

Paradigm shifts caused by the COVID-19 pandemic in Slovakia

Hussam Musa, Frederik Rech

Abstract: During those uncertain times, many paradigm shifts took place as the respond to the pandemic, namely job security, financial consequences, remote work and employee well-being. It is for the best interest of companies to be aware of them as well as to understand them, so they can adapt to the new normal. However, they should also bear in mind, that not everything is measured only in quantitative aspects and the psychological toll on individuals caused by the pandemic should be accordingly addressed.

Abstrakt: V súčasných neistých časoch došlo v reakcii na pandémie k mnohým zmenám paradigiem, a to k zabezpečeniu pracovných miest, finančným dôsledkom, práci na diaľku a blahobytu zamestnancov. Je v najlepšom záujme spoločnosti, aby si ich uvedomili a porozumeli, aby sa mohli prispôbiť novému normálu. Mali by však tiež pamätať na to, že nie všetko sa meria iba z kvantitatívnych aspektov a podľa toho by sa malo riešiť psychologické dopady na jednotlivcov spôsobene pandémie.

Keywords: Pandemic, Paradigm, Economic effects, Financial consequences, Slovakia

JEL classification: M21, M52, G30

1. Introduction

The COVID-19 pandemic was a shock to the world from many perspectives and nobody expected it at the beginning that a SARS-CoV-2 infection would result into a pandemic and last more than a year. The effects were devastating for the economy and will be felt for many years to come. Many companies were forced to close during the strictest measures to prevent the spread of a highly contagious infectious disease. In the case of Slovakia, the swift reaction of the government resulted into containment of the virus and a gradually reopening. However, a second and much worse wave struck Slovakia at the end of September. On one hand, the soft first wave enabled the economy in Slovakia to continue without much damage, but later on as the number of cases started to increase, the pre-pandemic demand did not rebound and more prevention policies were reintroduced the toll on the economy started to increase. Paradigm shifts were inevitable as a response to the pandemic, namely job security, financial consequences, remote work and employee well-being. As the pandemic is continuing and there is a high uncertainty of the post-pandemic future, it is very important that companies address the implemented paradigm shifts properly.

Existing research and examples were used to explore the effect of the COVID-19 pandemic and its short- and long-term implications. The studied fields were as follows: job security, financial consequences, remote work and employee well-being. Each field was examined individually with a focus first on paradigm shifts caused by the pandemic, then long-term implications and corporations consideration and actions. Our hope is to explore the short- and long-term

implications of these paradigm shifts, so that practitioners can address the difficulties properly and be prepared for the post-pandemic era.

2. Job security

Slovakia recorded six consecutive years of decreasing unemployment prior to the COVID-19 pandemic, which was on historical lows. After the introduction of government-mandated stay-at-home policies, workers from non-essential sectors were forced out of employment. The impact was not imminent though, as in the first quarter of 2020 the Statistical office of The Slovak Republic recorded a 1.8 thousand absolute rise in unemployment (a mere 0.2 p. p. rise) (Statistical Office of The Slovak Republic 2020). To the end of the year, unemployment shot up from 5.8% to 8.8%. Furthermore, nominal wages increased by 1.6% in 2020, compared to 7.8% in 2019, and real wages decreased by 0.1%, compared to an increase of 5% in the previous year (“SCHÉMA ŠTÁTNEJ POMOCI NA PODPORU NAPLNENIA ZÁKLADNEJ ÚROVNE POTRIEB LIKVIDITY ŠTÁTNYMI ZDROJMI V SÚVISLOSTI S NÁKAZOU COVID-19-SIH” 2020).

Paradigm Shift Caused by COVID-19

In the early stages of the COVID-19 pandemic everyone, individuals and companies likewise, maintained a positive outlook. Slovakia was not an exception, as its early pandemic respond was one of the fastest in Europe. Because of the early respond and successful strategy to lower the cases, companies initially did not respond with mass layoffs, what is reflected in the unemployment rate for the 1st quarter of 2020. The job security program of small and middle-sized businesses of the government also helped to soften the impact of closing businesses as employees whose jobs were maintained during and secured after the COVID-19 pandemic were eligible for a 80% salary replacement of their average salaries (maximum to the amount of 1100 euros) from the government. For businesses not obligated to close, but instead required to restrict their operations, there were introduced two solutions:

- payment of compensation for part of the salary of an employee to whom the employer cannot assign work due to an obstacle on the part of the employer, maximum the amount of up to 80% of his average earnings (no more then 880 euros), or
- a flat-rate allowance to cover part of the staff costs of each staff member depending on the decrease in sales (“Prehľad a Porovnanie Opatrení Prijatých Pre MSP v Dôsledku Pandémie COVID -19 v SR a vo Svete” 2020).

