

EVIDENCE FROM THE IMPACT OF COVID-19 ON SMALL BUSINESS

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Abstract: *The Covid-19 pandemic has affected both individuals and the business environment in a profound and unexpected way. The restrictions imposed and the economic crises caused by them have led to the closure of some businesses, especially small businesses. The present research aims to study the opinions, perceptions, behaviour, and attitude of administrators, of small-business owners towards the impact of the pandemic in order to outline their emotional state and the sample of future needs. The qualitative study illustrates the combined analysis of the results of the answers of sixteen structured interviews, in-depth phone interviews. This research could represent the starting point of a more extensive research in this field.*

Key words: *Small enterprises, pandemic impact, employment, Covid-19, business perspective, business adaptation*

1. Introduction and literature review

In just a few months a lot of changes occurred in people's life. In addition to the health crisis, our society has faced new political, economic, social, and technological situations. Business models had to adapt to the current pandemic situation.

KPMG International did a Covid-19 pulse survey entitled “Responding to consumer trends in the new reality” with more than 75.000 responses. The study was published in November 2020. Four major trends were identified. Firstly, the economic impact that led to cost optimization, adaptation and recovery of companies, secondly, the rise of the digital that involves a rapid shift to e-commerce but also requires the cyber risks protection, thirdly, erosion of trust in brands as companies had to apply measures for the safety of customers and employees, in addition to maintaining environmental protection policies and social involvement in supporting communities, fourthly, the idea of home becoming the new hub, thus affecting both the community and the demand of household items. Now, homes have become a place all in one, home is the place where people go to school, work, cook, exercise and socialize through online networks. Companies need to adapt their business models to this new reality in order to survive and respond to these new consumer needs in an attempt to further grow their business.

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The World Bank Group has conducted a study on the impact of the Covid-19 pandemic on the global economy, showing how about 30 percent of the per capita income of emerging and developing economies has lost its last ten years of progress. The result is that several years of poverty reduction has been reversed (Lakner et al., 2021).

The pandemic has provided more reasons to look for ways of substituting machines for workers to safeguards against it. Women with mid and lower wages seem to be most at risk in the labour market (Chernoff and Warman 2020). There has already been a declining trend in productivity growth for more than a decade and the pandemic has intensified this trend by increasing uncertainty about growth prospects, intervening on human capital accumulation and raising concerns about the viability of global value chains (Dieppe 2020). Understanding which groups of firms and people are more vulnerable and what is needed to help them to adapt and recover are critical issues and researches are trying to provide some answers. According to a study about 100.000 businesses in developing countries, the pandemic has severely impacted firms, especially on sales. Governments have taken measures to prevent unemployment. The short-term effects were mainly in increasing holidays and reducing the number of working hours, thus fewer companies than expected have actually switched to redundancies. Financial obligations such as fixed costs with rent and interest were difficult to be paid while sales have contracted drastically. Smaller firms tend to face more severe financial constraints during COVID-19 even in advanced countries. During this period, the companies focused more on the distribution of products and services in the digital environment, due to the restrictions imposed. This happened with different intensities all around the world, at least for small companies that did not have the knowledge and amounts for investments. Uncertainty about the future remains especially for companies that have seen deep cuts in turnover (Apedo-Amah M.C. et al., 2020).

A dataset covering more than 120,000 firms in 60 countries shows that despite policies to support business, access to resources is very limited, especially in poorer countries and among smaller firms. Their results also shows that it is difficult to identify which firms should be targeted, which one is most in need of support (Cirera et al., 2020).

This article is divided into five parts. The first part includes introductory aspects and creates the theoretical framework of the study, highlighting the impact of the pandemic on the economy, the challenges faced by small businesses and the new opportunities generated. The second part presents the research method, objectives and hypotheses. The third part includes the research methodology. The fourth part is reserved for the presentation of the results, the systematic analysis of the content and discussions on the interpretation of the results. The fifth and last part of the paper summarizes the research results.

2. Objectives and Hypotheses

The present main objectives of the qualitative research, focused on the impact of the pandemic situation on small businesses, were:

- (1) To identify the degree of the pandemic situation impact over respondents.
- (2) To identify the opinions, perceptions of administrators (small-business owners) towards the impact of the pandemic.
- (3) To outline their behaviour and attitude regarding the pandemic.

(4) To identify the sample of future needs.

The hypotheses underlying the qualitative research are defined below:

- (1) The respondents consider that the degree of the pandemic impact over their business is high.
- (2) Most respondents are willing to make the necessary changes in order to deal with the current pandemic situation.
- (3) Most respondents are optimistic about the future of their company.
- (4) Most respondents are willing to apply for loans in the following period.

