

RESTART: Innovative Entrepreneurship Model

The Impact of COVID-19 on MSMEs

(RESTART PR2 T2.2 Output)

ITALY Mapping Input

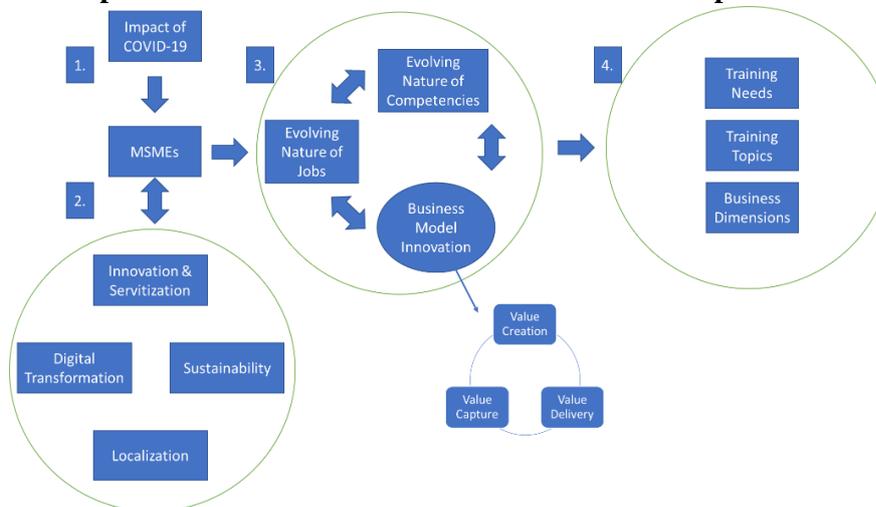
Introduction

The core of the mapping is based on the investigation of the impact of COVID-19 on MSMEs in Italy. It has been prepared by ITALIAN DEVELOPMENT PARTNERS 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, 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.

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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's 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 Italy revealed the following list of inputs:

- **Italy is one of the most affected European countries** – The impact on Italy was more significant than on other EU countries, the US and globally, according to Ernst and Young's (2021) Global SME Survey. In the case of Italy, MSMEs' revenue decreased by 66%, profit margin by 64% and sales volume by 62%.
- **Sector-specific impacts** – The COVID-19 pandemic affected approximately 72% of Italian MSMEs. According to the Annual report on European SMEs, Italian small businesses in the accommodation and food services sector and transportation and storage sector had the most significant downturn, with value-added falling by 41.4% and 17.3%, respectively (European Commission, 2021). These data are in line with those of the Italian Ministry of Labor and Social Policies, indicating catering services related to the tourism supply chain, fashion, services related to personal care and leisure and private training services as the sectors most exposed to the contraction in employment (Unioncamere – ANPAL, 2020).
- **Difficulties mostly for MSMEs that do not export** – MSMEs have suffered the most from the crisis, especially those that do not carry out any import/export activities. The study conducted by the Italian National Institute of Statistics in 2021 showed that small and micro enterprises (3-9 workers) had suffered most from the crisis. The companies with the highest risk of closure are those firms with a low level of internationalization. More specifically, such companies have limited or no import-export activities. (ISTAT, 2022)
- **Decrease in turnover** – MSMEs in Italy during the pandemic recorded a sharp decline in turnover. Micro enterprises suffer the most and are also at a higher risk of closure. On average, MSMEs contracted their revenues by 8.8% between 2019 and 2020, the most significant drop observed in 2007 – 2020. Small companies, those with between 10 and 50 employees, suffered the most from the crisis (a decline of -9.1%), although medium-sized companies (-6.3%) and large companies (-5.4%) also fell hard. (Cerved, 2021)

In early 2020, Italy was the first European country to experience the COVID-19 pandemic on a large scale, and it was the first country in the world to implement a nationwide lockdown. In response to the health crisis, the Italian government had to take drastic measures to slow the spread of the pandemic, which had a substantial impact on businesses and the entire Italian economy. This explains why Italian MSMEs suffered from the COVID-19 crisis much more than those in other countries. Italian MSMEs have suffered the steepest decline compared to other European countries and other regions of the world in terms of revenue, profit margin and sales volume. Smaller companies have suffered most from the crisis in crucial sectors of the Italian economy, such as tourism and catering. The MSMEs that have best withstood the impact of the pandemic are those that had developed international import/export activities before the crisis.

