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## Managing Support for Entrepreneurs during a Pandemic: The Problem of Proper Selection of Those in Need

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Submitted 15/03/21, 1st revision 22/04/21, 2nd revision 08/05/21, accepted 10/06/21

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**Abstract:**

**Purpose:** The pandemic situation around the world due to the development of Covid 19 coronavirus infections has forced difficult decisions to be made by the governments of countries, which have involved a number of restrictions, particularly on doing business. The restrictions put in place had to be offset by a support program to offset the negative effects of the pandemic in terms of business closures and job losses. The introduction of support programs was not without mistakes. The aim of the paper was to point out the leakiness of the system by showing examples of possible support that should not have happened. Additionally, a direction of changes in regulations was suggested, which will allow to avoid such situations.

**Design/Methodology/Approach:** The publication uses research methods characteristic of social sciences, including the analytical method relating to the results of analyzes and scientific research, Analysis of forms of support and evaluation of beneficiaries was carried out

**Findings:** Examples of possible support for entrepreneurs who should not receive it were indicated, proposed direction of changes in regulations that would limit support for such entrepreneurs.

**Practical Implications:** Proposal of rules for verification of support for entrepreneurs.

**Originality/Value:** Author's research and considerations supported by analysis of available forms of support, confrontation with the situation in the selected industry in the context of the pandemic.

**Keywords:** Pandemic management, business support, COVID-19.

**JEL classification:** M21, O10.

**Paper Type:** Research study / Case study.

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## 1. Introduction

Most countries in the world had to face a coronavirus pandemic in 2020 as well as 2021 - a pandemic of the infectious disease COVID-19 caused by the coronavirus SARS-CoV-2, the beginnings of which were found in November 2019 in the city of Wuhan, China. The disease caused by coronavirus infection can develop complications, particularly pneumonia and acute respiratory distress syndrome, which can lead to death. According to the World Health Organization (WHO), as of March 25, 2020, coronavirus has been identified in 223 countries, areas or territories, and the total number of confirmed cases of coronavirus infection worldwide has exceeded 125.5 million people affected, with more than 2.7 million deaths. The scale of the coronavirus outbreak and the rate at which it spread forced the WHO to declare it a pandemic.

The result of the development of a coronavirus pandemic is far-reaching socio-economic disruption, including economic crisis (Flaga-Gieruszyńska, 2020; Grima *et al.*, 2020; Yorğun, 2020; Kowalski 2020; Khan *et al.*, 2020). The scale of the pandemic, the inefficiency of health care systems related to the number of cases, the desire to reduce the number of victims, as well as the escalation of the pandemic has forced most countries to introduce a number of restrictions, limitations, bans, orders, to affect the level of security (Tachmatzidis, 2020). This has negatively affected the economic situation of many countries as well as the level of unemployment.

Governments have started to introduce various compensatory solutions to keep entrepreneurs and jobs. A number of support programs appeared, not only for the economy, but also for culture and sport (Spoz *et al.*, 2020). Management of support in the period of pandemic proved to be particularly important because it determines the scale of GDP reduction, increase in unemployment, or the number of failed or closed entrepreneurs. Given the limited resources that can be allocated to support during the pandemic, it is necessary to distribute them efficiently, towards those who need support most, entities on which the pandemic situation, and in particular the introduced restrictions, have a negative impact. It is necessary to take action to seal the support system so that it does not benefit entities whose financial situation does not correlate negatively with the pandemic.

Pandemic-related support proposals are subject to criticism, both by those excluded from support and those who consider it low. It is certainly very difficult to find ideal solutions that would satisfy the larger group of people affected by the pandemic, who would often see support as compensation.

