

The Business Adaptation to Radical Changes in the External Environment. The Case of Romania

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Abstract

For twentieth-century organizations, change is part of their functioning DNA. Adapting to change is essential for survival in a hypercompetitive market. However, the crisis generated by Covid-19 is unprecedented, hitting hard industries that have a great impact on the economy: tourism, air transport, entertainment, hospitality. On the other hand, many companies find opportunities and adapt quickly, especially by speeding up the digitization process. This paper aims to provide an overview of the situation in Romania, as documented up to the present. For this, it uses 7 companies as case studies and their particular response to the crises. This is a relevant addition to the body of literature, considering the limited number of studies on the topic already included in the main academic research flows.

Keywords

Change management; adaptability; business environment; market response.

Introduction

Managing changes in business processes requires careful analysis of changes and the impact they have on process performance. The various adaptation processes undergone by business management worldwide in the first months of the pandemic have been analyzed by Pinzaru, Zbucea, and Anghel (2020), documenting the following main approaches: recovering revenues and building operations, rethinking the organization, accelerating digitalization, as well as agile marketing responses.

Fahad (2016) developed a six-step methodology for managing change in business processes: translating change into a language easily accessible to all parties involved in the change process, measuring the potential for change, why it is needed, and what are the most important benefits, analyzing the adverse effects on business processes and performance - with the involvement of all parties involved in the discussion, probing their opinion on the effects of changes on them. The fourth step involves formalizing and implementing the change, followed by monitoring the performance of the change and whether the results indicate a positive impact of the change alongside its integration into the business process.

The methodology presented above is applicable when organizations want to adopt changes in conditions of a turbulent external environment. Change is conducive to generating competitive advantage and even boosting the development of innovation.

The year 2020 will go down in history as the most turbulent year of all, hit by the health crisis generated by the COVID-19 pandemic that caused an unprecedented economic crisis with long-term, lasting effects. Even though the spread of COVID-19 and the death rate are somewhat lower than in other pandemics (1918-1919: pandemic caused by a virus of avian origin, about 500 million people were infected, with 50 million deaths, followed by the Asian flu that broke out in February 1957 with 1.1 million deaths, the 1968 influenza A-H3N2 virus that caused 1 million deaths), the financial shocks and losses have never before been encountered in human history. For example, the global stock market lost almost \$27 trillion in the market value of listed companies in the first quarter of 2020, meaning losses of 60 million US dollars for each infected patient (Guda, 2020, pp. 13 - 15).

Recent studies by Eichenbaum et al. (2020), Boissay, and Rungcharoenkitkul (2020) on the impact of major influenza pandemics on the economy have shown that the effects impact the supply and demand nature. Moreover, Jordà et al. (2020) and Ma et al. (2020) have shown in their studies that the effects are also persistent. Regarding demand, the effects are determined by social distancing measures that have a domino effect on income and consumption, the labor market, and also on future income expectations. Pandemics also accentuate social inequalities; in this context, the most vulnerable category of the workforce is represented by those with low skills and young people.

In terms of effects on the supply, they are driven by downsizing or even business closure, declining productivity, which also includes a shrinking workforce and supply chain problems. Another effect is seen in increasing savings and reducing investment as a precaution, but also because the amounts planned to be invested before the outbreak of the crisis generated by COVID-19 are used for business survival.

The Romanian business environment

The academic research on the Romanian market documenting how business adapted to the COVID-19 pandemic is limited. Achim et al. (2021) investigated the impact on business performance while Gheorghiu (2020) analyzed the impact on entrepreneurs in Romania. Some studies concentrate on the impact on consumer behavior (Baicu et al., 2020; Butu et al., 2020; Stanciu et al., 2020). A few studies are investigating the financial markets and the banking industry, documenting their reaction to the new challenges (Hatmanu & Cautisanu, 2021; Marcu 2021; Marcu & Zbucea, 2021). Other studies documented the impact on the workforce and human resources management in companies operating in Romania (Tecu et al., 2020; James, 2021; Nemteanu, Dinu, & Dabija, 2021; Petcu et al., 2021; Radulescu et al., 2021; Talnar-Naghi, 2021).

