



EDITORIAL

COVID-19 AND ITALIAN SMALL AND MEDIUM-SIZED
ENTERPRISES: CONSEQUENCES, THREATS AND OPPORTUNITIES.

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Abstract

During this intense global pandemic, many small entrepreneurs risk going out of business due to the fall in demand and management constraints imposed by national governments that have obliged them to go into lockdown and follow public health protocols. However, we believe that the health emergency can also represent an opportunity for micro and SMEs to rethink their current business models and innovate them, identifying new market segments, new value propositions, new resources and new actors with whom to anticipate, realise and deliver value to consumers. In this editorial, the editors of the journal Piccola Impresa/Small Business propose some reflections on the consequences, threats and opportunities Covid-19 has brought about for the SME sector, focusing particularly on the Italian ones.

1. Covid-19 and the consequences on the SME sector

The Covid-19 emergency has had and still is causing dramatic consequences concerning society's health and economic, fueling deep social and political tensions at the global level. As a result, companies are reconsidering their traditional models of production and urging greater attention be paid to the relationship between man and nature, in line with a sustainability perspective (Barbier & Burgess, 2020).

This has led to a sudden and radical change in the priorities of governments' political agenda, forcing them to placing people's health, employment and the restart of productive activities at the center of government concerns and actions. According to the Monetary International Fund (2020), "in 2021, global growth is projected at 5.4 percent. Overall, this would leave 2021 GDP some 6.5 percentage points lower than in the pre-COVID-19 projections of January 2020". The pandemic has caused enormous damage to the economy, significantly affecting the most fragile organisations, like micro, small and medium-sized enterprises. In fact, such organisations are typically characterised by fragility due to a lack of financial, technological and organisational resources, as well as a limited range of strategic action (Singh et al., 2008). This "liability of smallness" (Aldrich & Auster, 1986) weakens their ability to deal with the negative effects of shocks such as those induced by Covid-19, which impact market demand, liquidity and profitability conditions, putting their survival at risk. This circumstance may also lead to the gradual erosion of the already modest level of SMEs' net capital, putting the employment levels of these enterprises at serious risk, given that they are strongly present in the labour-intensive service sectors, which are highly affected by the health crisis.

A recent Goldman Sachs (2020) survey of 10,000 small business owners have found that the pandemic crisis has already impacted 96 percent of the sample, and 51 per cent have reported that their business cannot survive 3 months of an economic shutdown¹. On the other hand, SMEs have inherent capabilities to be flexible (Cesaroni & Sentuti, 2016) and adapt quickly to unexpected changes in the market, and as Pittz & Liguori (2020, p. vii) state: "successful entrepreneurs and small business owners are ruthless pragmatists, effectuators, and exploiters of resources. They are nimble, quick to eliminate what does not add value and are not afraid to make bold decisions or even cut corners".

To help combat the negative effects of this pandemic, researchers in the field of small business management have also been called to action and have engaged in investigating and proposing food for thought to small

¹<https://www.goldmansachs.com/citizenship/10000-small-businesses/US/infographic-left-behind/index.html>

entrepreneurs and policymakers to find innovative solutions to overcome the crisis in the short run and mitigate risks related to future scenarios that impact the SME sector.

Many scholars and editors of journals devoted to small business research have felt this urgency, and this is the reason why several calls for papers have been launched. They aim to advance theoretical understanding of how business owners make sense of and respond to crises, as well as examine the effects of the Covid-19 pandemic on entrepreneurial activity and small business performance. In the same vein, it is also relevant to examine the role of policymakers, local government and communities in supporting small businesses and entrepreneurs in times of crisis (Del Baldo & Demartini, 2016; Pagano et al., 2020).

With this in mind, the Journal *Piccola Impresa/Small Business* is also studying various key initiatives to offer scholars and professionals a forum for debate. We also anticipate the organisation of a conference dedicated to how SMEs can overcome crises and face uncertainty times for the year 2021. Moreover, there has been the launch for more than one call aimed at answering specific questions that the pandemic has brought to the attention of scholars and players in the sector (i.e. small entrepreneurs, institutions and policymakers).

In this editorial, we begin to address this issue. We aim to report some statistical evidence on the impact of the first lockdown on the performance of Italian SMEs and offer some initial reflections on the threats and opportunities this pandemic has brought to the forefront.