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hose programs were valid only for the months of March and April, what also explains no drastic change in the unemployment rate in the first and second quartel. Businesses started to gradually reopen as the pandemic was contained, however the demand did not rebound and the second wave of cases (without any interventions from the site of the government) started to ravage the economy in early September. This resulted into a higher unemployment rates recorded at the end of the year. The most hit age groups were 35-49 and 25-34 years old, as the unemployment

within those groups increased by 34.7% and 29% respectively (“Unemployment in the 3rd Quarter of 2020” 2020).

Long-term Implication

The economical effects of the pandemic were fueled by the demand side, as stay-in-home policies were introduced all over the world. This also resulted in oversupply in certain areas and companies responded by cutting costs. For demand to rebound to pre-pandemic levels, large scale immunization have to be achieved. However, if those cost cutting measures will be deemed successful from the point of view of the companies, it is probable that some portion of the jobs will be permanently removed. Obviously, some jobs disappeared only temporarily. Leisure, entertainment and travel industry job layoffs will probably rebound after a high scale immunization Is achieved. However, certainly many jobs will be lost for a longer period of time as this sector suffered the biggest loses.

Post-pandemic organizations

Some individuals believe the post-pandemic world will become normal once more and they will regain the same job as before. Organizations may have different plans. If demand still did not pick up to pre-pandemic and there is an oversupply on the market, its unlikely individuals will be rehired. Furthermore, if companies deem the recent changes in cost cutting more effective, less jobs going to be recreated. Job security may also be of a concern of some individuals. How will companies reassure its employees?

Some companies managed the pandemic well, especially thanks to their lean employment strategy and flexibility. Lean employment strategies ensured companies did not need to implement drastic cost cutting effects and flexible companies could afford to go online without any complications. However, not all companies have the luxury to be lean, as their production line is saturated with more human capital requiring performing manual labor. Flexibility in transitioning online also does not fit all business models, specifically again in manual labor. On the other side, those jobs tend to fluctuate the most at all time. But even though when some of those jobs rebound, if not all, the question arise how companies will assure a better job security. Many employees lost their jobs and faced financial difficulties. The companies did not take any responsibility in layoffs and the loyalty of workers was also disturbed. In a good corporate environment companies should take care of their employees and provide them with at least a portion of their salaries. This would result in higher loyalties, thus possibly induce higher performance and later on profitability. It would also help to build a better image of the company from a long perspective and could be easier to access quality workforce in the future.

3. Financial consequences

Before the pandemic, the financial situation of most Slovak families was improving. The real wage grew by as much as 5% in 2019, the unemployment bottomed at 5.8% (“SCHÉMA ŠTÁTNEJ POMOCI NA PODPORU NAPLNENIA ZÁKLADNEJ ÚROVNE POTRIEB

LIKVIDITY ŠTÁTNYMI ZDROJMI V SÚVISLOSTI S NÁKAZOU COVID-19-SIH” 2020) and according to The Statistical Office of Slovak Republic disposable household income was also on historical high levels with a 8.23% growth rate in 2019. Because of the long-lasting low interest rate policies of the European Central Bank, many families decided to buy houses with cheap mortgage loans. Those loans were meant to be repaid in 20-30 years, and as the economy was very strong and stable nobody was prepared for a shock from a COVID-19 pandemic

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Since the pandemic real wage growth decreased by 0.1% and the unemployment rate increased by 3 p. p. (“SCHÉMA ŠTÁTNEJ POMOCI NA PODPORU NAPLNENIA ZÁKLADNEJ ÚROVNE POTRIEB LIKVIDITY ŠTÁTNYMI ZDROJMI V SÚVISLOSTI S NÁKAZOU COVID-19-SIH” 2020). In general, Slovak families tend to own houses and have a relatively low debt exposure. Renting houses is more common in the capital city, Bratislava, where also most job opportunities are concentrated. As we mentioned it earlier, the unemployment did not shoot up drastically, but rather was increasing by a slow pace quarterly. The early stages of the pandemic recorded only a few cases and after the end of the first lockdown in 22nd of April the economy gradually opened. Even though the impact of the pandemic was slower than in other countries, eventually it became a financial burden for many individuals. But exactly because of the gradual impact, the state did not have the need to introduce drastic policies seen in United States, id est. helicopter money.

