

## Problems and survival strategies for companies during the COVID-19 crisis

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**Abstract:** *The COVID-19 pandemic had a significant impact on the business environment, respectively the national income decreased significantly, many companies closed activity, many employees were laid off, orders fell, companies registered a deficit in cash flow, lack of supply with materials, decreased demand and cancellation of contracts. Companies have reacted differently to the COVID-19 pandemic by shutting down, making bank loans, dismissing employees, reducing employees' salaries, temporarily or completely closing the activity. The paper aims to make a radiography of the main problems encountered by companies during the COVID-19 pandemic and the short-term reactions for mitigation of shocks and survival and reorganization strategies in the post-pandemic period. In order to achieve the goals of the article, the authors used a research methodology based on the collection, analysis and synthesis of quantitative information from several secondary sources through desk research. The article shows that the impact of the pandemic was asymmetric on the business environment and companies had some common problems and differentiated responses to the crisis depending on the specific features of the industry.*

**Keywords:** firms, COVID-19, survival, industry

**JEL:** L2, M20, D20

## 1. Introduction

National income decreased by an average of 4.4% in 2020 compared to 2019 in the European Union for the 27 Member States (Eurostat, 2021). Measures were imposed by the government that affected the economy, respectively international flights were blocked, borders were closed, quarantines were imposed and the activity of some companies was suspended because people were not allowed to access the physical units of the companies. Countries that had a high share of national tourism income suffered massively during the period of pandemic due to reduced international flights, low occupancy rate in hotels and related industry. Some companies were severely affected during the pandemic and were willing to cooperate with other companies even though they were competing for joint activities. Some firms have given up working with the government and have preferred to work with other firms that can provide relevant resources in a shorter time (Markovic et al., 2021).

Response speed is becoming a very important criterion in times of crisis. Companies can explore new markets and offer new products and services to survive and recover from the crisis. For example, some companies in the textile sector may manufacture protective masks, companies in the chemical sector may produce hand sanitizer, and so on. Promoting eco-tourism, cultural tourism and infrastructure investments in attractive destinations for tourists in their own country (McKinsey, n.d.). The paper aims to make a radiography of the main problems encountered by companies during the COVID-19 pandemic and the short-term reactions for mitigation of shocks and survival and reorganization strategies in the post-pandemic period.

## 2. Literature review

Bartik et al. (2020) conducted a research on 5,800 small businesses to assess the impact of COVID-19 on the U.S. economy and emphasized that 43% of the companies were temporarily closed, have reduced their average number of employees by 40%. Also, the small businesses are financially fragile, respectively the cash flow allows them another month of survival and they seek to benefit from support from government. In the U.S.A. small businesses employ about 50% of the workforce and the shock of COVID-19 on small businesses is similar in impact to the 1930 crisis (Bartik et al., 2020). Markovic et al. (2021) conducted a research on a sample of SMEs in Bosnia and Herzegovina during the pandemic of COVID-19 and found that companies in all fields of activity were negatively affected except those in the field of IT, Call centers, Consulting, Wholesale, Ecommerce and Fast moving consumer goods. Dai et al. (2021) conducted a study on a representative sample of 2278 SMEs in China and found that firms suffered significantly in terms of logistics bottlenecks, restrictions on labor mobility and reductions in order volume. The main problems faced by companies are related to: Cashflow deficit, Raw material shortage, Labor shortage, Demand reduction, Contract breach risk and Logistics block (Dai et al., 2021).

Shafi et al. (2020) conducted a survey of 184 SMEs in Pakistan during the COVID-19 pandemic and found that the main problems are related to financial issues, supply chain disruption, decrease in demand and reduction in sales and about 75% from the participating companies is expected to decrease the revenues by over 60%. Khan (2022) found that loans that were contracted

before the pandemic amplified the effect of the COVID-19 pandemic. Chinese SMEs faced financial problems and the biggest challenge for 62.3% of Chinese companies was rent payment, salary payment was a problem for 42.5% of companies, 14% said they could not survive more than a month plus 35.5% of companies that say they can survive a maximum of 3 months, ie about half of Chinese SMEs can not survive more than 3 months in lockdown conditions (Dai et al., 2021). At the company level, a system and infrastructure should be prepared to be in permanent operation and to ensure the functioning of the operational processes within the digital platform used, respectively the companies to revitalize their strategies so as to incorporate crisis scenarios for the continuation of the activity in time seeking to increase revenue from additional revenue-generating channels (Papadopoulos et al., 2020).

