

# THE IMPACT OF THE COVID-19 EPIDEMIC ON THE FINANCING STRUCTURE OF ROMANIAN COMPANIES (PART I)

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**Abstract:** Using the survey as a research method, this study aims to analyse sources of financing from the perspective of the current context of the COVID 19 epidemic, the aim being to identify how exceptional situations, such as the COVID-19 epidemic, can influence the capital structure of Romanian companies. The results of the study show that the COVID 19 epidemic is perceived by the companies investigated as having a negative impact on funding, causing most investigated companies to initiate financial actions. In this context, there was a change in the financial structure between March and May 2020 and the most frequently used sources of financing were: banking products, trade credit and sources obtained through state funding programmes.

**Keywords:** financing structure, COVID-19 epidemic, banking products, trade credit, state funding programs.

## 1 INTRODUCTION

The financing structure of a company may have an impact on its financial performance. Finding the best financing mix depends on both internal factors and external factors.

At the same time, the economic context at a given time plays an important role in choosing the right sources of funding.

In view of these considerations, this study aims to analyse funding sources in the light of the current context of the COVID 19 epidemic. The aim is to identify how exceptional situations,

such as the COVID-19 epidemic, can influence the capital structure of Romanian companies.

In order to achieve the proposed objective, we considered it necessary to obtain information on the assessment of Romanian companies regarding the influence of the COVID-19 epidemic on financing needs, namely how the operational activity was affected in terms of financing. At the same time, we intend to collect information on the financial actions intended to take in this context as well as information on the degree of use of funding sources between March and May 2020.

In order to obtain the mentioned information, we consider developing a questionnaire, interpreting the data obtained from companies and performing statistical analyses based on the results.

## 2 THEORETICAL BACKGROUND

In order to carry out daily activities and to finance investment projects, Romanian companies use a number of sources of financing.

A number of surveys have been carried out to identify the most widely used means of funding. In this respect, the findings of the surveys conducted by The National Bank of Romania (NBR) reveal that the predominant sources of financing are domestic sources such as retained earnings or sale of assets, loans from shareholders and capital increases. Another important category of financing is banking products, especially bank overdrafts or credit lines. Other types of funding companies use are: trade credit, leasing, factoring, bank credit for capital investments, loans with a guarantee of credit guarantee funds and treasury bank credit. At the same time, to a lesser extent, Romanian companies use state funding programmes.

The NBR reports on financial stability provide us with information on the structure of Romanian companies' liabilities. It appears from this structure that the most commonly used type of financing is trade credit as it is the most accessible form of financing. Other liabilities relate to liabilities to shareholders, respectively loans from financial institutions.

The National Council of Small and Medium-Sized Private Enterprises in Romania conducted a number of representative SME surveys. Their results indicate that the type of finance prevailing for SMEs is internal sources of finance, followed by bank credit and trade credit. At the same time, SMEs have also used the following types of financing: leasing, factoring, non-reimbursable funds, loans secured by guarantee funds and loans from specialised financial institutions.

The study conducted by Covaciu (2020) shows that there are major differences between SMEs and corporations in terms of choice of funding sources. If banking products are the most representative types of corporate financing, the predominant form of finance for SMEs is internal sources of finance. At the same time, SMEs use shareholder loans more often and corporations use commercial loans more frequently.

## 3 RESEARCH METHODOLOGY

The research method used in this study was the survey aimed at investigating the sample of 285 companies listed on the Bucharest Stock Exchange. In this case, sampling was non-random based on reasoning. We chose this method because we believed that selected subjects could provide us with significant information on how the COVID-19 epidemic influenced the financial structure of the company.

The research tool used was the questionnaire designed to allow adequate information to be obtained in order to achieve the objectives set.

In order to implement the questionnaire we considered as starting points the current context of the COVID-19 epidemic and the financial structure of the company. To facilitate online completion, the questionnaire was designed on Google Drive. The chosen method of contacting companies was that of sending the link to access and completing the questionnaire by e-mail. It was accompanied by further information on the importance of carrying out this research.

The questionnaire was sent to 285 companies and the final number of responses collected was 101 which we used for interpreting and analysing data.

We specify that the results obtained are representative only at the level of the 101 companies investigated, the results cannot be

extrapolated due to the non-random nature of the sample used.

