

## RESTART: Innovative Entrepreneurship Model

### The Impact of COVID-19 on MSMEs

(RESTART PR2 T2.2 Output)

# EUROPEAN UNION Mapping Input

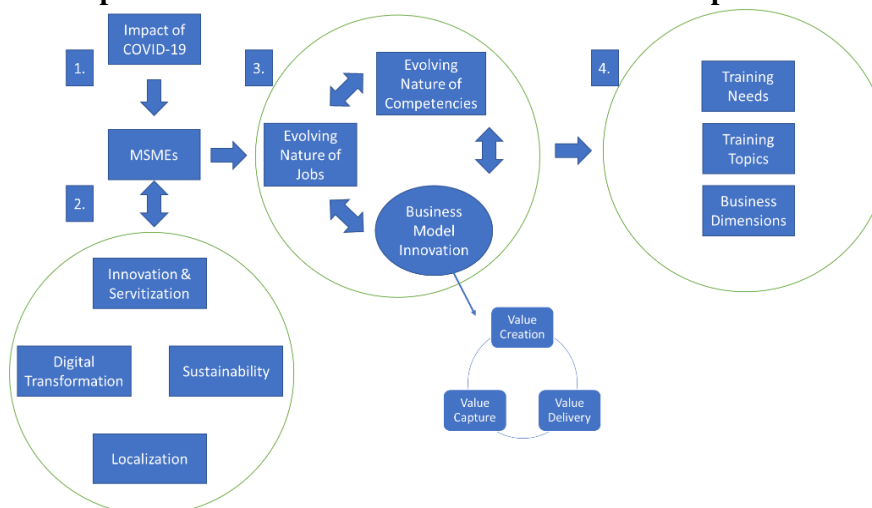
#### Introduction

The core of the mapping is based on the investigation of the impact of COVID-19 on MSMEs in the European Union. It has been prepared by INSTITUT DE HAUTE FORMATION AUX POLITIQUES COMMUNAUTAIRES as the secondary mapping output within the RESTART Project Result 2, Task 2.2 "Gauging pandemic impact on business operations". The analysis is through the "VET lens" and is not aimed at collecting generic impact but rather identifying the emergence of new and evolving needs for training, upskilling, and retraining due to the impact of COVID-19 on MSMEs. The informed insight contained in this Mapping Input will be used for the next stages of the project, namely: a) PR2 Task 2.3 Match Innovative Biz Models and MSME needs, and b) PR2 Task 2.4 Define Evolving MSME Jobs in Post Pandemic.

#### Disclaimer

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#### The impact of COVID-19 on MSMEs: RESTART conceptual framework



Research questions:

1. How has COVID-19 impacted MSMEs?
2. What has been the impact of 4 megatrends on MSMEs?
3. What changes have occurred in business models, MSME jobs, and entrepreneurial competencies?
4. How have these changes affected business dimensions, training needs, and training topics for growth and competitiveness?

## Topic 1: Impact of COVID-19 on MSMEs

The review of secondary resources on the impact of COVID-19 on MSMEs in the EU revealed the following list of inputs:

- **Differing impact on member states and business sectors** - At the level of the 27 EU countries, there was a drop in the value-added MSME of about 9.8%. The sectors most affected by the crisis were 'Accommodation and food service activities', 'transport and storage', 'administrative and support service activities', and 'manufacturing' (Muller et al., 2021).
- **Reduction of sales and revenues for MSMEs** - MSMEs have encountered major impediments to revenue-generating operations in persistent economic uncertainty and diminished consumer demand (Facebook/OECD/World Bank, 2020). Approximately 70% of MSMEs reported that their sales had decreased due to the pandemic, with serious knock-on effects (Dimson et al., 2020).
- **Decrease in value-added** - Accommodation and food service activities (37.8% decline in MSME value-added), transport and storage (16.1% decline in MSME value-added), administrative and support service activities (13.3% decline in MSME value-added), and manufacturing were the industries most affected by the pandemic at the EU-27 level (9.8% decline in MSME value-added) (Muller et al., 2021).
- **Reduction in sales and earnings** - The lockdowns that have been implemented extensively by many European countries have resulted in a sharp decrease in sales and profits for MSMEs, causing ripple effects. Almost all SMEs in Europe (90%) saw a drop in revenue due to lockdowns, and nearly 20% of those SMEs saw a 100% drop in revenue for several weeks in succession (PayPal, 2020).
- **Decrease of new business registrations and startups** - In 2020, the number of new business registrations and startups in the EU-27 decreased, as did funding for startups and scaleups. Bankruptcies also reduced in 2020, indicating the influence of various economic assistance programs undertaken by the Member States, forbearance by lenders and regulators, and reduced legal and administrative agencies' activities to decide on and record bankruptcies (Muller et al., 2021).
- **Impact on employment** - MSMEs sales and retained earnings have been hit hard by the COVID-19 outbreak, prompting them to cut costs and lay off workers. As a result of the pandemic, many firms have cut their workforce (Facebook/OECD/World Bank, 2020). The COVID-19 crisis affected the employment level in MSMEs. For example, Facebook, OECD, and the World Bank (2020) carried out a monthly collection of data from May 2020 to October 2020 to survey the impact of COVID-19 on small businesses. The surveys showed that European MSMEs reported a growing drop in employment over the months, reaching the highest number in the last survey carried out during the analysis period.
- **The pandemic accelerated the digital transition** - A McKinsey study states that the COVID-19 crisis sped up Europe's digital transition by seven years (McKinsey & Company, 2020).
- **Impact on family and domestic responsibilities** - The impact on women has been disproportionately severe, as they work three times as many hours as men on unpaid and domestic care jobs. Domestic obligations have become more prevalent in many countries and areas, particularly among female business executives of MSMEs (Facebook/OECD/World Bank, 2020).
- **Increase and challenges related to smart working** - The pandemic also changed the way people work, with projections that 20% of all work hours will now be done from home. The PayPal Report (2020) on European SMEs showed that MSMEs are particularly unprepared to deal with this shift in the way they operate. Another trend recorded during the pandemic was a sharp increase in smart working, even among MSMEs. However, an analysis carried out by Paypal (2020) among small and medium-sized enterprises in Europe showed how it was difficult for small businesses to adopt forms of smart working compared to larger companies.