Topic 2: Impact of 4 megatrends on MSMEs

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

- **Servitization and co-creation as growing trends** – During the pandemic, Italian MSMEs tried to respond to customer needs. On the one hand, they tended to transform the concept of supply, moving in the direction of servitization. On the other hand, MSMEs tried to meet customer needs in an increasingly personalized way, frequently resorting to co-creation with the customer. These trends are visible in the survey conducted by Banca Ifis in collaboration with the Marketwatch SME research center, where 63% of MSMEs interviewed stated that they have increased the offer of services related to their products, 34% declared that they increased co-creation with customers, and 33% of MSMEs affirmed that they focused on personalization during the pandemic (Banca IFIS/Marketwatch PMI, 2020).
- **Increase in new digital technologies** – A study run by Banca IFIS and the Marketwatch SME research centre shows a general increase in the use of new digital technologies in the Italian MSMEs, even for those with declining turnover. Since the onset of the COVID pandemic, the Italian MSMEs increased the use of digital technologies from 45% (2019) to 66% (2020). Of the companies that adopted digital technologies in 2020, 62% were MSMEs with reduced turnover. (Banca IFIS/Marketwatch PMI, 2020)
- **Challenges in the digital transition** – Despite these changes in terms of digitization in Italy, digital infrastructure remains a real problem for almost two out of three companies (63%). According to the DESI (Digital Economy and Society Index), the digitalization of MSMEs in Italy is lower than the European average. However, in 2021 Italy was ranked 20th among the 27 EU Member States, compared to 25th in the previous edition. A shallow position indicates that the pandemic has not brought the 'digital revolution' to the expected extent (European Commission, 2021b).
- **Promotion of innovative practices** – Digitalisation pushed MSMEs towards innovation and new management models such as smart working, improved production processes, trade/distribution transformation and better customer relations (Banca IFIS/Marketwatch PMI, 2020). Italian MSMEs seem to be innovating slower than those in other European countries despite significant changes. In the Eurobarometer survey among European MSMEs conducted in September 2020, Italy was in the penultimate place in Europe in terms of innovation (Flash Eurobarometer 498, 2022).
- **Increased localization** – During the pandemic, the Italian MSMEs tended to develop a new supply chain based on reshoring and diversification of suppliers (Banca IFIS/Marketwatch PMI, 2020). The new supply chain was mostly oriented toward local suppliers, which drastically reduced the risk of production stops.
- **Growing focus on sustainability** – Many MSMEs in Italy are increasing their attention to environmental sustainability. Measures adopted by small businesses are extensive. They include reducing materials used in paperless sales processes, optimizing delivery routes, using recycled and recyclable packaging materials, and reducing packaging (Banca IFIS/Marketwatch PMI, 2021b). According to the Flash Eurobarometer (2022), despite significant changes and the willingness of Italian MSMEs to adopt more sustainable products or services, Italian MSMEs rank last in Europe in terms of the number of actions introduced to promote sustainability.

The four megatrends impact Italy, and the COVID-19 pandemic appears to have intensified the changes that these trends are causing in MSMEs there. More specifically, Italian MSMEs have significantly increased their product-related service offerings to meet the needs of their customers. As a response to the new challenges arising from the pandemic, Italian companies have tried to customize their products as much as possible to meet customer preferences. In many cases, MSMEs have implemented fundamental forms of co-creation with customers. Furthermore, a significant additional



change concerns reshoring and geographical diversification. With supply chain problems resulting from lockdowns during the pandemic, many Italian MSMEs have developed new forms of supply chains by shortening the supply chain. Italian MSMEs have also innovated their production and management practices. Although the changes have involved most enterprises, Italian small businesses are slow to change when analyzed in a European context. The same trend can be seen concerning the introduction of sustainable actions. Even though Italian MSMEs have become greener, they remain far behind their European partners.