More attention seems to have been given by the business environment. A study conducted by the research agency MKOR realized on 243 Romanian companies (67% small enterprises, 22% microenterprises, 8% medium companies, and 3% large ones) revealed that:

- 91% of the Romanian companies are affected by the COVID-19 pandemic, with a negative medium impact of 10.2% for 2020. At the European level the expected decrease is -7.5%;

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- 95% of the companies took survival measures, and 90% of them reacted immediately after the start of the emergency rule, at the beginning of March;
- the companies that already registered decreased incomes at 1st of March 2020 in comparison with 1st of March 2019 estimate a decrease for this year too;
- the level of trust in the state of institutions is low, 2.7 points from 7;
- 12% of the interviewed companies have decreased the salaries with an average of 37%;
- 47% of the companies are pessimistic with regard to the evolution of their business, as they are operating in the most impacted industries: real estate, tourism, transport, services, education, culture, and HoReCa, they expect a negative evolution for 2020 of 43%;
- 13% of the companies are reserved, with an expected decrease of 15%; these companies operate in FMCG and financial services;
- contrary to expectations, 40% of the companies are optimistic and they expect an increase of incomes with 30%; these companies are acting on the pharmaceuticals market, energy industry, agriculture, and healthcare (MKOR, 2020).

According to the Report on financial stability, issued by the National Bank of Romania (2020), the impact on the real sector is strongly felt in 18 economic subsectors and 17 sectors that may be moderately affected by the crisis generated by Covid-19. The transport, communications, energy, and tourism sectors have the highest levels of credit risk according to credit institutions.

The sectors on which the COVID-19 pandemic is expected to have a high impact are of significant importance to the economy. They represent 14 percent of the total number of non-financial companies, contribute 19 percent to gross value added and employ 22 percent of the workforce. In addition, almost a quarter of the banks' corporate portfolio is represented by loans contracted by companies that have been severely affected by the pandemic.

At the level of activities on which the current pandemic has had a high impact, some of them require more attention given to the total suspension of activity, to which the possible decrease in consumer demand is added. This could manifest itself after the phase of the peak of the pandemic. These sectors are represented by: (i) tourism and (ii) the hotel and restaurant industry. However, in terms of importance for economic growth, the hotel and restaurant sector, along with trade and transport, had an important contribution to GDP growth in 2019.

The hotel and restaurant industry is better represented in terms of contribution to the evolution of the real sector: the number of companies amounts to 5 percent of the total (34.5 thousand), the contribution to gross value added is 2 percent, and the number of employees is 4 percent (respectively 171.6 thousand). In terms of their resilience, financial health indicators show that there are notable divergences between the hotel and other accommodation facilities and the restaurant and other food service sectors (BNR, 2020).

Also, following the analysis of the National Bank of Romania, 3 topics emerged that need to be taken into consideration for the development of the agriculture and food industry sectors; in the case of the latter sector, moderate negative effects are anticipated. Topics: the need to shorten supply chains and reduce their complexity, ensure an adequate level of food security and expand the digitization of production and distribution processes.

Given Romania's production capacity in the food sector and access to quality raw materials (from agricultural production), the food industry can become a strategic sector in Romania, holding a growing role, even from the perspective of adapting to a new climate context. The financial statements show that the food industry is a profitable sector, however, its performance is not very sustainable, given the high level of indebtedness and the low level of cash flow (BNR, 2020).

In a recent study developed by Zbucea, Săniuță, and Hrib (2020) it was revealed that the major impact of COVID-19 on the local market is expected to be on short term due to low demand, interruptions in the supply chain, and also the low ability of the SMEs to access financial resources. The experts of the big four consultancy companies are expecting, based on the market's dynamics, a stagnation during the summer and after an evaluation of the impact, the crisis had on their businesses the leaders and their teams will identify new strategies and in 2021 will be characterized by a return of the positive evolution of the economy.

During the lockdown, an interesting phenomenon appeared that is barely met when we talk about businesses: solidarity between companies, especially for those most affected by the lockdown. Platforms like Marketing for Good, IMMpreună, lots of independent consultants, and also consultancy and lawyer companies have offered knowledge and consultancy for those companies in need. Also, communities of consumers had shown solidarity for the small businesses and they promoted their products and services on their social profiles and encouraged their followers to support local entrepreneurs.

Although many companies are affected, the crisis accelerated the digital transformation of lots of SMEs. They moved online not only to promote their goods but also to sell them. Also due to the interdiction to open the restaurants, the businesses in this sector choose the home delivery system, through their platforms and network of couriers or choosing a third-party food delivery platform. For example, a large local restaurant chain launched at the beginning of July 2020 its own order and delivery food platform. The owner stated that the crisis was the most important driver in deciding to add a new function to their business.

Also, another important outcome of the crisis that is beneficial for the business ecosystem is the start of digitalizing part of the local and central administration.

Research results

To understand better the response of the business environment to the COVID-19 generated crisis we organized a series of online events having as guests business owners or CEOs. The industries where they activate are FMCG, HoReCa, IT, Digital Agency, Courier Service, and Consultancy. Most of them were rather optimistic than worried about the future. They are ready to embrace change and to adapt to the new digital economy more than ever. Each of them said that need is the best lesson and also they agreed that to face better a crisis the companies need to develop a resilient culture and also to promote critical thinking and innovation.

