

EFFECTS ON THE BUSINESS IN THE CONDITIONS OF SUPERIOR CRISES

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ABSTRACT

In recent years, financial and economic crises have been observed, which are a consequence of various global problems and phenomena. Despite the experience of 2008, it seems that the enterprises did not learn enough of their lessons and failed to foresee the difficulties for their business and finances. There are not many examples in history that have seen phenomena of superimposing economic and financial crises. In this case, the situation is caused by the pandemic caused by CoviD-19 and the war in Ukraine. The two events have had serious non-garnishing shocks to businesses and enterprise economies. The purpose of the current research is to trace the effects on business in the conditions of overlapping economic crises – in this case, caused by the covid pandemic and the war in Ukraine. The object of research will be the non-financial enterprises in Bulgaria, and the subject is the analysis of the effects on business as a result of overlapping crises. The aim is to derive and justify the effects and consequences for business in Bulgaria. The aim concerns the claim that the overlapping crises have a negative impact on the finances and economy of the enterprises in Bulgaria. The research was conducted on the basis of a survey among Bulgarian companies from the non-financial sector. The survey is conducted annually at the end of the year, summarizing in December of each year. About 800 companies - members of the Bulgarian Industrial Association take part in it. Their profile is mainly small and medium-sized enterprises, most of them being small.

Keywords: financial development, banking sector, economic growth, capitalisation, liquidity

1. INTRODUCTION

Financial and economic crises are cyclical in nature and occur over a certain period of time. In some cases, they are caused by reasons related to basic economic and financial laws and regulations, in other cases they are the result of natural and health crises, and often they are caused by the human desire for supremacy and power. In the last 20 years, we have also witnessed financial and economic crises caused by all three types of sources. The first crisis was due to the bubble that formed in the real estate market, and now we are witnessing two overlapping crises caused by a pandemic and war. What the three crises have in common is the fault of the people, in their desire to get rich, for digitalization and modernization, and above all in their quest for world hegemony. Scientific research on crises is abundant. Scientists from all over the world speak on the subject, but there are few who have been able to foresee or forecast them. There is already a lot of analysis regarding the impact of the CoviD-19 pandemic on the economy and the finances of companies. Regarding the

impact of the war, the analysis is still limited due to the lack of data and statistics.

The financial and economic crisis of 2008 put the development of enterprises in an unpredictable and difficult to control environment (Hristozov, Y., 2018). In the current situation, similar phenomena are observed. The question is, has the business learned its lessons?

Financial crises around the world can be of different types - currency, banking or debt (Yotsov, V., 2014). But what is true for all of them is that they affect the financial sector in such a way that it begins to operate inefficiently or ceases to function entirely. Financial crises destroy the link between the monetary and real sectors and lead to huge losses for economic entities and society as a whole.

There is an important analysis of the investments in a crisis period and their relationship with the managerial capabilities of management. According to the authors, the stock market reacts positively to such investments, although there are a number of peculiarities. They are largely related to the reputation of the company's management before the crisis. In situations of extreme market conditions with problematic liquidity and low demand for companies' products, the investment process is very complicated (Andreou, C., et al., 2017).

Another study presents a conceptual framework that analyses the factors that help a firm survive periods of crisis. A three-dimensional framework is constructed that includes performance drivers (using resource-based view [RBV] factors), performance measures, and a measure of firm survival. They are considered as a dynamic rather than a static construct (Chatzoudes, D., et al., 2022).

Cowling, Liu and Zhang, (2018) examine the relationships between SME performance after the global financial crisis of 2008/09. They find that this type of severe crisis has a long-lasting negative effect on SMEs. They look for a relationship between the age of the firm, the experience of their managers and actions in an unpredictable crisis environment.