### 3. Research methodology

In order to achieve the objectives of this article, the authors used a methodology based on the collection, analysis and quantitative synthesis of information from several secondary data sources through desk research. In this regard, the authors collected various information from articles, reports and case studies available in electronic databases (e.g. Springer, Emerald, Science Direct) and libraries (e.g., the Central University Library Carol I of Bucharest).

### 4. Results and discussions

Based on the issues identified for companies during the COVID-19 pandemic in the literature review, there are several key issues that can be tracked. First of all, only certain sectors of activity were affected. The impact of the COVID-19 pandemic on the business environment may be grouped into 3 categories, some companies that were severely affected, some neutral companies and some companies benefited from this crisis. Shafi et al. (2020) shows that SMEs have chosen different short-term strategies to counteract the effects such as 31% of companies have completely shut down their activity, 19% of companies have partially closed their activity, 18% of companies seek to apply for a loan and 12% continue their business normally, 4% plan to change their business in accordance with the challenges of COVID-19 and 2% strive to work remotely. To address the challenges of lack of cash flow, 43% of companies surveyed chose to lay off employees, 12% prefer to reduce staff salaries and 13% plan to partially shut down to reduce costs and manage the lack of cash flow. Klyver and Nielsen (2021) conducted a study on the strategies of companies to respond to the COVID-19 crisis and made a grouping of companies that exploit the crisis (crisis exploiters), other companies that are not affected (crisis immunes) and other companies that have suffered (crisis victims) and found that firms with narrow retrenchment strategy expected decreasing turnover in 2021 while SMEs with broad strategies of perseverance and innovation expected higher revenue in 2022. If firms do not act when affected by a turbulent external environment and wait to pass the crisis on their own they will rather lose some benefits and if they persevere and innovate they will gain some benefits. Some companies have few stable suppliers due to economies of scale and at the time of blocking international transport, the supply was also blocked. The distribution of the countries that closed the borders was asymmetric with significant

delays both on the supply and production side but also on the consumer demand side and many contracts were canceled (Bartik et al., 2020). Exporting firms had more supply problems and declining orders from other countries. In different industries, respondents expect a percentage of between 30-44% to decrease their sales by more than 10% in the next period and the uncertainty regarding the reopening of the activity is correlated with anxiety, fear and worry (Dai et al., 2021).

From the exporting companies surveyed, 58.7% of the companies suffered from a lack of labor and it is 25% higher than the non-exporting companies. In China, a significant percentage of exporting companies are employed abroad and due to population restrictions this has led to a shortage of labor.

Table 1: Impact of COVID-19 on industry, reactions of firms and strategies to cope with COVID-19 crisis

Authors	Impact of COVID-19 on industry
Bartik, A. W., Bertrand, M., Cullen, Z. B., Glaeser, E. L., Luca, M. and Stanton, C. T.	<ul style="list-style-type: none"> <li>• 43% of the companies were temporarily closed</li> <li>• 40% less employees on average</li> </ul>
Markovic, S., Koporcic, N., Arslanagic-Kalajdzic, M., Kadic-Maglajlic, S., Bagherzadeh, M. and Islam, N.	<ul style="list-style-type: none"> <li>• companies in all fields of activity were negatively affected except those in the field of IT, Call centers, Consulting, Wholesale, Ecommerce and Fast moving consumer goods</li> </ul>
Dai, R., Feng, H., Hu, J., Jin, Q., Li, H., Wang, R., Xu, L. and Zhang, X.	<ul style="list-style-type: none"> <li>• firms suffered significantly in terms of logistics bottlenecks, restrictions on labor mobility and reductions in order volume</li> <li>• the main problems faced by companies are related to: Cashflow deficit, Raw material shortage, Labor shortage, Demand reduction, Contract breach risk and Logistics block</li> <li>• the biggest challenge for 62.3% of Chinese companies was rent payment, salary payment was a problem for 42.5% of companies, 14% said they could not survive more than a month plus 35.5% of companies that say they can survive a maximum of 3 months</li> </ul>
Shafi, M., Liu, J. and Ren, W.	<ul style="list-style-type: none"> <li>• the main problems are related to financial issues, supply chain disruption, decrease in demand and reduction in sales and about 75% from the participating companies is expected to decrease the revenues by over 60%</li> </ul>

