

ANALYSIS OF BUSINESS DEVELOPMENT STRATEGIES APPLIED BY STARTUPS FINANCED BY NON-REFUNDABLE FUNDS IN ROMANIA AND THEIR VOLATILITY IN THE CONTEXT OF COVID-19

Medeea Katerina PETROVAN¹

Abstract: *The present article aims to analyse the business development strategies applied by start-ups financed by non-reimbursable funds in Romania and their volatility in the context of COVID-19. The research is a qualitative one, based on an in-depth individual interview, which manages to demonstrate the existence of a direct link between the opportunity to access non-reimbursable funds and the decision to start a business by entrepreneurs, the opportunity to allocate these funds to mobilize people towards entrepreneurial initiatives, as well the contraction of start-up activities due to the context of the COVID-19 pandemic.*

Key words: *Non-reimbursable financing, strategy, start-up, COVID-19.*

1. Introduction

Romania's membership in the European Union has generated multiple development opportunities: in the period 2014-2020, approximately 33 billion euros were allocated in structural funds, these being important tools that Romania could and still can access in order to reduce existing development disparities at EU level.

Part of this funding budget has been allocated to the Human Capital Operational Program, which aims to integrate human resource development needs into all Romanian public programs and policies and to enhance human capital as a resource for sustainable development in the future.

According to the data published by the Ministry of European Funds, through the implementation of financing programs, with specific reference to the entrepreneurship schemes *Romania Start Up Plus* and *Diaspora Start-Up*, over 384 million euros were allocated for starting and developing the activity of 8715 start-ups, located in all development regions of Romania.

These start-ups were selected based on a competitive process, which focused on the analysis of the proposed business plans. Through these business plans, start-up

¹ *Transilvania* University of Braşov, medeea.petrovan@unitbv.ro

entrepreneurs drew up a business strategy, based on the assumption that they would receive a non-reimbursable support of up to 40.000 euros for the first year of activity, provided that at least 2 jobs were created in the first 6 months of activity.

Given the dynamics of the first phases of the life cycle of a start-up, the implementation of projects financed by grants (which, most often, are characterized as bureaucratic and inflexible), as well as the context of the pandemic that occurred during the implementation of these businesses, the research of the development strategies applied by the start-ups financed by these non-reimbursable funds in Romania and their volatility in the context of COVID-19 becomes relevant.

According to the literature, due to the global pandemic COVID-19, 2020 will be a tragic year for many businesses. Start-ups may be severely affected because they are in a fragile stage of their life cycle, being sensitive to disruptions to demand, supply, or credit conditions (P. Sedláček; V. Sterk, 2020).

This situation is already proven by statistics: in the last week of March 2020, the number of new start-ups decreased by 40% compared to the same week a year earlier, a contraction that is even more pronounced than during the Great Recession (Haltiwanger, 2020). However, the impact of the general economy is the same for all industries and is an important determinant of the company's performance (Mirza and Javed, 2013).

The Structural Funds are one of the main instruments that the European Union uses to support regional development and to eliminate disparities between state members (C. Hapenciuc, A. Moroşan, 2013). Thus, it is relevant to understand the extent to which these financial policies and instruments can ensure a genuine and lasting effect on the activity of micro-enterprises (O. Gherghinescu, 2012).

To this date, no study has been identified in the literature specifically focusing on start-ups financed by non-reimbursable funds and, even less so, on their strategies in the current context of the pandemic.

However, the literature reveals many factors that influence financial performance with different results in different areas, such as market strategy; government subsidies; company policy towards employees; stocks and cash conversion cycle; company size; crisis and financial ratios, such as liquidity, solvency and leverage (M. Dincă, G. Dincă, N. Barbuta, M. Madaleno, 2017). Studies also show that large firms usually have more competitive power compared to small firms in sectors dominated by competition. Because large companies have a higher market share, they have a chance to be more profitable (Nawaz, 2015). Seilsepoor and Ahmadi (2016) also showed that the financial crisis has affected all financial indicators of companies, including profitability, liquidity and activity.

Monitoring the degree of access to EU funds can encourage greater creativity and facilitate focus on strategic planning and management in SMEs, which is often underestimated (Ceptureanu, 2010).

However, the analysis conducted by Jureviciene and Pileckaitė (2013) reveals that companies tend to behave slightly irrationally when it comes to non-reimbursable financial aid, sometimes implementing overestimated, oversized projects and not just timely projects.