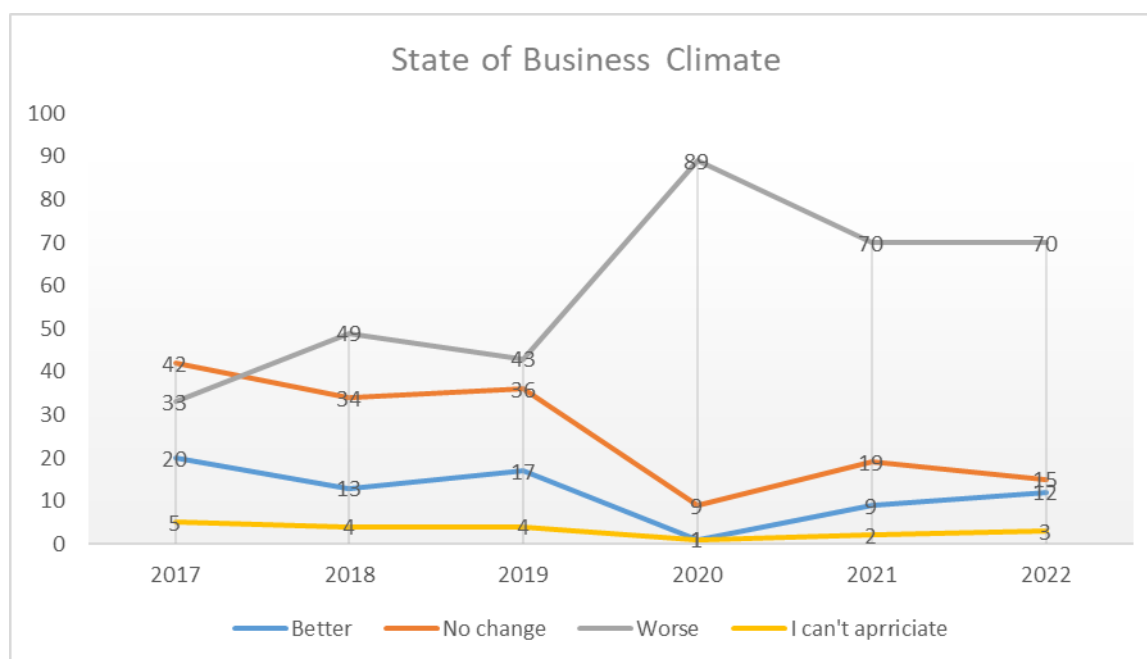
Wenzel, Stanske and Lieberman, (2021) analyze four types of strategic responses to the crisis caused by COVID 19: retrenchment, persistence, innovation and exit. They believe that analyzing companies' reactions to these options will prepare us for future crises.

Crick and Crick, (2020) analyze coopetition (simultaneous cooperation and competition) between firms during the COVID 19 pandemic. The article highlights the need for and importance of cooperation between firms to find a solution to the health pandemic. At the same time, the preservation of the competitive environment is explored.

Amankwah-Amoah, Khan and Wood, (2021) examine the genesis of the shock caused by the COVID 19 pandemic and conclude that this crisis surpasses all others that have occurred to date. It leads to a rethinking of the relationship between states and markets and poses new challenges requiring new knowledge. The next few sessions will look at the views of business on some of the most common problems in recent years caused by the crises.

2. BUSINESS CLIMATE IN BULGARIA

The state of the business climate is essential for the development of enterprises. The following figure tracks this process for the past six years.

Figure 1. State of the business climate in Bulgaria (2017-2022).

Source: Bulgarian Industrial Association, own analysis.

According to the survey data, in the five-year period (2017-2022), the state of the business climate is deteriorating. While in the first half of the period in 2017-2019 only between 33-43% of the companies believed that the business climate is deteriorating in the second half of the period 2020-2022, already between 70-89% of companies consider it. The peak is observed in 2020, and is 89%, and in the next two years a drop to 70% is observed. The likely reason for the increase in companies that think the business climate is deteriorating to almost 90% is the COVID-19 pandemic (2020-2021) and the war in Ukraine (2022-2023). A small number of the surveyed companies noted that they could not estimate. With regard to the deterioration of the business climate, according to the conducted surveys the main reasons for deterioration are:

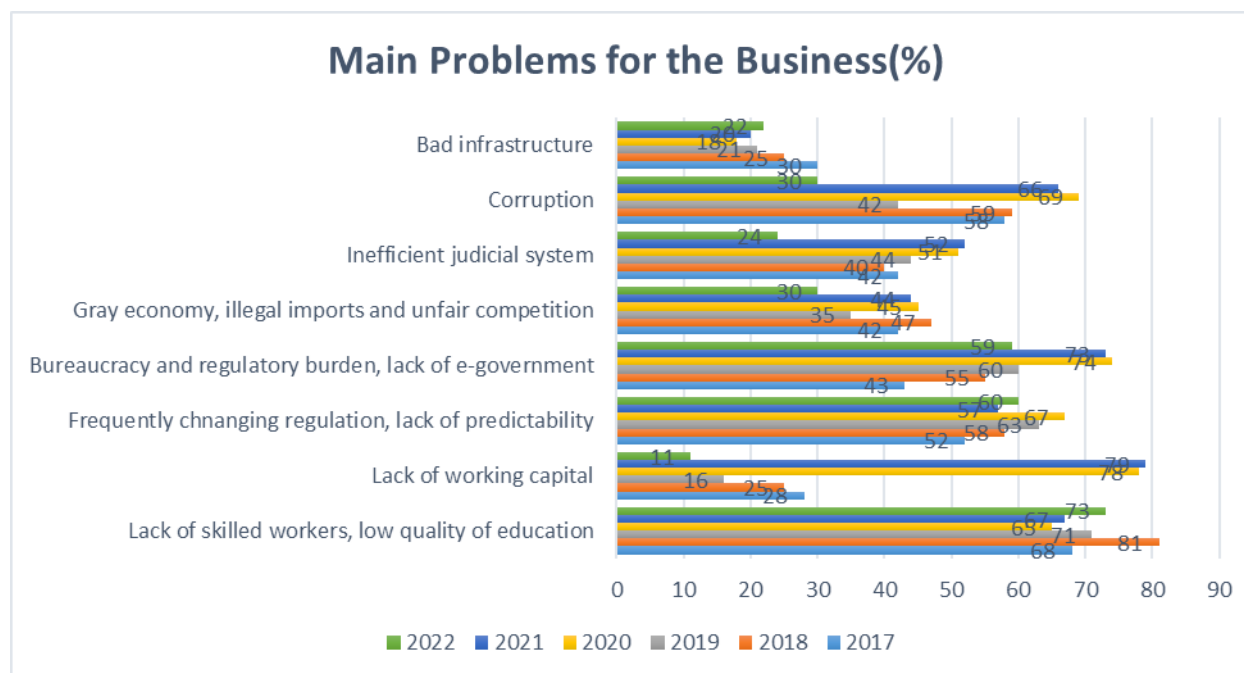
- Internal factors:
 - lack of e-government and low level of digital public services;
 - high regulatory burden and bureaucracy;
 - administrative pressure and corruption;
 - frequently changing regulations and lack of predictability;
 - inefficient judicial system and poor protection of property rights;
 - grey economy, illegal imports and unfair competition;
- External factors
 - green transition (Green Deal, EU climate and circular economy legislation);

3. MAIN PROBLEMS FOR THE BUSINESS

In the shock situation of the pandemic and the war in Ukraine, companies felt the need for state support, as their normal activities were hindered. In this period, special legislation was adopted that limited working hours, labour mobility, there was a shortage and high prices of energy products.

Governments were not prepared for such a series of exogenous shocks and business distrusted their actions. The second figure presents the main problems facing Bulgarian business in the period 2017-2022:

Figure 2. Main problems facing Bulgarian business (2017-2022).



Source: Bulgarian Industrial Association, own analysis.