Authors	Reactions of firms and strategies to cope with COVID-19 crisis
Shafi, M., Liu, J., and Ren, W.	<ul style="list-style-type: none"> <li>• 31% of companies have completely shut down their activity, 19% of companies have partially closed their activity, 18% of companies seek to apply for a loan and 12% continue their business normally, 4% plan to change their business in accordance with the challenges of COVID-19 and 2% strive to work remotely</li> <li>• 43% of companies surveyed chose to lay off employees, 12% prefer to reduce staff salaries and 13% plan to partially shut down to reduce costs and manage the lack of cash flow</li> </ul>
Klyver, K. and Nielsen, S. L.	<ul style="list-style-type: none"> <li>• firms with narrow retrenchment strategy expected decreasing turnover in 2021 while SMEs with broad strategies of perseverance and innovation expected higher revenue in 2022</li> </ul>
Caballero-Morales, S.-O.	<ul style="list-style-type: none"> <li>• a “new normal” will emerge that will require changes in business and infrastructure management in which innovation is essential for recovery and product innovation for new markets</li> </ul>
Coronavirus’ business impact: Evolving perspective   McKinsey	<ul style="list-style-type: none"> <li>• 75% of the people who used digital channels for the first time say that they will continue to use them</li> <li>• 91% of 350 senior managers plan to maintain or increase investment in digital technology coming years</li> <li>• more than half of 350 senior managers said remote work increased their productivity compared to pre-COVID-19 levels</li> <li>• Increasing the rate of remote work has resulted in approximately 20% savings in real estate optimization of the workspace</li> <li>• Collaborating on how to use an asset depending on the phase of the life cycle it is in and identifying collaborative solutions</li> <li>• Some employers offer parents creative flexibility regarding the timing and ways to accomplish their duties</li> </ul>
Markovic, S., Koporcic, N., Arslanagic-Kalajdzic, M., Kadic-Maglajlic, S., Bagherzadeh, M. and Islam, N.	<ul style="list-style-type: none"> <li>• Business-to-business open innovation, for example: Collaboration between some companies for the provision of protective equipment, the production of fans to treat people with COVID-19 etc.</li> </ul>

Source: Bartik et al. (2020), Markovic et al. (2021), Dai et al. (2021), Shafi et al. (2020), Klyver & Nielsen (2021), Caballero-Morales (2021), Coronavirus’ business impact: Evolving perspective | McKinsey (2021)

Collaboration with other companies is an important strategy for SMEs. An example is employee loaning or joint projects with employees in companies to fulfill their work norm in order to avoid the dismissal of employees. Some activities have constantly maintained the volume of activity or increased during the pandemic and need labor. Instead of laying off employees, some companies may work with companies that temporarily need employees. Caballero-Morales (2021) argues that after the end of the pandemic many companies will disappear and a “new normal” will emerge that will require changes in business and infrastructure management in which innovation is essential for recovery and product innovation for new markets. Papadopoulos et al. (2020) argues that there are two main schools of thought on business continuity through the use of digital technologies: in the first variant digital technologies that support processes and services are in operation and ensure continuity and in the second variant there are appropriate mechanisms that ensure business processes main and staff interactions can be performed digitally and data is stored. The implementation of modern solutions in IT depends on the ability of the entrepreneur to overcome the classic barriers that are related to lack of sufficient knowledge and lack of experience and the realization of distance communication is 46% by phone, 24% by MS Teams, Skype 9% and the rest of online communication tools account for 21% (Halina and Magdalena, 2021). Strategy and change are related concepts in business theory and represent ways to improve competitiveness in an increasing creative environment. Competent and proficient leadership is needed to meet the challenges of the 21st century and a new socio-economic strategy is required (Avny, 2015). Management’s attitude towards a crisis is expressed through the activity of leaders at different hierarchical levels that influence the functioning of the organization and the process of change to achieve a strategic vision (Bolcaş and Ionescu, 2020). The study of “Digital Adoption through COVID-19 and beyond” (McKinsey, n.d.) shows that due to the COVID-19 pandemic three structural changes occurred.