The framework assumptions of the research carried out are the following:

H<sub>01</sub>: At least one third of the companies investigated consider the influence of the COVID-19 epidemic on financing needs as a threat/crisis situation.

H<sub>02</sub>: At least one third of the companies investigated say the company's operational activity has been affected in terms of funding.

H<sub>03</sub>: Most of the companies investigated say they will initiate financial actions in the context of the COVID-19 epidemic.

H<sub>04</sub>: At least 15 % of the companies investigated believe that access to finance was a pressing problem to a large extent between March and May 2020.

H<sub>05</sub>: At least half of the companies investigated say that, between March and May 2020, the most widely used sources of funding are: banking products, trade credit and sources obtained through state funding programmes.

H<sub>06</sub>: At least 5% of the investigated companies resorted to bond issuance between March and May 2020.

#### 4 ANALYSIS AND RESULTS

Below will be presented the main results of the research by comparing the answers to the questionnaire questions with the underlying assumptions. The statistical package IBM SPSS Statistics 20 was used to analyse the results.

Regarding the question that it set out to highlight the perception of the influence of the COVID-19 epidemic on financing needs, 59% of the investigated companies stated that the COVID-19 epidemic represents a threat/crisis on financing needs, 35% consider it neutral and only

6% of companies perceive the COVID-19 epidemic as an opportunity for financing needs.

These results allow confirmation of the H<sub>01</sub> hypothesis „At least one third of the companies investigated appreciate the influence of the COVID-19 epidemic on financing needs as a threat/crisis situation”.

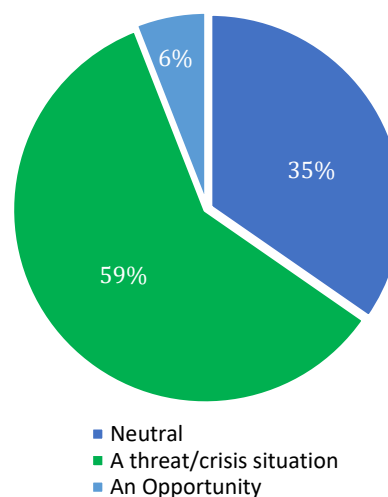


Figure 1. Perception of the influence of the COVID-19 epidemic on financing needs.

As regards the assessment of the companies investigated, if the operational activity of the company was affected in terms of financing, between March and May 2020, 38% of companies stated that during this period the operational activity was affected, 24% considered that the operational activity was only partially affected, 26% claimed that it was not particularly affected and, only 13% of the companies consider that the operational activity was not affected in terms of financing. The results thus lead to the confirmation of H<sub>02</sub> „At least one third of the companies investigated declare that the company's operational activity has been affected in terms of financing”.

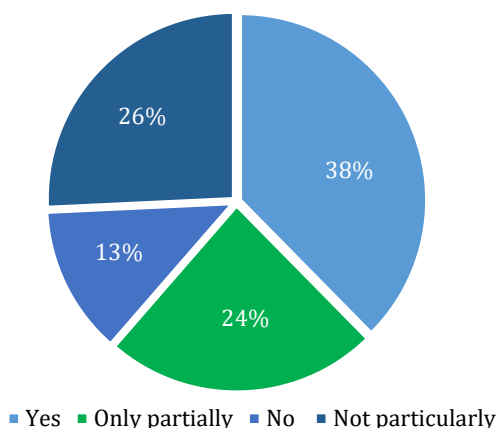


Figure 2. The assessment of the firms investigated, whether the operational activity of the company was affected in terms of financing, between March 2020 and May 2020

Analysing the results of the investigation into the intention of the companies to initiate financial actions in the context of the COVID-19 pandemic, it is found that 99% of the companies investigated are concerned about the initiation of such actions. Therefore, the  $H_{03}$  hypothesis is confirmed „Most of the companies investigated say that they will initiate financial actions in the context of the COVID-19 pandemic”.

Of these companies, 93% intend to revise the financing plans, 91% are geared towards

finding suitable sources of funding, 90% want to ensure an adequate level of liquidity and 56% plan to use government support programmes. Continued medium and long-term investment is a concern for 21% of companies, while 10% plan to postpone or cancel investments. Another 4% of companies envisage postponing payment or rescheduling credit rates. Only two companies indicated that they were not considering any financial action.