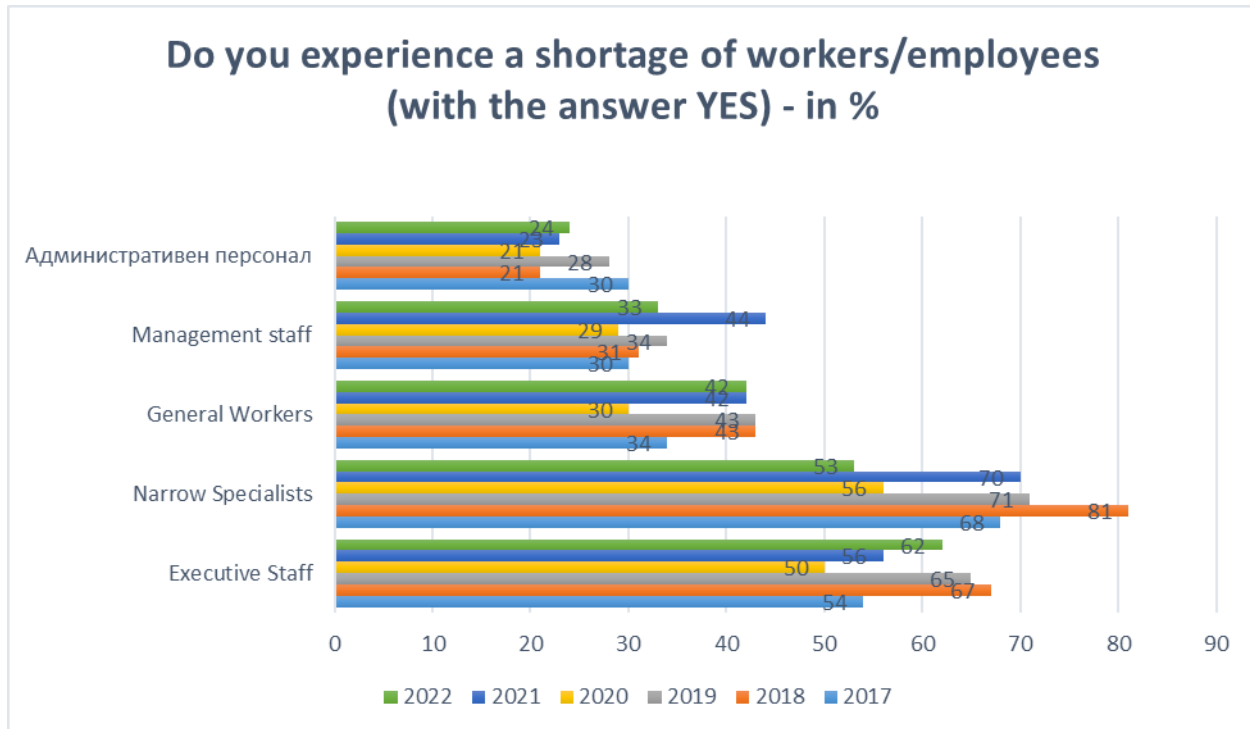
The first major problem for business is the lack of skilled labour and the low quality of education. This problem is most significant throughout the observation period (2017-2022). Which shows that it is not affected by exogenous shocks (pandemic and war). Its genesis is related to high migration, especially of qualified specialists. Separately, low public spending and the underestimation of the role of education and science in transition economies led to the low quality of education. While in the time of digital transformation (Industry 4.0), the level of education and science in a country has become extremely important for the qualification of the workforce. A significant problem in this regard is the demographic crisis in Bulgaria. The lack of labour in the Tourism sector is particularly affected. During the summer months, Bulgarian companies have to import workers from abroad. The second most important problem is bureaucracy and regulatory burden, administrative pressure, lack of e-government. To it we can add frequently changing regulations, lack of predictability. These two indicators have a high level throughout the period. They are related to the evolution and efficiency of public institutions, which is characteristic of economies in transition. Bulgaria's EU membership in 2007. has a positive effect on solving them, but obviously only 15 years is not enough. to improve the efficiency of public institutions.

Interestingly, the least significant problems, businesses indicate lack of working capital and infrastructure. Working capital is the main source of financing in the company, which can hinder its development. Despite a certain peak related to the lack of working capital in 2020-2021, it can easily be explained by the pandemic and the stress for companies that occurred then. During the rest of the period, these problems are not perceived as significant by the business. With a medium degree of significance, the following are defined: corruption, inefficient judicial system, Gray economy. To a large extent, however, these problems are the focus of attention of international institutions and shape the attractiveness of an economy for foreign investors.

4. LABOUR SHORTAGE LEVEL BY BUSINESS

The third figure presents the problem related to the level of shortage of workers and employees by category in the period (2017-2022):

Figure 3. Labour shortage level by business (2017-2022).