The author of the study researched support programs and looked for examples that, in his opinion, should not have happened, because the support was provided to entities whose operations were not adversely affected by the pandemic, which operated in industries that were even thriving and did not experience declines. The material is intended to be educational to increase knowledge of support management

during a pandemic, it is not a critique of the support arrangements being adopted, as the scale of the pandemic was new to most countries that are learning how to manage support during a pandemic by looking to experts in the field (Hellman, 2020). The knowledge and experience gained now could be very useful in the coming years as the likelihood of more pandemics around the world becomes more real.

## **2. The Role of Support during a Pandemic**

Covid-19 coronavirus pandemic has become particularly severe for economies, and societies. The actions of governments limiting the spread of the pandemic are associated with sectoral restrictions on activity. The most radical restriction has become lockdown, which has entered the vocabulary of many countries. Almost complete restriction of movement, closure of many industries, restrictions on trade, all negatively affecting the economy. You can consider the example of the tourism and food service industry. The ban on movement causes a significant reduction in travel, which reduces the turnover of the tourism industry. Closing restaurants and allowing only take-out catering brings it to a standstill. Businesses are out of business and have to incur costs, at least fixed costs, and thinking about the future they have to provide a minimum wage for employees. The closure of the catering industry in turn contributes to the deepening of the crisis in the tourism industry.

The tourism industry is also not helped by all the messages warning against coronavirus, against moving, against contacts, etc. Additionally, additional costs are incurred for prophylaxis and disinfection, oversized cleaning products and more thorough and frequent cleaning. As a result, the tourism industry, if it can operate, has a significantly lower turnover and, on the other hand, has to incur over-planned costs (Bera *et al.*, 2020; Gössling *et al.*, 2020). The efficiency determinants of small businesses in particular have been compromised (Parkitna, 2020). The question can be asked what to do in such a situation? Can one ignore the problem and say that it is a socio-economic risk or a legislative risk? Can the entrepreneur be left alone? And on the other hand, was the government to leave the development of the pandemic without any control, without any attempt to limit it, which causes problems for entrepreneurs? Well, surely it should be recognized that governments have the right, indeed the duty, to take action to limit the spread of the disease and the subsequent number of deaths? What action should be taken should of course be appropriate to the situation, however, this is a very general slogan, and the action itself is certainly not sterling.

However, it is certainly possible to recognise that governments can introduce restrictions in such situations, and of course it is important to dose them appropriately. If we consider as justified by social needs the introduced restrictions that directly translate, from reduced turnover to losses, and even closure of companies. It must then be accepted that it is the duty of governments to allocate the resources of the society we are protecting to support various units, both economic

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and social. Support during a pandemic must be like the medicine that cures the disease, that is, act quickly and precisely at the point of need. Moving from medicine to economy, support is a medicine that is supposed to help in recovery. The drug is not taken by healthy people, which means that support should not be directed to people who do not need it. The pandemic does not affect all actors in the same way, some are severely affected like the catering industry, some do not see much difference like retail in stationary stores, and some increase their turnover like online sales. As a result, support must be targeted appropriately, not given blindly and thus creating feelings of injustice. And it is up to the managers of the pandemic to choose the conditions for obtaining support in such a way that, on the one hand, they do not harm those affected and, on the other hand, do not subsidize entities that have not been harmed by the pandemic.

### **3. Selected Support Program and its Weaknesses**

Governments of individual countries in connection with the pandemic have introduced a number of aid programs that were and are aimed at supporting, inter alia, economic entities, so that they do not collapse, do not close down, do not reduce employment, as this will result in a significant crisis and have a negative impact on society.

Subsequent legal acts introduced various forms of support. The purpose of this study is not to characterize them, but to look for forms of support that should not take place. As a result of analyzing available forms of support and relating them to potential beneficiaries, it was possible to find such examples, the elimination of which will allow to seal the system. Limited funds cannot allow for "blind" support of people who do not need such support.