Thus, this research aims to analyse the link between the opportunity to access non-reimbursable funds and the decision to start a business of the founders of funded projects; to identify the development strategies established by the entrepreneurs for the first year of business development; to analyse the impact that the new context of the COVID-19 pandemic has had on these strategies and, last but not least, to analyse the perception of entrepreneurs on non-reimbursable funds: pluses, minuses and tactics to maximize the impact of non-reimbursable funds in the future.

2. Research Methodology

The carried out research is a qualitative one, based on the *individual in-depth interview*, and the author participated in the research as an interview operator. The research was conducted in 2020, starting in June 2020, and ending in July 2020, with the following objectives:

1. To analyse the connection between the opportunity to access non-reimbursable funds and the decision to start the business;
2. To identify the development strategies of start-ups, established by entrepreneurs for the first year of business development;
3. To analyse the impact that the new context of the COVID-19 pandemic had on the strategy and development of start-ups;
4. To analyse entrepreneurs' perception of non-reimbursable funds: pluses, minuses and tactics to maximize the impact of non-reimbursable funds in the future.

In relation to the research objectives, the following general hypotheses were formulated:

- There is a direct link between the opportunity to access non-reimbursable funds and the decision to develop the start-up;
- The development strategies of the start-ups financed by the non-reimbursable funds follow, first of all, the analysis of the elements imposed by the structure of the business plan that was the basis of the competition of financing projects;
- Start-ups financed by non-reimbursable funds felt a contraction of activity due to the context of the COVID-19 pandemic;

The purpose of the in-depth interview was to find out as much information as possible directly from the beneficiaries of start-up grants regarding their business development strategies and their volatility in the context of COVID-19, in order to test the research hypotheses.

The structure of the sample consisted of 10 subjects selected from the beneficiaries of non-reimbursable funds allocated through "Romania Start Up Plus", the funding for the Human Capital Operational Program 2014-2020 (POCU 2014-2020), Priority Axis 3 "Jobs for all", specific Objective 3.7. *Increasing employment by supporting non-agricultural enterprises in urban areas.*

It was also intended that the fields of activity of the interviewed entrepreneurs be as diverse as possible, for example: online marketing and promotion services, sales through online platforms, financial-accounting services, professional photography services, professional cleaning services, self-services - car washing services.

The interviews were conducted by telephone, had an average duration of 30 minutes and followed an interview guide divided into 4 main topics, namely:

1. Analysis of the decision to access the non-reimbursable funds and the context of the start-up development;
2. Analysis of start-up development strategies;
3. Analysis of the impact of the COVID-19 pandemic on the implementation of the established strategies;
4. Analysis of the perception on the non-reimbursable funds.

Following the interviews, the messages communicated by each interviewed entrepreneur were extracted for each point of the interview guide. Finally, the data were analysed and processed in order to present the research results.

3. Research Results

The research results will be presented for each direction of the discussion approached, according to the interview guide. Each discussion direction was based on a set of specific questions to guide the interview to the subject of the research.

The first part of the interview was dedicated to understanding the activities carried out by start-ups, as well as the context of the decision to start the entrepreneurial project.

Asked about their motivation in choosing the field of activity of the start-up, the entrepreneurs had various answers:

Table 1

Motivation in choosing the field of activity of the start-up

No.	Answer provided by the interviewees	Frequency of occurrence
1.	It is a field that I am passionate about and that I already master	4
2.	It is an area in which I want to develop, and the non-reimbursable support gives me this chance	4
3.	It is an area with development potential in the market	2

The decision to set up the start-up is closely linked, first of all, to their personal way of relating to the business field and, secondly, to the market opportunity: 4 of the respondents stated that the field of activity of the start-up represented for them a passion and a field in which they felt they could already perform, which gave them a sufficient level of confidence to start the business. Also, 4 of the interviewees mentioned that this field was one in which they wanted to continue their development process, and the establishment of the business with non-reimbursable support was thus a great opportunity, given that the financial risk is much lower in this scenario. The opportunity to access non-reimbursable funds to cover business risks was mentioned by all interviewees.

The next point of the interview analysed the level of influence of the non-reimbursable funds in starting the business, and they were asked what they would have done if they had not had the chance to implement the project through non-reimbursable funds. Based on the answers received, it can be concluded that accessing funds for business implementation had a decisive role: 7 out of 10 interviewees would

not have started the business if they had not received the non-reimbursable support, would have delayed starting the business or, in best case, would have started the activity at a much lower level. The main argument put forward unanimously by the interviewees to justify this answer was that of limited financial resources and the need for start-up capital to start the business at a level that would achieve a degree of competitiveness in the market.