Topic 3: Changes in business models, MSME's jobs, and entrepreneurial competences

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

Changes in business models

- **Willingness to innovate the business model** – Several surveys (e.g., Deloitte, 2020; Ernst & Young, 2021) indicate that Italian MSMEs intend to innovate their business model. According to the Ernst & Young Global SME Survey, 54% of Italian MSMEs want to innovate their business model due to the pandemic. This percentage is much higher than the European (47%) and North American (45%) average (Ernst & Young, 2021). These figures are similar to those of the Deloitte survey. According to this study, 56% of the small businesses surveyed believe they need to change their current business models (Deloitte, 2020).
- **Trending business models** – According to the Ernst & Young Global SME Survey conducted in Italy (2020), the innovative business models that Italian MSMEs intend to adopt as a result of the pandemic are (i) e-commerce; (ii) marketplace; (iii) franchise, and (iv) freemium. (Ernst & Young, 2021)
- **Drivers of business model revision** – In the process of revising their business model to cope with the COVID-19 crisis, MSMEs intend to do so in two main ways: (i) identifying new customer bases for their products or services (6 out of 10 companies indicated this solution); (ii) intervening in the proposed range of products and services offered (5 out of 10 companies indicated this solution). The second solution includes various possibilities such as designing new product lines, identifying new potential markets and adopting digital distribution channels. (Deloitte, 2020)
- **Evolution of the operating model** – Many MSMEs in Italy intend to revise their business model and operating model, i.e., how they carry out day-to-day activities both internally and with customers. Nearly 60% of MSMEs say they want to enable smart working for their employees, while more than 50% say they want to digitalize their processes and interaction channels with customers and suppliers (Deloitte, 2020).
- **Web sales increased beyond companies' expectations** - According to the Italian National Institute of Statistics (ISTAT) survey, Italian MSMEs witnessed continuous growth in online sales from 2019 until 2021. MSMEs' online sales increased in all channels they used (via the website, other web channels, or digital platforms). From 2019 to 2021, there were increases in direct sales via the company website (from 5.8% to 6.3% of total sales), sales via direct online communications (email, online forms, and social media, from 7.1% to 7.4%) and sales via digital platforms (from 0.9% to 1.0%). The ISTAT (2022) survey also showed that Italian MSMEs' turnover in online sales in 2021 increased more than expected.
- **E-commerce websites' popularity among micro-enterprises** - The ISTAT study comparing the volume of online sales for MSMEs in 2020 and 2021 showed that company size determines how the company sells online. The analysis indicates that micro-enterprises (1-9 employees) have seen a substantial increase in sales through digital platforms and decreased sales through their websites. Small enterprises (10-49 employees) saw a considerable increase in sales through their websites. Medium-sized enterprises (50-249 employees) saw a substantial increase in online sales through digital platforms. While micro-enterprises chose to sell via digital platforms because of the difficulties of managing their website, medium-sized enterprises decided to sell via digital platforms because they could negotiate favourable commercial agreements with the digital platforms. (ISTAT, 2022)

Changes in MSME's jobs

- **A large increase in smart working for MSMEs during the lockdown** - According to the PMI Market Watch survey, Italian MSMEs have significantly increased their use of smart

working during the pandemic. Remote working before the lockdown was just 4.6%, and by the end of 2020, it had reached 37%. Before the pandemic, only large companies in Italy applied smart working (Banca IFIS/Marketwatch PMI, 2021). ISTAT has analyzed the diffusion of smart working among Italian companies by comparing data for 2020 and 2021. In the post-lockdown period, there was a general decline in the distribution of smart working among Italian firms. Overall, the use of smart working, although decreasing in all employee categories, is more frequent as the size of the company increases: 4.4% of micro-enterprises and 10.9% of small enterprises say they use remote working, while the percentage reaches 31.4% for medium-sized and 61.6% for large enterprises (Cerved, 2021).