For this paper, the author interviewed 7 entrepreneurs or decision-makers who work in companies with Romanian capital in the fields: retail, HoReCa, education, food industry, and infrastructure design. The interview is the most used format for data collection in qualitative research, whereas the type chosen was the structured interview thus offering the possibility of a clustering of the answers.

Given the situation generated by the Covid-19 pandemic, the interviews were conducted online through the ZOOM platform (a platform that allows video conferencing and is one of the companies for which the crisis generated by Covid-19 has brought sales increases and accelerated the development of new features). The duration of an interview was about 90 minutes and each of the respondents had to answer 15 questions.

The companies, except for those operating in the field of education, are large companies with turnovers exceeding 10 million euros. Regarding the number of employees, 42.9% of companies have over 300 employees; in the same percentage are those with between 50 and 250 employees and in a lower percentage, 14.3%, less than 10 employees. All respondents estimated for 2020 an increase in turnover between 0.5% and 270% (0.5%, 2%, 12%, 15%, 25%, 270%).

Without exception, before the crisis broke out, all companies had planned investments to grow their business. The effects of the crisis were not long in coming and 42.9% of those interviewed said they could not continue to implement the investment plan, having to use resources to keep the business on the market.

The impact of the COVID crisis on the businesses that participated in the study can be summarized as follows: a drastic reduction in sales, closure of outlets, uncertainty about the possibility of contract execution and restricting team mobility, reducing expected growth before the crisis broke out, and surprisingly one of the respondents said that although during the state of emergency the stores were closed, after the reopening of the stores, sales were above estimates.

As expected, the crisis accelerated the company's digitization process, with 71% of respondents answering the following question in the affirmative: Did the crisis accelerate the company's digitization process? Measures to accelerate digitization have resulted in the development of high-performance mobile platforms, the creation of systems that allow home deliveries, the development of online stores, process

automation, investments in systems that facilitated work from home or improving the existing online stores.

Regarding measures taken to counter the effects of the crisis, responses ranged from measures with a long-term impact such as the launch of new products or changes in strategy to measures with an immediate impact in supporting the business: technical unemployment and cost reduction for elements that were not strictly necessary.

Numerous studies show that crises are a determining factor in accelerating the innovation process, however only one of the respondents said that they have innovated the way they delivered educational content. All 7 respondents answered unanimously with yes, this crisis also brings opportunities, such as investments in new fields - pharmaceuticals, cancellation of low-profit activities, accelerating the adaptation to the digital world, and the transition to work from home. Over 70% of respondents said that after this period they feel more prepared for change, the answers converging to the statement that they have learned to plan better for unexpected situations.

Conclusions

After the interviews we had with the entrepreneurs and the data obtained from secondary sources, we conclude that the companies that managed to prepare for the crisis and efficiently organize company operations at the initial stage of the crisis will primarily consider not cutting the costs, but sustaining and even increasing their revenues. Such companies will be among the first to overcome the current crisis and they will also become the main drivers of the economic recovery (Prohorovs, 2020, in Zbucea, Săniuță, & Hrib, 2020).

In times of crisis, it's easy for organizations to default to old habits—but those are often the times in which new approaches are most valuable. As companies position themselves for the new normal, they cannot afford to be constrained by traditional information sources, business models, and capital allocation behaviors. Instead, they must highlight anomalies and challenging mental models, revamp their business models, and invest their capital dynamically to not only survive the crisis but also thrive in the post-crisis world (Jacobides, & Reeves, 2020).

Although companies need predictability for planning, major crises are a good determinant of radical change, sometimes even at the level of the business model. Entrepreneurs and decision-makers are trained to make quick decisions that allow the business trajectory to change when the outside environment imposes such measures.

A study by Kantar (2020) focused specifically on purchasing behavior during COVID-19 shows fundamental changes in the way consumers acted, which required companies to rely on marketing innovation and to accelerate digitization.

Another important aspect is the intensification of the phenomenon of Work from Home which imposes new work conduct, in some cases investments in work equipment and investments in access to systems that facilitate distance communication. Also, companies needed to reconsider the way of work evaluation and

quality control. Despite some blockages mentioned by the entrepreneurs and decision-makers interviewed and examples presented in secondary sources where working from home decreased productivity in a few cases, this new lifestyle leads to the opening of new business concepts.

Although the crisis generated by Covid-19 has caused turbulence in certain industries, on the one hand, on the other hand, there is huge potential to be exploited in terms of changing the business model and integrating innovation on as many organizational levels as possible.

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