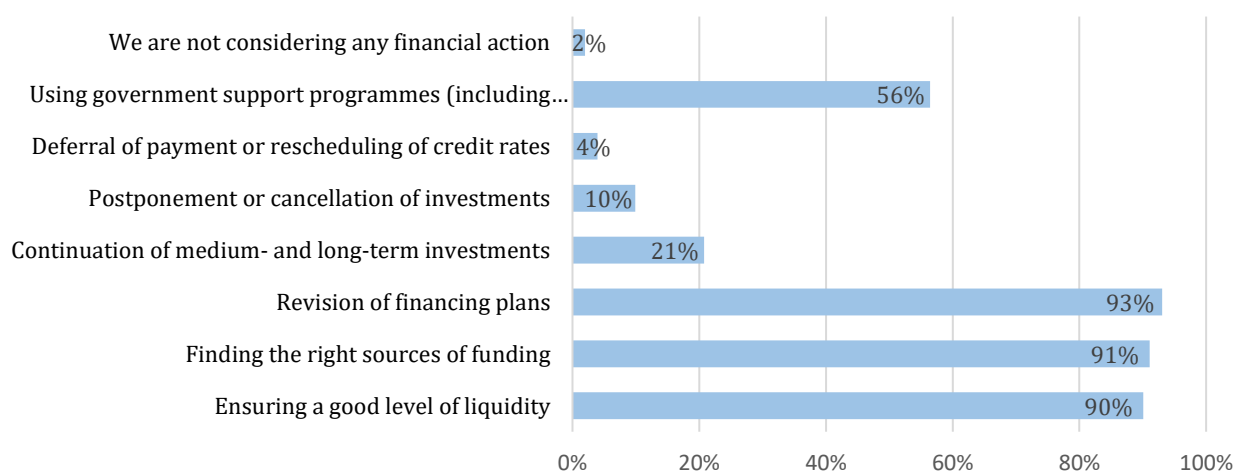


Figure 3. The intention of firms investigated to initiate financial actions in the context of the COVID-19 pandemic

On the question which seeks to identify the extent to which access to finance was considered a pressing problem for companies between March and May 2020, as can be seen in the figure below, 37% of companies assessed „to a small extent”, another 37% „to an average” and 20% „to a large extent”. A single company considered access to finance, during this period, a very

pressing problem and six other companies did not consider it a pressing problem at all. The responses lead to the confirmation of the H<sub>04</sub> hypothesis „At least 15% of the companies investigated believe that access to finance was a pressing problem to a large extent between March and May 2020”.

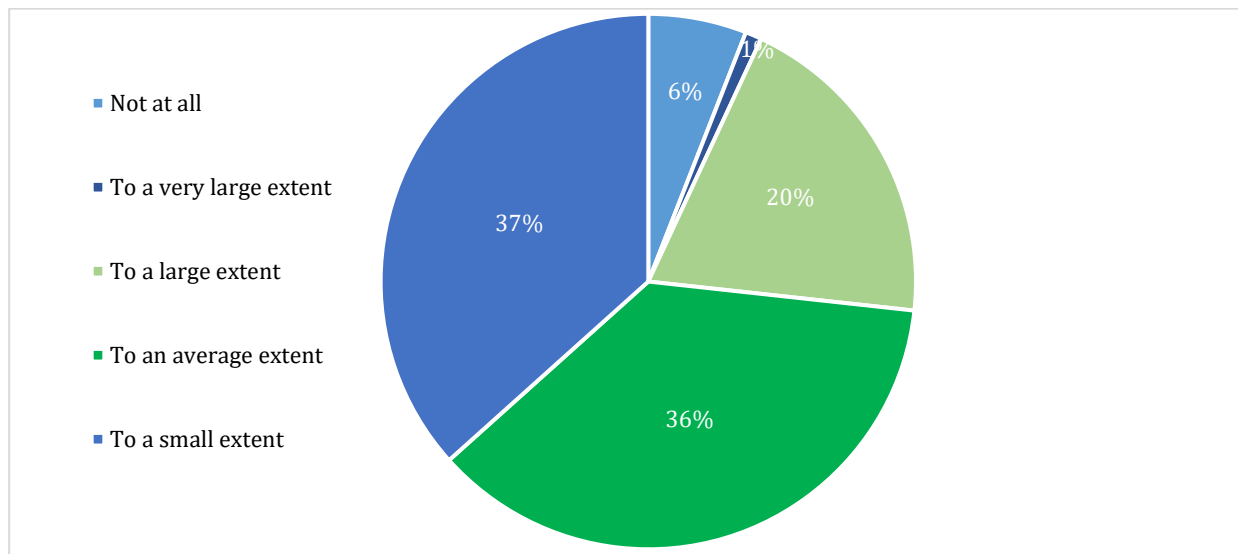


Figure 4. The opinion of the firms investigated as to the extent to which access to finance was considered a pressing problem for company