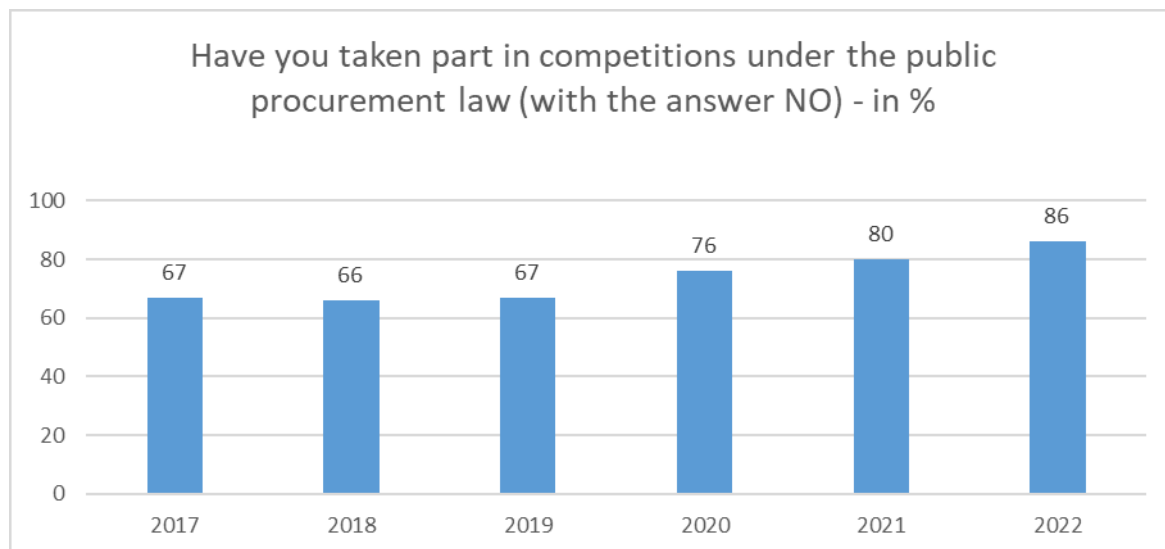
Source: Bulgarian Industrial Association, own analysis.

Labour productivity is one of the good characteristics of workforce efficiency for any economy, including the Bulgarian one (Gospodinova, S., 2021). Most sensitive for business in the period 2017-2022. is the lack of narrow specialists and executive staff. This once again highlights the problems with high migration and the decline in the quality of education. Both problems are very significant according to the business and according to the previous fig.2. The highest level of these problems was in 2018. which coincides with the peak of the rate of economic growth of the Bulgarian economy. In 2020-2022 exogenous shocks lead to a decline and curtailment of business activity and labour force deficits are not as significant. But these problems remain, given the low level of income in Bulgaria compared to the EU average, which encourages migration. Public expenditure on education, although increasing, is still far below the EU average. STEM majors and their support have yet to be talked about in education. An exception on this topic is the IT sector, which is developing quite dynamically in Bulgaria. But narrow specialists in this field work mostly for foreign companies that open offices in Bulgaria to attract experts, although their main activity in the field of services remains abroad.

5. BUSINESS CONFIDENCE

The fourth figure presents the problem related to business confidence in public procurement in the period (2017-2022):

Figure 4. Business confidence in public procurement (2017-2022).



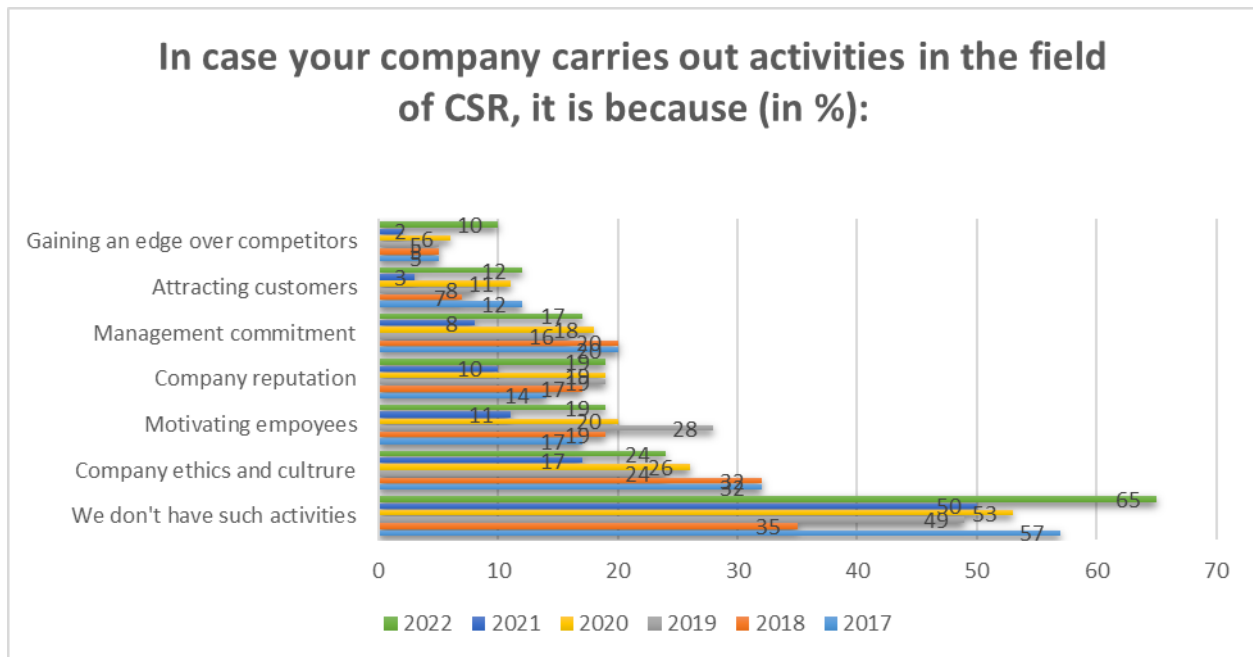
Source: Bulgarian Industrial Association, own analysis.