A first change is in the behavior of the consumers who have started to accept and orient themselves towards the use of digital services, respectively 75% of the people who used digital channels for the first time say that they will continue to use them. A second change is for when the economy will recover, demand will be unpredictable and asymmetric at the level of regions, sectors and products and it is not known to what extent it will return to pre-pandemic levels, respectively companies will have to make certain structural adjustments of production capacity. The third change is in the way companies organize their distance working models, respectively in a very short time they have managed to communicate effectively with 25-200 people immediately and to respond very quickly to customer requirements and these transformations can be an example for other companies who want to digitize their work and reorganize the company’s activity. Markovic et al. (2021) conducted a study in which he found that “Procedures remain the same but these are being handled by a reduced number of staff, so everything is just slower than it used to be before. Digitalization that they use only relates to one-way communication. Digitizing companies is more of a managerial issue than a technical issue because it involves changing organizational processes within the company and training employees. The COVID-19 pandemic has affected the global economy and particularly SMEs. One of the reasons is the limited use of digital technology and especially the use of mobile payments. Digital transformation

has been studied as enablers, necessary resources and capabilities, processes and ways of transformation and benefits (Bai et al., 2021). Muhammad et al. (2021) conducted a questionnaire in which they analyzed whether companies use the Internet, e-payments, e-commerce, computers and websites to carry out their activity on finance, management, sales, production and operations in order to compare the activity of companies in Malaysia before and during the pandemic and observed the digitalization of activities in all areas. Business-to-business open innovation is a way to overcome the difficulties of the pandemic, for example Scania and Karolinska University Hospital from Sweden have collaborated to provide protective equipment that includes masks, visors and clothing. For example, Ford and GE Healthcare cooperated in production of fans to treat people with COVID-19 (Markovic et al., 2021). McKinsey conducted a study "Coronavirus' business impact: Evolving perspective" and found that 91% of 350 senior managers plan to maintain or increase investment in digital technology in the coming years and more than half said remote work increased their productivity compared to pre-COVID-19 levels and increasing the rate of remote work has resulted in approximately 20% savings in real estate optimization of the workspace. The pandemic has brought great challenges to companies and change is difficult.

There are several challenges regarding the population movement during the COVID-19 pandemic. Nasar et al. (2021) shows that in order to meet the challenges of the COVID-19 pandemic, entrepreneurs are looking for financial support, new business opportunities and credits from peers, young entrepreneurs are looking for guidance on market changes and experienced entrepreneurs are thinking of postpones its investments until after the end of the pandemic but everyone is waiting for government support through incentives, tax relief or interest-free loans.

Shafi et al. (2020) shows that companies would need government support for:

- allowing to continue the commercial activities in parallel with the security measures. This would allow the

stimulation of the economy. Even if restrictions on the movement of persons were imposed, international trade should be left open to allow for economic activity;

- home delivery of certain products and offline services. Many businesses can continue their activity without

customer contact with consumers, for example through food delivery applications. For certain services, companies may provide certain services at home to the customer but with limited contact for protection against COVID-19 such as car service;

- online payment services that allow payments without physical contact, including the payment of public utility

services to limit the number of people and limit the population.

Sustainable development involves rethinking business models in such a way that to be able to incorporate crisis scenarios, respectively to create opportunities for maintenance and attracting new customers in the digital environment (Bai, Quayson and Sarkis, 2021). Chen et al. (2021) proposed epidemic prevention and an investment-oriented control strategy and government regulation to support sustainable development.

## 5. Conclusions

Once the restrictions on COVID-19 are lifted the lack of demand will remain a challenge and solutions for government intervention through policies should be geared towards the demand side to support the return of SMEs. It would be interesting to follow internationally comparable data to follow in depth the evolution of the impact of COVID-19. Remote work is an opportunity for companies to counteract the effects of the COVID-19 pandemic. The digitization of work is a long-term process for companies and is an investment that will reduce the financial risk of companies in the future if similar COVID-19 crises occur.

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