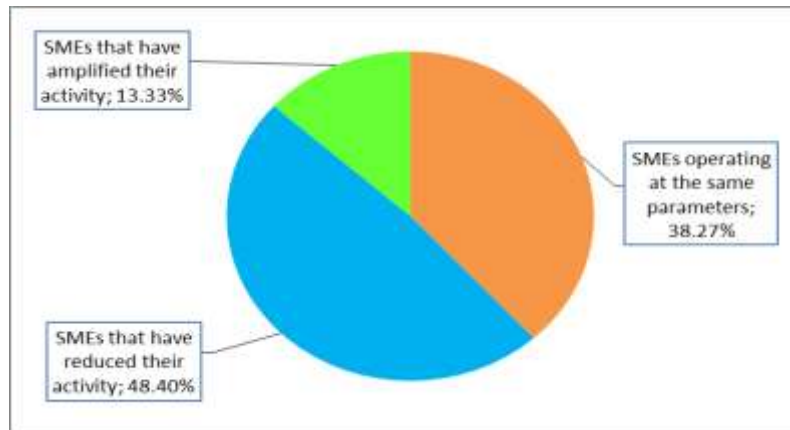


Figure 2. Dynamics of SME activity in 2020

Source: White Paper on SMEs in Romania 2020 [14]

Some opportunities have been identified since the beginning of the crisis. We have seen an increase in sales of local products as a result of the destabilization of import chains. But in order to get opportunities from this global crisis, a relaunch of production is needed, before a relaunch of consumption. In fact, the SME Invest program is also based on this principle, which aims to relaunch the Romanian industry. This program to support small and medium-sized enterprises provides state guarantees for obtaining investment loans, or lines of credit for financing working capital. Another opportunity arises from the identification of innovative solutions that can be used for the direct or indirect treatment of COVID-19 patients. We mention here the specialization of companies for the production of certain medical devices, consumables, medicines, etc. The telecommunications industry is also one of the winning sectors of this crisis. Measures to stop traffic have made work at home, and people's need for fast internet is now greater than ever. Long-term development opportunities are foreseen for technology companies that provide online services or facilitate the provision of these services. This crisis has changed the thinking of large corporations and the way they relate to work from home. The same can be said for the mindset of consumers, who will access more online services, online shopping, courier, etc.

The main business opportunities accessible in Romania in 2020 are summarized in Figure 3. Some of these opportunities have emerged and been perceived by entrepreneurs as a result of the COVID-19 crisis.

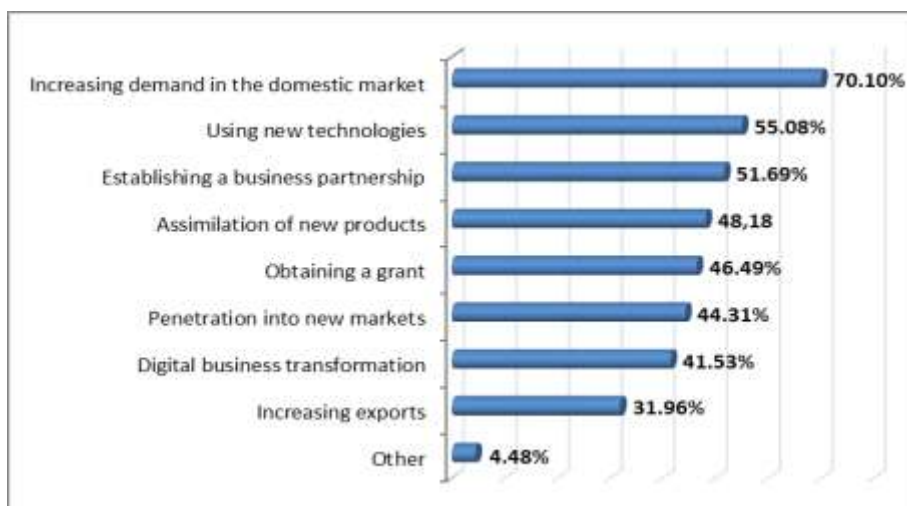


Figure 3. Business opportunities accessible to SMEs in Romania (year 2020)

Source: White Paper on SMEs in Romania 2020 [14]

CONCLUSIONS

Micro, small and medium-sized enterprises (SMEs) play a key role in a country's economy. They are a source of entrepreneurial skills and innovation and contribute greatly to the achievement of Gross Domestic Product and employ a large part of the workforce.

The SME sector was one of the most affected sectors during the COVID-19 crisis, both in Romania and globally. In April 2020, the Romanian business environment registered a drastic decrease in terms of entrepreneurial initiative, registering a decrease of 81.25% in the number of business start-ups compared to the same period of 2019. Subsequently, the relaxation of some measures stimulated consumer demand from the population, with a positive effect on the relaunch of the business environment.

The COVID-19 pandemic has caused great losses for the SME sector, but in addition to the negative aspects, it also comes with some positive ones, which can turn into real opportunities for this important sector in the economy of each country / region.

Romania, like other states, has adopted support measures to avoid the collapse of the SME sector. These measures aimed at debt financing, support for the business climate, support for employment but also tax regulations. The most effective government policies are those that are tailored according to the characteristics of SMEs and the economic dynamics that these enterprises face.

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