3. Research Methodology

This qualitative study shows us the combined analysis of the results of the answers of the sixteen structured interviews, in-depth phone interviews. The information was subjected to a processing procedure known in the literature as content analysis.

The researched population was represented by small businesses, with an annual turnover of less than one million euros and with less than fifty employees. Sample of companies were located in Bucharest for reasons of efficiency and relevance for the research topic. Since the companies were analysed during the pandemic and were geographically dispersed, the telephone interview method was used for qualitative research as a viable option. This approach offered the opportunity to get in touch with more companies, greater confidentiality and greater adaptability to the willingness of entrepreneurs to participate in a certain period of time.

The research took place in February 2021 and each interview lasted for twenty to twenty-five minutes each. The respondents were selected to be the administrators of the business. Thus, 92 company administrators were contacted and 16 of them accepted to participate in the interview. The first approach was by email and afterwards those who expressed their willingness to participate in the interview were contacted by telephone to clarify the purpose of the research and to agree on the time in which they could be available for the interview.

The interview was a semi-structured one, the discussion being based on an interview guide, in order to maximize the relevant information collected. The subjects, however, were allowed to express themselves freely. In the introduction, the respondents were informed that the purpose is scientific, not of a commercial nature and the personal data of the participants will not be published. It was emphasized that the discussion will be open, every opinion is interesting for the purpose of the research and it matters, thus, there are no wrong answers.

The interview guide was structured into four major parts:

- Information on how business has been affected by the pandemic.
- What changes they have made to adapt to the situation
- Perception of support offered by the state and the banks during this period.
- Plans for the following period.

Content analysis was used for data analysis and interpretation. Vertical content analysis helped provide a clear picture of each company. Horizontal analysis offered the opportunity to analyse the answers and draw conclusions on each areas of interest.

4. Result and Discussions

The systematic analysis of the content and discussions on the interpretation of the results for each topic is presented below.

4.1. How business has been affected by the pandemic

In table 1 you can see how the respondents have been affected since the beginning of the pandemic. As can be seen in the table, 38% of the respondents, represented by 6 of the 16 interviewed subjects, stated that their business has not been affected since the beginning of the pandemic. Of the 10 respondents who stated that their business was affected by the pandemic, most mentioned that the pandemic had the effect of reducing sales.

The immediate effects of the pandemic on the business

Table 1

Has your business been affected since the beginning of the pandemic?	NO	NO(%)	YES	YES(%)
	6	38%	10	63%
How was your business affected?			Decreased sales / orders (8 of 10)	
			Employees were afraid to show up for work (5 of 10)	
			Difficulties in honouring payments (5 of 10)	
			Legislative changes (1 of 10)	

Regarding how the company's turnover evolved in 2020 compared to the previous year, we notice in Figure 1 that nine out of sixteen respondents stated that the turnover grew in 2020, the pandemic year, compared to 2019 (56%), one respondent saying that the turnover had not changed significantly (6%), while 6 stated that their business decreased in 2020 compared to the previous year (38%).

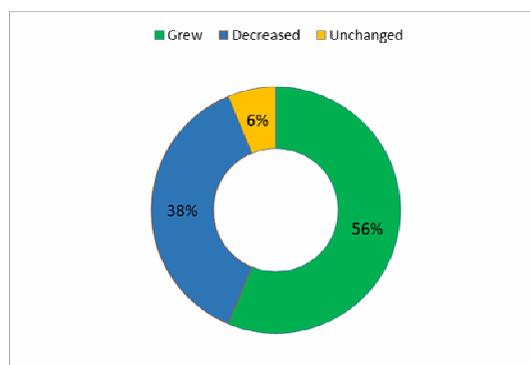


Fig. 1. Turnover evolution in 2020 versus 2019

In table 2 we can see how the change in turnover influenced the decision on the number of jobs.

Jobs versus turnover

Table 2

No. of responses	Increased no. of employees	Decreased no. of employees	Unchanged no. of employees	Total
Turnover grew	7		2	9
Turnover decreased	1	2	3	6
Unchanged Turnover			1	1
Total	8	2	6	16

Particular attention is paid to maintaining and increasing the number of staff, 50% of respondents even increased the number of employees in 2020. Only two out of sixteen entrepreneurs called for a reduction in staff, even in the cases of lower turnover than in the previous year.