An example of support under which unpaid transfers occurred is the Government Program - Financial Shield of the Polish Development Fund for Small and Medium-Sized Enterprises (Program), whose subtitle captures its purpose "financial support for the small and medium-sized enterprise sector in connection with combating the effects of the covid-19 epidemic in Poland as part of the government's anti-crisis shield" (Stańczyk, 2020). The program was adopted by Resolution No. 50/2020 of the Council of Ministers of April 27, 2020, pursuant to Article 21a of the Act of July 4, 2019 on the system of development institutions. The Program was not introduced by the Act of March 2, 2020 on Special Solutions Relating to the Prevention and Control of COVID-19, Other Infectious Diseases, and Crisis Situations Caused by Them, but was a consequence of it, which required the expansion of the role of the Polish Development Fund (PFR). By the Act of 31 March 2020 amending the Act on the system of development institutions - SIR (Journal of Laws, item 569), the scope of activity of Polish Development Fund Stock Company was extended by adding in item 6 undertaking activities aimed at preventing or mitigating the effects of crisis situations, including the effects of the spread of COVID-19, in particular by granting

financial support to entrepreneurs, including non-refundable or in the form of guarantees.

The essential aim of the Programme is to achieve the basic economic interest of the country in the form of ensuring stability of enterprises and the economy and preventing the risk of mass bankruptcy and redundancies due to significant disturbances. Under the Program, it was envisaged that PFR would provide financial subsidies to the Beneficiaries by adopting two measures:

- a) a financial shield for micro-entrepreneurs of the total value of up to PLN 25 billion,
- b) a financial shield for SMEs of the total maximum value of up to PLN 50 billion.

The budget of the Program, not only on the Polish, but also on the European scale, is significant; therefore, the identified leakage of support to entities not affected by the pandemic is significant. For micro-entrepreneurs, the support was based on the number of employees and the level of revenue decline, where it was taken as "the amount of sales revenue decline in any month after February 2020 compared to the previous month." The maximum amount of support was calculated as shown in Table 1.

**Table 1.** *Maximum amount of financial subsidy for a microentrepreneur in the Financial Shield Program of the Polish Development Fund for Small and Medium-Sized Enterprises*

Amount of the Financial Subsidy according to the number of Employees (thousands PLN)										
The scale of decline in sales revenue	Base Amount of Financial Subsidy per Employee	1	2	3	4	5	6	7	8	9
<25 ;50%)	12	12	24	36	48	60	72	84	96	108
<50% ; 75%)	24	24	48	72	96	120	144	168	192	216
<75% ; 100>	36	36	72	108	144	180	216	252	288	324

*Source: Own study.*

For small and medium-sized entrepreneurs, the level of support was even greater, and the maximum amount of financial subsidy shown in Table 2, is determined as a percentage of the level of sales revenue in 2019, and depends on the decrease in sales revenue in the calendar month preceding the month of application relative to: the corresponding calendar month in the previous year, or the calendar month preceding the month of application.

Irrespective of the size of a company capable of obtaining a significant subsidy from the described Program, several weaknesses of the adopted solution were noticed. In particular, it is necessary to point out the determination of the decline, which is the

basis for setting the multiplier for the subsidy. It is based here on a selected month preceding the submission of an application for support to the preceding month or the same month in the preceding year. The adopted solution allowed entrepreneurs to "shape" the decrease.

**Table 2.** Average and maximum amounts of SME Financial Subsidies available <sup>2</sup>

Decrease in sales revenue	Amount of Financial Subsidy as a % of sales revenue	Average revenue of SME in PLN	Amount of the financial subsidy in PLN	Maximum revenue for the calculation of the amount of the Financial Subsidy	Maximum amount of the financial subsidy in PLN
<0 ; 25%)	0%	31.300.000	0	225.000.000	0
<25 ; 50%)	4%	31.300.000	1.252.000	225.000.000	3.500.000
<50 ; 75%)	6%	31.300.000	1.878.000	225.000.000	3.500.000
<75% ; 100%>	8%	31.300.000	2.504.000	225.000.000	3.500.000

*Source:* Own study.