The following table gives the opinion of the companies investigated on the importance of the funding sources used between March and May 2020.

As can be seen in the table, domestic sources of financing (retained earnings or sale of assets) are of average importance for 43% of the investigated companies, while another 33% of companies consider domestic sources of financing to be significant between March and May 2020. This means of financing is very important for two companies, which is of little importance to another 12% of companies, not important for three other companies, respectively 8% of companies did not turn to

domestic sources of financing between March and May 2020.

Between March and May 2020, 68% of the investigated companies did not resort to capital increases and 12% of companies consider them to be of no importance in total financing sources used during this period. 11% of the companies that have used this source of funding, consider it to be of little importance, 6% attributes an average importance and, three companies consider it important.

Shareholder loans are a means of financing used by 70% of the companies investigated during the period under consideration. Of these, 45% consider the source of funding little

Table 1. The assessment of the firms investigated with regard to the sources of financing used between March and May 2020, as well as the importance of each source in the total funding sources used during this period

	Source of funding not used	Not important at all	Little important	Average importance	Important	Very important
Retained earnings or sale of assets	8	3	12	43	33	2
Social capital increase	69	12	11	6	3	0
Shareholder loans	30	8	32	17	9	5
Loans with a guarantee of credit guarantee funds	50	4	21	18	8	0
Bank loan	7	0	4	27	45	18
Bank overdraft and credit line	6	0	3	13	49	30
Trade credit	3	0	3	6	24	65
Leasing	29	1	10	25	18	18
Factoring	44	21	31	3	2	0
European funds	68	14	15	3	1	0
State funding programmes	8	0	24	24	22	23
Bond issues	99	0	0	0	2	0
Stock issues on the capital market	101	0	0	0	0	0
Venture capital funds	101	0	0	0	0	0

importance, 24% attributes an average importance, 13% consider it important. 7% of companies consider it very important and 11% of companies consider it to be of no importance.

As regards loans with a guarantee of credit guarantee funds, it is noted that half of the companies investigated used this means of financing between March and May 2020. 21% of companies consider the source of financing little important, 18% assigning an average importance, 8% important, and 4% of companies consider it to be of no importance.

Bank credit is a financing instrument used by most investigated companies (93%) between March and May 2020. The degree of importance they attach to companies is as follows: 45% of companies consider bank credit to be important, very important for 18%, of average importance for another 27%, and not important for four companies.

Another bank product that was widely used between March and May 2020 by the companies investigated is the bank overdraft and credit line.

This product is very important for 30% of companies and important for the other 49%. 13% of companies consider the banking product to be of medium importance, whereas three companies consider it to be of little importance. Six companies did not use this financing instrument during this period.

The most widely used financing instrument by the investigated companies between March and May 2020 is trade credit. In terms of importance, trade credit is very important for 64% of companies, important for another 24% and with average importance to 6% of them. Three companies claimed that they were not financed by trade credit during this period.

Leasing funding was an option for 71% of the investigated companies. A percentage of 25% of companies assess leasing as of medium importance, 18% very important, another 18% important, respectively less important for 10% of companies. Only one company considers leasing financing not significant in all the sources of financing it used between March and May 2020.

As regards the source of funding „Factoring”, 44% of the companies investigated stated that they did not use this means of financing between March and May 2020. Factoring is of little importance for 31 % of companies, important for two companies and of medium importance for another 3%. A fairly high percentage of 31% of companies consider factoring to be unimportant in total funding sources.

European funds were not a financing option between March and May 2020 for 67% of the companies investigated. 15% of them consider European funds to be unimportant in all sources of funding, 3% of companies as of medium importance, and one company considers this source of funding to be important. 14% of companies value European funds as not important.