- **Uneven use of smart working among Italian MSMEs** - Italian MSMEs have not all adopted forms of remote working in the same way. The SME Market Watch survey found differences in Italy at sector and geographical levels. The companies that have used more remote working are those in the chemical and pharmaceutical sectors and technology companies. The companies that have made less use of smart working are those operating in the construction, automotive and fashion sectors. Geographically, 48.9% of MSMEs located in Italy's northwest regions have introduced agile working to continue working remotely even during the lockdown. On the opposite, in the south of Italy, only 19% of MSMEs have used forms of smart working (Banca IFIS/Marketwatch PMI, 2021).
- **Missing profiles for small enterprises** - According to a survey by the Italian National Institute of Statistics, smaller companies in Italy had more difficulties acquiring staff in 2021 than larger companies. More specifically, the enterprises by size class that declared recruitment difficulties are 63.9% of micro-enterprises, 66.7% of small enterprises, 58.2% of medium-sized enterprises and 50.1% of large enterprises. Among the missing profiles, those related to logistics and production are most frequently mentioned, especially by medium-sized and large companies. Medium and large enterprises also indicate profiles related to technical-engineering functions in support of production. In contrast, micro-enterprises have relatively more frequent difficulties finding resources in the organizational-management area and sales, marketing, and communication. (ISTAT, 2022).
- **Poor digital skills** - According to analyses carried out by the Digital Innovation Observatories of the School of Management of Polytechnics in Milan, a key obstacle for MSMEs in Italy to digital transformation is the lack of adequate digital skills. Approximately 42% of MSMEs state they have low (17%) or unevenly distributed digital skills among company staff (25%), making it challenging to implement and use new technologies widely (Osservatori Digital Innovation, 2021). According to the SME Market Watch survey conducted in collaboration with Banca Ifis, 83% of MSMEs needed staff with new skills in 2019-2021. This analysis showed that 59% of MSMEs required skills related to production technologies specific to their sector; another 28% demanded employees able to manage digital solutions, and about a quarter (24%) required people specialized in Industry 4.0. Lastly, 8% of MSMEs need experts in SMAC (social, mobile, analytics, cloud) (Banca IFIS/Marketwatch PMI, 2021c).
- **Insufficient training to equip MSMEs staff with digital skills** – The Market-Watch-PMI survey found that 42% of MSMEs struggle to train their staff in digital skills to facilitate the development of e-commerce and online selling (Banca IFIS/Marketwatch PMI, 2021c). Also, according to the Digital Economy and Society Index (DESI), in 2020, Italy was last in Europe in the dimension of human capital, and this year it is 25th out of 27 states. Moreover, only 15% of Italian companies provide IT training to their employees, five percentage points below the EU average (European Commission, 2021b).
- **Demand for soft skills** – MSMEs require technical skills and soft skills. Teamwork and problem-solving are also considered the two most important soft skills by the companies surveyed, receiving 63% and 52% of the indications. These competencies are followed by flexibility (40%), communication skills (38%) and decision-making skills (28%). MSMEs face difficulties finding soft skills (especially flexibility) in the labour market. For this reason, the selection is often oriented towards employees with a consolidated technical background, with training courses dedicated to developing teamwork and problem-solving skills (Banca

IFIS/Marketwatch PMI, 2021c). LinkedIn Learning has also seen a vast increase in the development of skills for small businesses, from so-called soft skills such as strategic thinking and remote working to basics such as using Excel (Cisco Designed/LinkedIn, 2020).

- **Cybersecurity skills needed** – Enterprises show a growing awareness of the risks involved in digitalization and pay much attention to security, preventing attacks and possible data recovery actions (43.1% consider it crucial). Digital training (30.5%), on the other hand, seems to receive limited attention despite being vital to the effectiveness of digital investments. (ISTAT, 2022)

Changes in entrepreneurial competences of MSMEs

- **Internationalization and managerial skills** – In an analysis conducted by Deloitte in 2020 among MSMEs, it emerged that to be more resilient, Italian companies must have a solid international propensity. According to this study, entrepreneurs must acquire the right managerial skills to promote internationalization. In addition, internationalization favours comparison with realities outside the company, e.g., with other countries, and therefore tends to promote an internal transformation of the enterprise (Deloitte, 2020). The lack of managerial skills among Italian MSMEs is also highlighted in the report of the European Commission's "2021 SME country fact sheet" (European Commission, 2021).
- **Need for innovation skills** – According to the OECD report "SME and Entrepreneurship Outlook 2021", there are substantial imbalances in innovation skills in the Italian labour market. Company managers need, above all, computer & electronics and complex problem-solving skills. (OECD, 2021)
- **Virtual team management** – Although there was a substantial decrease in smart working in MSMEs in Italy after the pandemic, many companies intend to keep flexible and remote forms of working in the future. According to the Italian National Institute of Statistics survey, many companies in Italy in 2020 and 2021 had problems managing operational processes in remote working modes. Significant difficulties concerned staff interaction, collaboration and communication. (ISTAT, 2022)