4.2. What changes they have made to adapt

In this part we investigated the way in which entrepreneurs made changes to adapt to the pandemic situation: whether they launched new products or services or if they made changes in terms of delivery or presentation of products to continue their business during the pandemic. But first of all, we asked them what is the predominant state of mind related to the pandemic and if they are worried about the effects of the pandemic.

Worries about the pandemic situation

Table 3

Are you worried about the effects of the pandemic?	No	No (%)	Yes	Yes (%)
	3	19%	13	81%

In table 3 we see that 81% of the respondents are worried about the effects of the pandemic over their business. Some of the reasons reclaimed were that suppliers have increased the price, and customer demand is starting to decline by 2021. Additionally, another reason was that the state of uncertainty is prolonged longer than expected.

Online sales 1	Home delivery 1	New product 5
Courier services 1	Not adapted yet 4	
Strict hygiene measures 1		
Cost cutting 2		

Fig. 2. Changes made in order to adapt to the pandemic situation

As shown in figure 2, five of the business developed new products in order to adapt to the new condition imposed by the restriction of the pandemic. They identified the new opportunities in this pandemic situation and tried to take advantage of them by

investing in new products (cleaning products, disinfectants, equipment, online courses, IT services). Two of them said they had adapted by reducing costs and four declared that they haven't yet adapted.

Some of the inconveniences mentioned were: cancellation of events, lack of customers in the store, restriction of traffic during the emergency period, suppliers pay for a longer period and increased costs. Some of the advantages mentioned due to the pandemic were: people ordered more (considering that they spent most of their time at home), partnerships with hospitals, employees became more responsible and online sales increased. Respondents who identified positive effects following the pandemic understood that they could take advantage of this situation immediately after the outbreak.

In figure 3 we can see some of the words used by respondents to characterize themselves as entrepreneurs during a pandemic.

What is the first word that comes to mind that describes you as a pandemic entrepreneur?



Fig. 3. Words to describe a pandemic entrepreneur

4.3. Perception of support offered by the state and the banks during this period

Regarding perception of support offered by the state, as we can see in table 4, 50% of the respondents stated that they trust the measures taken by the state, while 31% preferred not to answer that question or said that they do not know what to respond.

Trust in measures taken by the state

Table 4

Do you trust the measures adopted by the state?	No	No (%)	Yes	Yes (%)	No answer	No answer (%)
	3	19%	8	50%	5	31%

The respondents stated that they expect simplified procedures from the state, a better organization, faster projects to access, some help offered to those who really have problems, lower taxes and subsidies.

One of the questions was “what banking products would help you now?”. Thirteen out of sixteen respondents (81%) said they would need a credit product. Three of them said it would help them postpone bank rates (19%). Other expectations related to their relationship with the bank referred to cheaper banking products and easy-to-use digital solutions.

4.4. Plans for the next period

In the present research we have noticed that entrepreneurs are generally optimistic when it comes to the future, as 94% of them believe their professional situation will improve in the following period. Regarding the plans for the next period, only two of them have no development plans and are thinking about reducing expenses. The development plans for the future period referred to the completion of investments, the conclusion of new partnerships, the development of new services and new ways of distributing products, entering new markets and attracting a new number of customers.

The main next steps for small businesses are: maintaining jobs, improving relations with customers, sales increase, preparing employees for new skills, accelerating digitalization and access to credit, adapting or changing the business model.

5. Conclusions

Small businesses are characterized by high flexibility and dependence on the entrepreneur. The quality of the company's management and the degree of its involvement is defining for the way in which the company resists economic shocks.

Top changes made by the entrepreneurs are concerned with health measures in the company and with managing the cost more carefully and developing new partnerships with suppliers. For top resources, what they most needed was money, state support through grants, high quality of employees (reliable and well-trained) and financial education for managing business.

The main ways in which the small businesses of the present research were affected come from sales and orders decrease as employees were afraid to come to work and it was hard to pay their instalments, rents and so on.

The biggest concerns of small business entrepreneurs are related to the precarious economic situation, the lack of predictability that does not give them long-term trust and the opportunity to keep valuable employees in the company. The major changes made are concerned with health measures, new partnerships and managing costs more carefully (cost cuts regarding to materials, utilities, marketing).

In conclusion, the majority of small business owners believe there is a positive trend for business and they have faith in their business continuity.

This research has some limitation generated by the fact that data extracted cannot be extrapolated to the entire researched population. The interviews were taken on the phone due to the pandemic situation, thus nonverbal reactions could not be analysed. Some of the interviews were eliminated from the research as they contained incomplete responses.

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