First of all, entrepreneurs chose a more convenient month for submitting the application, and also freely selected the month for comparison. As a result, it could happen that the entrepreneur had in the year of the pandemic, i.e., in 2020, higher revenues than in 2019, but showed a decrease against the year from the pandemic, which could be only a seasonal anomaly, a shift. What is worse, the program solutions enabled entrepreneurs to shape the level of decrease, they could freely move the month of invoicing in order to show the highest possible decrease of income and "catch" higher limits of subsidies. As a result, beneficiaries of the Programme included both entities that really suffered from the pandemic and entrepreneurs who were not in any way adversely affected by the pandemic, and even entities that in comparison with the previous year reported higher revenues or higher income.

#### **4. A Sector Exemplifying Unjustified Support - "Blind" Support for Entrepreneurs during a Pandemic**

Analysing the situation and development of various industries and by deducing, which industries did not need support, several of them were selected. And as a specific example of entities which could and did, according to the conducted research, benefit from the described support are real estate development companies (not to be confused with the Internet sphere), some of which really should have received support and some of which should not even have applied for it. Real estate development entrepreneurs can be broadly divided into two groups:

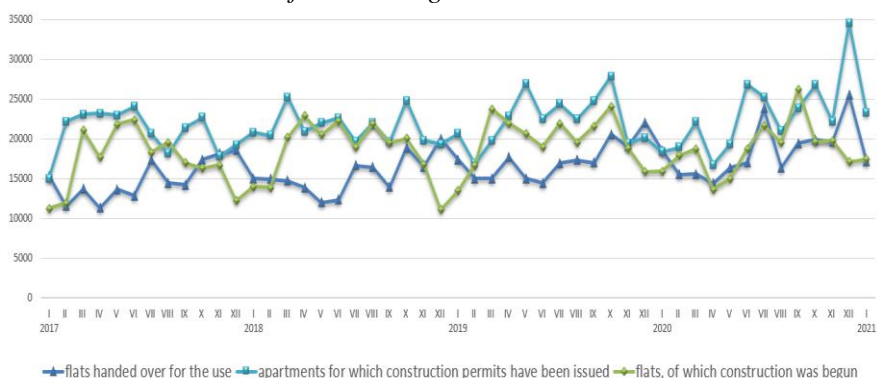
- developers who build residential units for sale,
- developers building and leasing commercial space.

<sup>2</sup>Regulamin ubiegania się udział w programie rządowym "TARCZA FINANSOWA POLSKIEGO FUNDUSZU ROZWOJU DLA MAŁYCH I ŚREDNICH FIRM"

The example of developer activity is significant, among others, because decisions on support cannot refer to too large groups of enterprises, they cannot be lumped into large common bags. It turns out that the specificity of a given activity determines how a pandemic may affect the functioning of an entrepreneur. Well, developers dealing exclusively with the construction and rental of commercial premises have indeed felt the negative effects of the pandemic, as the level of rentals has fallen while uncollectable rents, for example from restaurateurs, have increased. On the other hand, with regard to the first developers involved in the construction and sale of residential units, the impact of the pandemic did not occur, in fact, it can be said that this industry developed at its best, and this is the industry on which we decided to focus.

In terms of residential construction, an upturn has been visible for several years and one can speak of prosperity. Figure 1, using the GUS report "Residential construction in January 2021", presents the most significant residential construction statistics recorded in recent years in Poland.