Following the COVID-19 crisis, Italian MSMEs have considerably changed their way of doing business. On the one hand, studies have shown that Italian companies have felt a strong need to innovate the way they do business. On the other hand, MSMEs have quickly adopted measures that have enabled them to do business differently. Probably the most significant innovation in this respect has been the development of online sales. Jobs in MSMEs in Italy have also changed a lot during the pandemic and in the post-lockdown period. Smart working is a practice that has spread widely even though it has been adopted more by larger companies. The most sought-after profiles for micro and small enterprises in Italy are organizational management and sales, marketing, and communication. Key competencies that are increasingly in demand are digital competencies, soft skills, and cybersecurity skills. As far as entrepreneurs are concerned, the key competencies they need in a post-pandemic context are managerial, innovation and internationalization skills. Virtual team management skills are also crucial given the increasing amount of remote work.

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

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

Business dimensions

- **Improving the digital dimension of MSMEs both internally and externally** – Italian MSMEs have begun a rapid digital transformation, as seen in the previous sections. This transformation has taken place internally (increased use of technology in the management of work, e.g., the use of distance working) and externally (in relations with customers and suppliers, e.g., the increase in online sales). This report's analysis shows that Italian companies have changed quickly but have also had great difficulties. Therefore, it is essential to support them in this change with adequate training offers.
- **Improving the international dimension of MSMEs and intercepting more customers** – Internationalization is one of the most critical drivers of Italian MSMEs for recovery in the post-covid environment. This feature is essential to increase the user base for growth and diversification. Therefore, Italian companies must be supported by offering courses to develop the necessary skills to foster their internationalization.
- **Enhanced online security** – As we have seen, there was an exponential increase in the use of digital technologies and the resulting cyber security risks during the pandemic. When talking about cyber security, it is vital to consider it in its entirety. Cybersecurity should be considered from an MSME perspective (e.g., cyber-attacks that can affect companies) and a consumer perspective (e.g., making safe online purchases).

Training needs

- **Improvement of soft skills** – This report's analysis reveals that Italian MSMEs are having difficulty finding employees equipped with the soft skills essential for their roles in the company. Training is needed to improve teamwork, decision-making, problem-solving, communication and strategic thinking.
- **Enhancement of management skills** – In Italian MSMEs, those who hold functions involving decision-making and coordinating workers in small businesses need to improve their management skills. On the one hand, they need to improve their managerial skills in a broad sense, but on the other hand, they need to improve their ability to manage virtual teams in a remote working context.
- **Improvement of digital skills** – Despite progress since the pre-pandemic period, Italian MSMEs have a lower level of digitalization than their European partners. Therefore, it is imperative to act as soon as possible by developing training courses to increase the digital skills of MSME workers.
- **Acquisition of cybersecurity capabilities** – The analysis conducted in this report shows the paradoxical result that companies are aware of the risks that digitization brings, such as cyber-attacks, but have paid little attention to digital training for their employees. Therefore, it is crucial to make MSMEs more aware of the importance of digital training and create training to improve the cybersecurity skills of employees.

Training topics

- **Internationalization of MSMEs** – Internationalization of MSMEs and developing international competencies is a crucial issue for Italy in the post-pandemic context.
- **Cybersecurity** – Italian MSMEs need ad hoc training courses to enable their employees to master the IT security skills required to work in a secure digital environment.

- **Virtual communication and virtual team management** – The digital transformation of businesses (e.g., increased online sales) and remote working requires workers to be adequately trained to communicate and work effectively in virtual contexts.
- **Digitization of MSMEs** – Many micro and small enterprises are still lagging in the digitization process and need to be equipped for this change process.

Based on the research conducted on MSMEs in Italy during the COVID-19 crisis, IDP developed recommendations regarding business dimensions, training needs, and topics for Italian MSMEs. The business dimensions should focus on two aspects: the strengthening of the digital transition on the one hand and the strengthening of the international dimension on the other hand. The training that Italian MSMEs need should focus on improving their employees' soft skills and digital and cybersecurity skills. Equally important is enhancing the management skills of managers and owners of small and micro-enterprises. For this reason, the training themes suggested by IDP are (i) Internationalization of MSMEs, (ii) Cybersecurity, (iii) Virtual communication and management of virtual teams, and (iv) Digitization of MSMEs.

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