Also, 7 out of 10 entrepreneurs stated that they could not afford to start their own business or the risk of a loan to implement the business, so that in the absence of non-reimbursable financing, they would have delayed the implementation of the start-up idea.

An important aspect to mention is that 3 out of 10 entrepreneurs stated that they would have started the activity regardless of whether or not they accessed non-reimbursable funds, but it is found that all these 3 entrepreneurs work in a service area that does not require expensive infrastructure: financial-accounting services, online promotion and marketing services, consultancy services. For them, the main advantage of accessing the non-reimbursable funds was not the work infrastructure, but the possibility to subsidize the operational costs of the business for the first year of activity (mentioning in particular the rent costs and the salary costs).

The second section of the interview aimed at analysing the strategies established by entrepreneurs in developing their business. Asked how they thought of their strategy for their own start-up, 7 out of 10 entrepreneurs mentioned that they started from their level of knowledge of the market and the network they owned: 7 out of 10 already knew potential customers in relation to whom they had promises or collaboration opportunities.

All respondents also confirmed that, in planning their business strategies, they started from the requirements imposed by the financing methodology and from the fact that they would have a budget of approximately 40,000 euros for investment and working capital for the first year of activity.

Asked if the approach of their own strategy would have been different if the project financed by non-reimbursable funds had not existed, 10 out of 10 entrepreneurs admitted that, in the absence of financing, the strategy would have looked different, focusing on organic growth, a minimum level of costs and a less expensive infrastructure, which can be secured through other sources.

Last but not least, this section of the interview analysed how much of the strategy planned for the start-up materialized in their first year of business implementation. Among the answers of the entrepreneurs we mention:

Table 2

Level of strategy implementation in the first year of business

No.	Answer provided by the interviewees	Frequency of occurrence
1.	The promises of potential customers, who seemed initially unsure, have not materialized	6
2.	The initially planned operational level has been underestimated - many new elements have emerged in the implementation	5
3.	The mentality of the collaborators, different from the initial expectations.	3

Most of the interviewed subjects mention the market reality they encountered in the implementation of their business: customers who initially seemed certain did not materialize, or potential customers who committed to receiving a quality service, proved to be unwilling to pay for it.

Also, half of the subjects mention that, compared to the initially planned business plan, on implementing it, they identified several operational steps necessary to implement, including the level of operational procedures, which were not initially known or predicted.

The elements that generated significant changes in the business approach or market conditions lead us to the third section of the interview, namely the impact of COVID-19 on business strategy: 8 out of 10 entrepreneurs felt a strong market contraction, in the sense of changing customer behaviour and suppliers in the market. Among the answers of the entrepreneurs that justify this aspect we mention:

Table 3

Market behaviours experienced by entrepreneurs as a result of COVID 19

No.	Answer provided by the interviewees	Frequency of occurrence
1.	In the business environment there has been and there still is a state of general confusion, uncertainty, which keeps the whole market in an area of caution and survival, not growth;	8
2.	Market demand has fallen sharply, even among discerning customers;	7
3.	The activity, at least during the state of emergency, was close to zero.	6

The impact of the pandemic has been strongly felt by entrepreneurs, especially in terms of market conditions.

According to the entrepreneurs' answers, it can be concluded that the business strategies of the entrepreneurs have not changed significantly, but their activity has migrated from an area of focus on development, to an area of conservation. Also, the new market conditions have mobilized them towards a more creative and digital-oriented thinking among the measures taken by entrepreneurs, specifying that:

- The start-up offer has been rethought so that it is digitally available to the greatest extent possible;
- There has been a diversification of the start-up offer, either by expanding online or by new services that are urgent and necessary in the new context of the pandemic.

Another important question in the interview examined the entrepreneurs' perception regarding what their start-up initiative would have looked like in the absence of the funding budget, in the context of COVID-19. Based on the answers, it can be concluded that the non-reimbursable support received was a fundamental element in the continuity of the activity, being possible to support the operational costs through the financing budget. Thus, 8 out of 10 entrepreneurs acknowledge that the financing budget was decisive in paying the operational costs during this period, the level of revenues being much lower, which, apart from a non-reimbursable financial support, would have placed them in the context of payment default.

The entrepreneurs' perceptions regarding non-reimbursable funds are positive. Entrepreneurs consider this financing an essential tool to start a business, in the absence of which the trend is one of postponement, due to the risks involved in starting a business with their own funds. At the same time, the interviewed subjects mention this experience as a very important one in terms of personal development, understanding how a business works: 10 out of 10 interviewees say they feel more prepared to start a new business project in the future.