- **Gender issues** - Women at the head of MSMEs have been particularly affected by the COVID-19 crisis. According to the survey carried out by Facebook, OECD, and the World Bank on MSMEs, it emerged that since the beginning of the pandemic, 31% of female business executives have reported spending more time on home activities, compared to 26% of male business leaders (Facebook/OECD/World Bank, 2020).

COVID-19 did not have an unequivocal impact at the level of European MSMEs. Some countries were more affected than others, and economic sectors suffered more than others. At the European level, MSMEs experienced a substantial reduction in sales and revenues, value-added, and a decline in new business registrations and startups.

The pandemic also accelerated the digital transition for European MSMEs. According to McKinsey, the digital transformation of European MSMEs accelerated by about seven years during the COVID-19 crisis.

The pandemic also had a significant impact on the employment dimension. On the one hand, MSMEs decreased the number of employed persons. On the other hand, MSMEs have adopted forms of remote working that were previously unknown to most European micro and small enterprises. However, teleworking has created challenging situations for women entrepreneurs, who have suffered a significant workload to run the business and manage household activities.

## Topic 2: Impact of 4 megatrends on MSMEs

The review of secondary resources on the impact of 4 megatrends on MSMEs in the EU revealed the following list of inputs:

- **Servitization contributes to employment creation** - The manufacturing MSMEs that provide services employ additional people due to offering various types of support to their clients. Analyses conducted by the European Commission have shown that manufacturing MSMEs that offer services to their customers tend to hire more people because they provide additional services. About 70% of the companies that participated in the European Commission's study stated that they intend to hire more staff (1 to 10) in the coming years to optimise their performance in offering more services to their customers. (Technopolis Group et al., 2018).
- **Servitisation helps increase the number of clients and revenues** - Servitisation also helps MSMEs increase the number of their customers and their revenues. In the European Commission study, it emerged that as a consequence of delivering services, 50% of MSMEs reported an improvement in a profit margin of 1-10% in the previous two years, with a similar rise expected in the next two years (Technopolis Group et al., 2018).
- **Increase of “buying local” during the pandemic** - According to a study by Ernst & Young, 46% of European consumers prefer to purchase more locally in the future than they did before the COVID-19 crisis (Waldersee, 2020).
- **Increase in online selling** - The pandemic accelerated the use of digital tools, and many MSMEs started or enhanced their online selling (Muller et al., 2021).
- **Differences among MSMEs in digitalisation** - The European Commission EU Annual report on SMEs 2020/2021 shows that micro-enterprises tend to focus on basic digital technologies while mid-sized businesses focus on advanced digital technologies (Muller et al., 2021). Other interesting data concern the employability and economic performance of MSMEs. As of 2019, EU-27 SMEs in the digital sector outperformed EU-27 SMEs in the non-digital sector in 2020. In 2020, value-added created by the former group of SMEs declined by just 0.5%, while the value contributed by the latter group of SMEs fell by 8.0%. Furthermore, employment in the EU-27 SME sector expanded by 1.5% in the digital sector but fell by 1.9% in the non-digital sector (Muller et al., 2021).
- **MSMEs embrace more and more green solutions** - In a recent Eurobarometer survey, small businesses are becoming more resource-efficient and environmentally friendly after the pandemic. Minimising trash (64%), conserving energy (61%), saving materials (57%), recycling by reusing material or waste inside the organisation (47%), and saving water (46%) are the most prevalent resource efficiency initiatives implemented by SMEs. More than three-quarters of MSMEs (77%) interviewed plan to take (additional) steps to increase resource efficiency in their business. Saving energy (53%), reducing trash (50%), and conserving materials (48%) are the most prevalent resource efficiency initiatives planned over the next two years (Flash Eurobarometer 498, 2022).