Long-term Implications

In the case of Slovakia, the long-term implications are not particularly bad. As the pandemic unfolded gradually and with a much softer tone than in other countries, individuals did not face that hard financial burden. Even though the unemployment rate climbed up by 3 p. p within the COVID-19 pandemic, it is nothing compared to other countries. House ownership prevail within the country, so financial burdens from mortgages are quite rare. This could have also contributed by a big margin for a lower financial burden.

According to Howe et al. (2020) from a corporation perspective of view, the revenue lost due to the pandemic can be never recouped. Most corporations will face in the future greater debt as they had to take it on to survive as well as higher interest rates. This burden will be felt for many years to come until the demand rebounds to pre-pandemic levels. For some, especially small businesses, the pandemic lead to a complete closure.

Organizational Considerations and Actions

In the early stages of the pandemic, the response from the government was very swift and effective. Small and middle-sized companies were eligible for a financial help from the government if they will keep their employees throughout the pandemic. If sales decrease by more than 40%, all business entities can request a deferral of income tax advances, medical and social levies. Furthermore, the businesses were also protected from unilaterally rent contract termination

until the end of 2020 and they could apply for a debt moratorium for up to 9 months (“Prehľad a Porovnanie Opatrení Prijatých Pre MSP v Dôsledku Pandémie COVID -19 v SR a vo Svete” 2020).

After 20th of May 2020 all sectors of the economy started to gradually open to some extent, however the public was still encouraged not to gather. Even though the situation got better the demand still did not rebound to pre-pandemic levels as well as the consumers spending habits and behaviors. Some rules to prevent gatherings are still limiting the full capacity usage of businesses as restaurants, airlines, theme parks and other leisure related businesses. In September, the number of cases in Slovakia started to increase by an unprecedented speed forcing the country again into more restrictive policies. This put the companies into financial difficulties as there was no help from the government to subsidize salaries or losses, and they decided for layoffs, thus the unemployment rate increased to 8.8% in 2020.

The long-lasting drop in demand is putting a huge toll on companies, as their cash flow is shrinking by an unprecedented speed and we can expect many businesses go bankrupt. For all companies there are only two options: (1) a temporary closure until the COVID-19 pandemic is contained, or (2) keep operating with a lower capacity. The debt moratorium, together with all the deferrals are undoubtedly helping businesses from a short perspective. From a longer perspective all those expenses going to be due in early 2021 and without any operational revenues a lot of companies will face financial difficulties. If companies managed to keep producing operating revenues and cut expenses then their survival its more probable in a longer perspective.

4. Remote work

Thanks to the rise and wide adoption of the internet some business models gained more flexibility regarding remote working options, what undoubtedly helped companies to survive the shock caused by COVID-19 pandemic. Some companies were using remote working even prior to the COVID-19 pandemic, what undoubtedly gave them an advantage, and other companies were swift in adapting to remote working. One of the crucial disadvantages of remote working is access to a good internet connection, what can be problematic in some parts of Slovakia, especially in villages.

Paradigm Shift Caused by COVID-19

Even prior to the pandemic some companies were adapting remote working as a way of profit maximalization and efficiency. Because the first wave of the pandemic was very swift and soft, many companies were not forced to implement remote working. As early as May the State of Slovak Republic started to gradually reopen its economy and not many companies deemed it viable to introduce more remote working opportunities. During the second wave of the pandemic it became clear that a shift to more remote working must be implemented as the country again reintroducing some of its previous restrictions.

Organizational Considerations and Actions

According to Howe et al. (2020, p. 4) organizations need to focus on the following issues:

- How viable is remote work compared to working onsite?
- How long will the organization be willing to encourage remote work?
- How can the effectiveness of virtual teams be facilitated and enhanced?

There are many things to be considered in answering the following questions. Working online may reduce certain expenses as the costs of rental, utilities and personal costs of transportation into the office. On the other hand companies need to also look at the efficiency of employees as well as their mental health. This is quite difficult to measure as due to the pandemic many individuals face depression and other mental health problems what can have an impact on their efficiency. Those problems may arise from a lack of contact with other individuals, lack of freedom from traveling and leisure. A longer, post-pandemic evaluation is needed to assess the efficiency of remote working. The next question is if companies will continue with remote working policies even after the end of the pandemic. The answer to this question can be also deducted from the first one. If remote work brings a higher efficiency while workers well-being is also considered, then remote working can become a new normal and companies may be willing to encourage it. Now it is still too early for any decision as it is yet to be seen when demand rebounds if remote work is efficient or not.