At the same time, entrepreneurs consider that this non-reimbursable support comes at a high cost, that of a huge operational effort to implement the financing project; 8 out of 10 entrepreneurs interviewed consider the system far too bureaucratic, inflexible and biased with such detailed reporting procedures, so the entrepreneur's focus often has to shift from the business development process to the strictly administrative and operational funding reporting process. This aspect is often mentioned as harmful, because the entrepreneur can no longer focus on the company's activity and development, due to the high number of reports and documents required to be prepared, which he cannot outsource.

Among the measures proposed by the interviewees to maximize the impact of these funds for other start-ups in the future, we mention:

- Increasing the flexibility of implementation conditions: simplification of the reporting process, the elimination of repetitive elements and documents that do not bring any added value in the implementation process or for the business (often exemplified by the particularly bureaucratic process of procurement procedures);
- Organizing training sessions before the actual implementation phase of the project, in order to understand in detail the procedures and their practical application, in order to reduce the number of mistakes and to reduce the working time allocated in the restoration and correction of documents;
- Allocating a mentor / expert who will provide technical support in the implementation and who will know both the procedural elements and those related to the public procurement system;
- Ensuring a better promotion of these funding opportunities, as well as an improved information process that is consistent from start to finish (eliminating situations where funding rules change over time).

4. Conclusions

In conclusion, we consider that the analysis of business development strategies applied by start-ups financed by non-reimbursable funds and their volatility in the context of COVID-19 was successful, this research article contributing to the enrichment of the literature published so far on this topic.

The study analysed the business development strategies applied by start-ups financed in Romania through non-reimbursable funds and their volatility in the context of COVID-19, bringing to light the following answers to the research questions:

- There is a direct link between the opportunity to access non-reimbursable funds and the decision to start the start-up, the chance of accessing non-reimbursable support

being the main element that determined the mobilization of entrepreneurs in this regard;

- The development strategies of the start-ups financed by the non-reimbursable funds follow, first of all, the analysis of the elements imposed by the structure of the business plan that was the basis of the competition of financing projects;

- Start-ups financed by non-reimbursable funds felt a contracting of the activity due to the context of the COVID-19 pandemic, but the approached strategy did not undergo radical changes, the businesses being supported from the allocated financing budgets;

- Non-reimbursable funds are an essential tool through which new entrepreneurial initiatives and jobs can be created in the Romanian economy, but, in order to be sustainable, a much greater flexibility of the procedures for implementing the financed projects is necessary.

References

- Ceptureanu E., Ceptureanu S., and Hotaran I., 2010. Romanian SMEs market: Some facts. *International Conference European Integration-New Challenges*, 6th Edition, 28-29 May 2010, Oradea.
- Dincă M., Dincă G., Barbuta N., Madaleno M., 2017. Integrated Analysis of EU Construction Companies' Financial Performances. *Journal of Construction Engineering and Management*, 143(6).
- Gherghinescu O., 2013. Structural Funds use by the SMEs sector in Romania – structural expectations, difficulties and impacts. *Revista tinerilor economişti*, 1(18), pp. 35-42.
- Hapenciuc C., Moroşan A., 2013. *Absorption of Structural Funds – International Comparisons and Correlations*. Procedia Economics and Finance.
- Jurevičienė D., and Pileckaitė J., 2013. The impact of EU structural fund support and problems of its absorption. *Business, Management and Education*, 11(1), pp. 1-18.
- Mirza, S. A., and Javed A., 2013. Determinants of financial performance of a company: Case of Pakistani stock market. *J. Econ. Int. Finance*, 5(2), pp. 43–52.
- Nawaz, A., et al., 2015. Impact of financial leverage on firms' profitability: An investigation from cement sector of Pakistan. *Res. J. Finance Accounting*, 6(7), pp. 75–80.
- Sedláček P., Sterk V., *Startups and Employment Following the COVID-19 Pandemic: A Calculator*, 2020. Department of Economics, University of Oxford.
- Seilsepoor H., and Ahmadi S., 2016. *Examining and ranking financial ratios of the companies listed in the Tehran stock exchange during the global financial crisis in 2007 by using AHP*. *J. Administrative Manage. Educ. Training*, 12(2), pp. 170–176.
- Ministry of European Funds, the situation of projects financed through by POCU: <https://www.fonduri-structurale.ro/stiri/22420/romania-start-up-plus-si-diaspora-start-up-afla-cate-afaceri-noi-au-fost-infiintate-si-in-ce-domenii>.