It is obvious that the confidence of business in public procurements is decreasing more and more during the period, and at the end of it almost 90% of the companies declared that they would not participate in such. And as is known, public procurement is the main means of business survival in periods of crisis, such as in 2020-2022. This is precisely the paradox of businesses avoiding them in the period of the pandemic and the war in Ukraine. This is due to: biased conditions favouring one of the potential candidates, biased evaluation of the offers, non-compliance with the requirements for publicity when announcing the public procurement and others. Frequent changes in the law on public procurement and unclear methodologies for evaluating submitted offers are a major stumbling block for candidates and contracting authorities.

This problem corresponds to the one indicated in Fig. 2, inefficiency of the institutions, corruption, lack of e-government. It's clear that there's potential to work on solving these problems, with almost 90% of businesses saying so.

6. CORPORATE SOCIAL RESPONSIBILITY

The fifth figure presents the problem related to the popularity of corporate social responsibility among Bulgarian businesses in the period (2017-2022):

Figure 5. Popularity of Corporate Social Responsibility (2017-2022).

Source: Bulgarian Industrial Association, own analysis.

The values of this indicator are preserved and even increased at the end of the researched period 2022, although there is more and more talk about a green transition, a circular economy, a low-carbon economy. Probably, part of the explanation is related to the exogenous shocks in 2020-2022, when companies were thinking about their survival and their core business, with concern for sustainable development taking a back seat. The other interesting thing in this survey is that the main reason for CSR is company ethics and culture, and gaining an advantage over competitors or attracting customers is listed as the weakest reason. It is possible that this is due to ignorance of the essence of CSR by most companies. In 2022, 65% of companies stated that they had no activities related to corporate social responsibility, in 2021 this percentage was 50, and the lowest was in 2018 – 35%. Of all the possibilities mentioned, companies pay the most attention to ethical norms and the culture of the enterprise, the reputation and motivation of the workers are also important.

7. CONCLUSION

The main question we ask ourselves is in what situation the crises find the economy of Bulgaria. An economy is prepared to deal with a crisis situation if it has modern structural and technological characteristics, well-developed modern infrastructure, healthy and educated people, highly qualified workforce, developed science (Angelov, I., 2008).

According to the surveyed companies, the state of the business climate in Bulgaria in the period 2017-2022 is deteriorating. A substantial reason for the increase in companies who believe that the business climate is deteriorating to almost 90% is the COVID-19 pandemic (2020-2021) and the war in Ukraine (2022-2023). The main problems highlighted by the business are the low level of qualification and education of the workers. Low levels of digitization, bureaucracy and regulatory burden, administrative pressure, lack of e-government is among the most common problems for businesses, while the lack of working capital remains in the background as an obstacle.

With a medium degree of importance, the following are defined: corruption, inefficient judicial system, Gray economy. The confidence of business in public procurements decreased more and more during the period, and at the end of it almost 90% of the companies declared that they would not participate in such. Most companies (65% for 2022) do not carry out activities related to corporate social responsibility and indicate that the main reason for corporate social responsibility is company ethics and culture, and gaining an advantage over competitors or attracting is indicated as the weakest reason to customers, which speaks of ignorance of the essence of the concept.

The crises resulting from CoviD-19 and the war will have an increasingly significant impact on the finances and economies of enterprises. The purpose of this report is to examine business views on this impact on key topics. In a future study, the authors envisage an analysis of the financial and economic indicators of non-financial enterprises in Bulgaria.

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