The 4 megatrends analysed significantly impacted the European MSMEs during the pandemic. In the research that has been carried out, very interesting trends have been identified that have influenced the way SMEs operate and will also influence the way they do business in the future.

Servitisation impacts companies in terms of employing new resources and increasing their customer base. Research conducted for the European Commission shows that European MSMEs offering services related to their products have more significant revenues, employ more staff, and increase their number of clients.

A net increase in intra-European trade and in-country spending was recorded during the pandemic regarding the localisation trend. The digital transformation of MSMEs was impressive during the pandemic, even though significant differences persist between different types of companies in the



digital transition. Generally, the larger companies have adopted more advanced digital technologies, while the smaller ones only use basic technologies.

MSMEs are becoming greener. The latest Eurobarometer analyses show that European MSMEs are increasing their attention to the environment and are increasingly adopting ecological solutions in operating and producing.

### Topic 3: Changes in business models, MSME jobs, and entrepreneurial competencies

The review of secondary resources on changes in business models, MSME jobs, and entrepreneurial competencies in the EU revealed the following list of inputs among the 3 subtopics:

#### *Changes in business models*

- **The growing uptake of digital tools & rise of e-commerce** - According to the OECD analysis “SME and Entrepreneurship Outlook 2021” (2021), small businesses selling online outperformed their offline counterparts, with 50% of MSMEs boosting digital adoption during the pandemic, helping to speed up the digital transformation.
- **MSMEs are more innovative** - According to the Eurobarometer report “SMEs startups, scaleups and entrepreneurship” (2020), almost 60% of European MSMEs have introduced innovation since the beginning of the pandemic. Part of innovation also concerns how companies do business.
- **More sustainable business models but with challenges for MSMEs** - The European MSMEs have recently embraced more sustainable business models. Still, they are facing complex legal and administrative procedures to make their activities more resource-efficient (European Commission, 2020).

#### *Changes in MSME's jobs*

- **Need for digital skills** - The COVID-19 crisis accelerated the imperative to digitise the European MSMEs, and improving the digital skills of their staff represents a priority for many of them. According to the European Commission SME survey 2021, 77% of MSMEs needs to improve their internal ICT skills (Muller et al., 2021).
- **Need for ICT cybersecurity expertise & personnel** - According to ENISA (European Union Agency for Cybersecurity), many MSMEs faced critical problems in adopting the proper cybersecurity measures to switch to an online business model during the pandemic. This situation was due mainly to the lack of expertise and specialised personnel in ICT (ENISA, 2021).
- **Need for innovation skills** - The use and availability of innovation skills have proved crucial for MSMEs' resilience in adapting to new business conditions. They will be critical for recovery in the post-pandemic future (OECD, 2021).

#### *Changes in entrepreneurial competencies of MSMEs*

- **Lack of managerial skills** - According to the Flash Eurobarometer 486 Report (2020), lack of managerial skills is one of the main problems of MSMEs (17% of the respondents). This was the main issue indicated by small businesses, more than difficulties in digitalisation (13%) and difficulties with innovation (9%).
- **Complex problem-solving skills** - The OECD report "SME and Entrepreneurship Outlook 2021" indicates complex problem-solving skills as one of the main competencies needed by the managers of MSMEs operating in the pandemic context. The report specifies that complex problem-solving skills include "developed capacities used to solve novel, ill-defined problems in complex, real-world settings" (OECD, 2021).
- **Need for financial skills of owners and managers** - During the pandemic, access to finance for MSMEs was hampered by both internal and external barriers. This is primarily due to a lack of financial skills of owners and managers of MSMEs (OECD, 2021).

MSMEs have radically changed the way they do business during the pandemic. In the desk research, 3 main lines of change have been identified: (i) Growing uptake of digital tools & rise of e-commerce; (ii) MSMEs are more innovative; (iii) More sustainable business models, but with challenges for MSMEs.

Many MSMEs have adapted their business models due to the pandemic forcing the introduction of new ways of working. This trend, which includes increased adoption of digital tools and e-commerce, could have long-term implications for businesses, potentially improving their resilience to future downturns (Facebook/OECD/World Bank, 2020).

The European MSMEs tried to adopt more sustainable business models. This transition to sustainable business conduct and practices is critical for MSMEs' continued competitiveness and growth as awareness of risks related to climate and other environmental pressures grows, and consumer preferences shift (European Commission, 2020).