**Figure 1.** Selected statistics of the housing market in Poland



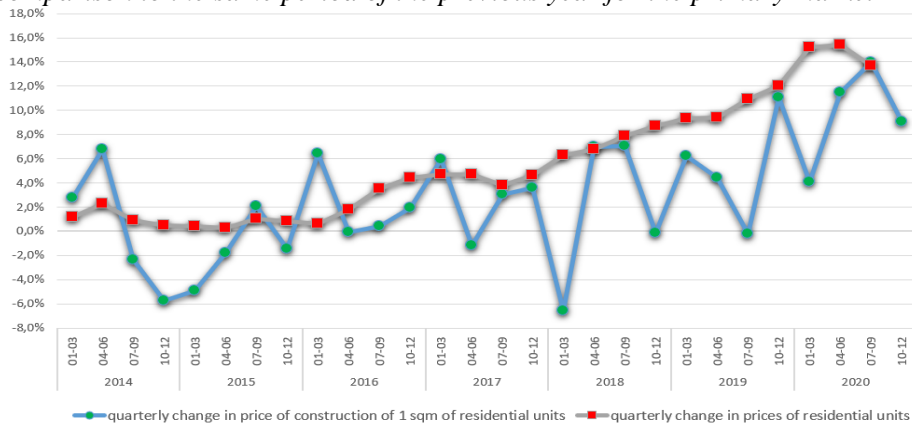
**Source:** Own study.

It can be clearly seen that the number of housing units put into use, as well as those the construction of which has started, is at a stable level. It also appears that the pandemic period did not cause any negative impact on the housing market. With a stable and even gently increasing number of housing completions during the pandemic period, it turned out that the pandemic did not cause prices to fall; on the contrary, their rate of increase was higher than the increase in construction prices, as shown in Figure 2.

Based on the above data, it can be concluded that the residential real estate development industry was not adversely affected by the pandemic. Despite the very good situation in the real estate development business in the field of construction and sale of apartments, entrepreneurs benefited from the support program described in Section 3. This fact was confirmed in direct interviews with industry representatives

and was also verified by a random analysis of several financial statements in which information about subsidies is shown. As a result, entrepreneurs who were not affected by the pandemic could have received pandemic-related support of up to 3.5 million PLN.

**Figure 2.** Quarterly changes of prices of residential units and prices of construction in comparison to the same period of the previous year for the primary market



Source: Own study.

## 5. Conclusion and Summary

Managing during a pandemic poses a challenge to those in power, which is made all the more difficult by the lack of knowledge in this area, and the first time countries have had to deal with a coronavirus pandemic. There is no doubt that support of all kinds is an important tool in dealing with the impact of a pandemic. It is important to better target support to the economy to those who really need it. The conducted research has shown that the support programmes introduced in Poland, in addition to providing real help to entities affected by the pandemic, made it possible to obtain additional income for entities which should not have benefited from this aid.

The study also showed that the mechanism used to qualify entities for assistance in the form of analyzing the monthly decline in turnover in relation to a selected month was not a good quantifier. One can understand those in power who were looking for a simple solution, but this simplicity led to a large leak in the system. If a simple quantifier of support is used, it should be verified at a later stage on the basis of more reliable and longer-term financial results. If the entity which benefited from the support in, for example, 12 months from its receipt did not have a decrease in turnover which it showed on the basis of a comparison of selected months, it would be obliged to return the whole support. However, even if there was a decrease in revenue in the reference period and the entity achieved a positive financial result, for example, higher than in the previous period before the pandemic, it would also be obliged to return the support. Another problem may be the specificity of the



industry. For example, in the considered real estate development industry, the production cycle is a minimum of several months, and usually 2-3 years - from the purchase of land, through project documentation, obtaining building permit, construction, sale.

As a result, revenue and income is not recognized on an ongoing basis, but incidentally, at the end of the investment. As a result, if a development company has settled some investment in 2019 and started another investment in 2020, then between 2019 and 2020 it will show a decrease in revenue as well as show a loss, however, the "deterioration" of the financial results of this company is not a consequence of pandemonium, it is a typical production cycle. As a result, in addition to additional criteria verifying the appropriateness of the support granted, support should still depend on the industry and its performance during the pandemic period.

Managing support during a pandemic, with the pressure of time and social expectations, and the incredible human and economic tragedy, is not an easy matter. It is necessary to gain experience in this area in order to make more prudent decisions on support in the future, which will allow to better reach the entities really affected by the impact of the pandemic.

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