With regard to the state funding programmes, 92% of the companies investigated benefited from this state support between March and May 2020. In terms of importance, 23% of companies consider this means of financing very important, 22% important, 24% of medium and 24% less important.

Between March and May 2020, only two of the investigated companies issued bonds and consider this funding to be important.

As regards equity issue financing in the capital market and venture capital funding, it is noted that none of the investigated companies used these means of financing during the period under consideration.

The data presented in the table above show that the most widely used forms of financing between March and May 2020 by more than 90% of the companies investigated were: trade credit (98% of companies), bank overdraft and credit line (95%), bank credit (94%), state funding programmes (93%), domestic sources of funding (93%). Other sources of funding with significant weights are: leasing (72% of companies), shareholder loans (71%), factoring (57%), loans with a guarantee of credit guarantee funds (51%), european funds (33%) and capital

increases (32%). On the opposite side are bond issues that only two companies have used, and equity issues in the capital market and venture capital funds have not been an option for any of the investigated companies. Thus, these results confirm the  $H_{05}$  hypothesis „At least half of the companies investigated claim that, between March and May 2020, the most commonly used sources of funding are: banking products, trade credit and sources obtained through state funding programmes”. At the same time, the  $H_{06}$  hypothesis „At least 5% of the investigated companies resorted to bond issuance between March and May 2020” is invalidated.

## 5 CONCLUSIONS

From the perspective of funding, a significant share of the investigated companies (59%) considered the COVID-19 epidemic to have a negative impact. It should be noted that there are also companies that consider the COVID-19 epidemic an opportunity in terms of funding. A neutral situation is perceived by 35% of the companies investigated. The  $H_{01}$  hypothesis is therefore confirmed „At least one third of the companies investigated appreciate the influence of the COVID-19 epidemic on financing needs as a threat/crisis situation”.

The confirmation of  $H_{02}$  „At least one third of the companies investigated declare that the company's operational activity was affected in terms of financing' is justified by the fact that 62% (of which 24% in part) of the companies investigated mentioned that the operational activity suffered in terms of funding between March and May 2020. Confirmation of assumptions  $H_{01}$  and  $H_{02}$  indicates that companies should include in the financial structure the types of financing appropriate to such stress situations.

The  $H_{03}$  hypothesis „Most of the companies investigated say they will initiate financial actions in the context of the COVID-19 pandemic” is confirmed by the fact that 99% of respondents said there is a concern in this regard.

Of these companies, 91% are interested in finding the right sources of funding in the context of the COVID-19 pandemic. At the same time, 93% of respondents express their intention to review the funding plans in the next period. Government support programmes are also considered in the next period for 56% of respondents. Also, the investigated companies consider ensuring a better level of liquidity, postponing or cancelling investments, postponing payment or rescheduling of loan rates. However, there is also 21% of companies intending to continue investing in the medium to long term.

In terms of access to finance during the emergency, the results have led to confirmation of the  $H_{04}$  hypothesis „At least 15 % of the companies investigated believe that access to finance was a pressing problem to a large extent between March and May 2020”.

In terms of use, the most common means of funding from March to May 2020 were: trade credit (98% of companies), bank overdraft and credit line (95%), bank credit (94%), state funding programmes (93%), domestic sources of funding (93%). Other sources of funding with significant weights are: leasing (72% of companies), shareholder loans (71%), factoring (57%), loans with a guarantee of credit guarantee funds (51%), european funds (33%) and capital increases (32%). Therefore, the  $H_{05}$  hypothesis is confirmed: „At least half of the companies investigated claim that, between March and May 2020, the most widely used sources of funding are: banking products, trade credit and sources obtained through state funding programmes”. At the same time, bond issues was the option of two companies and no company relied on the issue of shares in the capital market, respectively venture capital funds. Thus, the  $H_{06}$  hypothesis „At least 5% of the investigated companies resorted to bond issuance between March and May 2020” is invalidated.

In terms of importance, the hierarchy of the financial structure is as follows: trade credit

(average 4.41), followed by bank overdraft and credit line, bank credit (average 3.55), state funding programmes (average 3.20), retained earnings or sale of assets (average 2.95). The lowest degree of importance in this period shall be attributed to the following categories: venture capital funds, capital market share issues, bond issues and european funds.

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