The pandemic created challenging working situations for MSMEs, and many of them faced an increasing demand for staff having specific skills. With the shift to online businesses, many MSMEs have had a great need for employees who can easily handle tasks that require a certain level of digital skills. The increase in the volume of work on the internet has also created new challenges for businesses related to cybersecurity. This has led to a growing demand for personnel capable of guaranteeing high levels of IT security in companies. MSMEs have innovated at an astonishing speed, so innovation skills are also among the most requested skills in small businesses today (OECD, 2021).

Skills, including managerial skills, are one of the most significant issues for 17% of MSMEs, while digitalisation is a problem for 13%. About 9% of MSMEs affirmed that difficulties with innovation are one of the most pressing issues, while 8% of MSMEs mentioned internationalisation, and 7% of them said data access (Flash Eurobarometer 498, 2022).

#### Topic 4: Business dimensions, training needs, and training topics

The review of secondary resources and previous findings for the EU revealed the following list of recommendations for business dimensions, training needs, and training topics.

##### *Business dimensions*

- **Embrace digital transformation** - MSMEs should be supported in their digital transition to operate better in the post-pandemic context and be more resilient in case of a future crisis.
- **Development of forms of e-commerce/online sales** - MSMEs should be helped in developing forms of e-commerce to diversify their source of revenues and respond to the current trends of rising online selling that emerged during the pandemic.
- **Be open to flexible and smart working after the pandemic** - The pandemic has shown the benefits that businesses can have from smart and flexible working solutions. MSMEs should be supported in optimising these kinds of working solutions.

##### *Training needs*

- **Promotion of on-the-job training and modular training courses** - MSMEs have more difficulties than large companies offering training courses to their employees. Training providers should support MSMEs with tailor-made and compact training courses to overcome these obstacles. In this way, MSMEs can integrate better training and working activities for their employees.
- **Focus on soft and digital skills needed by MSMEs, linked to regional "qualification clusters"** - In a pandemic and post-pandemic context, the pan-European association Business Europe recommends that MSME employees improve their digital and soft skills. Training must occur within the framework of qualification clusters at the local level, bringing together MSMEs and trainer providers. Training courses must be provided, taking into account regional/local needs (BusinessEurope, 2020).
- **Support the digital transformation of MSMEs** - Unlike micro and small businesses, medium-sized and large enterprises have provided training courses to develop the ICT skills of their employees. It is, therefore, crucial to support the digitisation process of MSMEs with targeted training to develop the digital skills of their employees.
- **Equip MSMEs of competencies to face cyber attacks** - As seen in the previous sections, accelerated digitisation has revealed cyber vulnerabilities for SMEs. MSME employees need to be trained to operate safely and be able to defend themselves against the risks of cyberattacks.

##### *Training topics*

- **Innovative approaches to marketing in the post-pandemic** - Support the MSMEs to develop online marketing strategies.
- **Cybersecurity for MSMEs** - Empower the small businesses' staff with skills and competencies in cybersecurity.
- **Project Management for MSMEs** - Equip the managers of MSMEs with management skills, which emerged as one of the main needs for small businesses.
- **Finance for MSMEs** - Provide the competencies for the small business managers to find solutions to access finance.
- **Smart working for MSMEs** - Support the MSMEs to manage virtual teams and work in flexible contexts.

During the pandemic, MSMEs adopted significant changes. Digital transformation is a process that cannot be stopped and, together with the development of forms of e-commerce, can help make



businesses more resilient in the future. Forms of smart working are also solutions that companies do not want to give up, and forms of flexible working have proven to have many positive aspects.

The main training needs that emerged from this analysis are: (i) Promote on-the-job training and modular training courses; (ii) Focus on soft and digital skills needed by MSMEs, linked to regional "qualification-clusters"; (iii) Support the digital transformation of MSMEs; (iv) Equip MSMEs with competences to face cyberattacks.

In line with these needs and the trends analysed in this desk research, the training themes recommended by the IHF to equip MSMEs for growth and competitiveness in a post-pandemic context should be structured around the following thematic areas: innovative forms of marketing, enterprises and cyber security, development of finance and project management skills, management of virtual teams and working in flexible conditions.

From this analysis, the main trends identified at the European level are:

- The pandemic gave a great impetus to speed up innovation and digitisation of MSMEs in Europe.
- The 4 megatrends analysed greatly impacted the European MSMEs during the pandemic. MSMEs that have developed services for their customers tend to employ more staff. MSMEs have accelerated the digital transition and embraced green solutions but face many barriers in their innovation path.
- At the European level, the main training needs for MSMEs concern the following areas: digitalisation, management, cybersecurity and support of innovative practices for small businesses.

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