Employee well-being

During the COVID-19 pandemic one crucial factor is often overlooked: employee well-being. Employee well-being does not consist only from financial incentives, even though they have their own importance, but also from their mental state. According to Howe et al. (2020) organizations should provide support systems to help alleviate some stress and give a correct direction for employees. Organization should stop dictate personal choices and behaviors that do not directly affect the organization, but rather their effort should be focused to help improve employees' overall moral, well-being and productivity.

Paradigm Shift Caused by COVID-19

During those uncertain times it is very difficult to focus on employee well-being. As many activities are either restricted or temporarily forbidden, individuals have less opportunities to get rid off stress. Some companies in an effort to cut expenses became leaner, thus putting more work, responsibilities and stress on employees. Furthermore, with transitioning to remote work the communication with management and co-workers may have decreased drastically in both quantity and quality. This may result in a isolation like feeling, especially for young single employees. Other sectors which did not transition into remote working faced different difficulties. As employees continued working while the pandemic was unfolding, they were exposed constantly to the risk of contracting COVID-19, without any extra benefits or bonuses.

Long-term Implications

The most notable long-term implication of the COVID-19 pandemic is mental well-being of employees. From the very beginning the pandemic was underestimated and most of individuals and companies alike were positive regarding returning back to normal. However, as the pandemic is ravaging the world already for a year, the long-term effect on mentality are taking place. According to the newest meta-analysis from Wang, Kala, and Jafar (2020) using data from 68 cross-sectional studies of 288 830 participants from 19 countries, one in three adults face COVID-19 related anxiety or depression. The study further outlines that (1) a total of 50 studies reported the association between women and higher odds of psychological distress, (2) a total of 37 studies reported the association between age and higher odds of psychological distress, and (3) individuals with lower education and income were associated with higher odds of psychological distress. The study also found, that in areas with higher number of infections the odds for depression and anxiety were higher.

Organizational Considerations and Actions

The well being of a company goes hand in hand with the well-being of its employees. It is questionable though, to what extent are organizations themselves responsible for the depression and anxiety caused the COVID-19 pandemic. We believe that they may be caused by a mixture of factors as: lockdowns, limited social gathering policies, remote working, work and income related uncertainty, long-term COVID-19 infection related fears (especially in areas with high number of infections), limited travel and leisure options. But how much of it can be addressed by companies? Some of those factors are out of a direct reach of companies, therefore we sympathize that companies should focus in those uncertain times much more on employees well-being then before.

The most important think how to support employee well-being is first to make sure they have a secure job. It can be very frustrating for an employee be in a constant fear of losing their job, what can also lead to anxiety and depression. After the job is secured, a communication with employees is the second crucial point. This is point is often underrated and companies often do not even know about the psychological state of their employees. Frequent communication with employees is therefore advised to identify psychological distress sooner. But even though depression or anxiety is identified, companies may have tied hands because of government mandated social distancing policies. Taking a leave will not have same implications as during pre-pandemic times because of very limited options. Most traveling or leisure activities are either banned, restricted or not advised because of the higher risk of contracting COVID-19.

As it was outlined before, the government in Slovakia helped companies and employees as well with introducing certain policies to lower financial burden. As the study from (OECD 2020) outlines, most common government policies were lowering the income tax, direct loans, salary subventions, loan guarantees and debt moratorium. The list goes on but all those policies are financially related. We agree that financial distress itself can result into depression and anxiety, but there needs to be also a consideration for non-financial related factors as well. Governments, companies and employees should coordinate together for a viable solution.

Conclusion

The COVID-19 pandemic brought many paradigm shifts the likes of which individuals and organizations alike never seen before. During the worst period of the pandemic the whole economy went to a lockdown and companies needed swift reactions. Some managed to implement changes very fast as they already had certain infrastructures, other struggled. The most important shifts were in job security, financial consequences, remote work and work well-being. By becoming more aware of the changes in the short and long-term paradigm shifts, corporation can use the knowledge to become more efficient. Efficiency during the COVID-19 pandemic can be in certain cases a matter of survival. As we continuing to see how the pandemic is still unfolding itself, it is very important to address those issues. Even though the vaccination program already started in many countries, it is just to be seen what where the long-term effects of the pandemic and how many paradigm shifts will become the new normal.

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Authors address:

Hussam Musa
Faculty of Economics, Matej Bel University in Banská Bystrica
Tajovského 10, 975 90 Banská Bystrica
Slovakia
hussam.musa@umb.sk

Frederik Rech
Dogbei University of Finance and Economics
116025 Dalian
China
frederikrech@gmail.com

Acknowledgments

This work was supported by the Scientific Grant Agency of the Slovak Republic within the project VEGAno.1/0579/21 "Research on Determinants and Paradigms of Financial Management in the context of the COVID- 19 Pandemic".