1.1 Italian SMEs' performances and birth rate of new ventures in the health emergency

The health emergency has profoundly impacted companies' performances and demographics, especially in Italy. According to a recent research conducted by Cerved (2020) on Italian SMEs' economic and financial conditions, the pandemic has generated consequences that will also impact their ability to recover and develop. The main indications that emerge are that SMEs' turnover percentage is expected to decline by 11 points in 2020. In the face of the emergency and lost revenues, a marked reduction in operating costs is also expected, especially concerning raw material purchases, semi-finished products, and costs for services. Despite the freeze on layoffs, Italian SMEs will also reduce labour costs (-12%), taking advantage of the redundancy fund's extension, a measure to which many companies have resorted. In the meantime, the extension of the redundancy fund and government interventions to inject liquidity have also supported SMEs, resulting in a gradual improvement in payment times after the first lockdown in March 2020. However, Italian SMEs' significant

reduction of costs will be insufficient to avoid a new and sharp fall in gross profitability, which is expected to contract 19% when comparing 2020 and 2019, accompanied by serious financial and solvency difficulties.

According to the Cerved survey, the pandemic's effects have not yet manifested themselves regarding the number of bankruptcies and voluntary liquidations opened by Italian SMEs. Above all, this has not occurred thanks to public support interventions, but, perhaps, it is also due to a break in bankruptcy procedures due to the temporary suspension of court operations.

Despite such substantial impacts, most Italian SMEs will end the 2020 fiscal year in a break-even or earn a profit. Although the profitability indices are collapsing compared to 2019, they will remain positive on average according to the Cerved statistics. Not all industries, indeed, have been equally affected by the health emergency. However, some sectors, such as air transport, trade fairs, crafts, catering, accommodation and the travel and culture sectors are dramatically in crisis, due to social distancing and health precaution measures, as well as lockdown resolutions (Pencarelli, 2020; Demartini et al., 2020; Giorgio & Carnazza, 2020; Modena, 2020).

In addition, in Italy, the health emergency has also had highly negative consequences on companies' birth rate, which was almost zero in April 2020, especially in the sectors most affected by the crisis. According to the Cerved study, the birth rate has instead increased in some sectors of the supply chain that serve the health care sector. After the first lockdown, the number of new businesses started to grow again, but this did not allow it to recover the loss from the previous months. Considering that the new companies, with less than five years of age contributed to more than half of the new employment over the last decade, the lack of these new businesses could have impacts in the coming years, in terms of lack of growth and potential losses of new jobs.

The study of Banca d'Italia (2020) highlights that, after the substantial stability observed in 2019, in the first six months of 2020, the net birth rate underwent a significant contraction, reflecting the sharp decline in the creation of new businesses. This is more than compensated for the drop in their mortality rate, recorded in all Italian regions, as a result of the support measures adopted by the Government. However, the inquiry mentioned above underlines that the growth of the share of undercapitalised companies could translate into an increase in corporate crises in the longer term, especially for small and medium-sized firms.

All that being said, we deem it noteworthy to provide some thoughts on threats that should be mitigated and opportunities that should be exploited by SMEs.

2 . Some reflections on the threats and opportunities brought about by Covid-19 in the SME sector

On the one hand, the advent of Covid-19 pandemic represents a serious threat to small companies' survival, especially those in service sectors like tourism, culture, entertainment, itinerant trade, small retail and crafts. The anti-contagion health regulations, forcing the social distancing between people and the complete or partial closure of many activities in presence and direct contact with customers, have hampered company sales, generating dramatic problems of liquidity and profitability. These companies will only be saved thanks to public contributions and tax relief measures by the various national governments that aim to support the economic and financial balance of companies, as well as maintain employment levels.

As International Monetary Fund (2020, p. xvii) suggests: "economic policy in such cases should limit the damage by cushioning income losses for affected people and firms while also supporting resource reallocation away from contact-intensive sectors that are likely to be constrained for an extended period of time. Retraining and reskilling should be pursued to the extent feasible so that workers can look for jobs in other sectors. Because the transition may take a while, displaced workers will need extended income support as they retrain and search for jobs".

On the other hand, other economic actors have had benefits as a result of the health emergency. These are companies that master digital technologies (mainly software houses, ICT consultants, telecommunications companies, digital publishers, electronic commerce platforms, logistics companies, etc.), thanks to which they have been able to propose new value offers to the market and innovative solutions aimed at satisfying the needs of consumers through technological support. Research suggests that there have been very different impacts of the coronavirus crisis on business firms. Understanding these differences is important for strategising during the crisis and navigating successfully into the future (Ritter & Pedersen, 2020).

In this regard, we refer to actors who, thanks to new technology, have been able to generate different revenues from traditional ones, by innovating their business model. The cases of video game producers, producers of online platforms for videoconferences or the big e-commerce platforms, like Amazon or E-bay, are emblematic, including small firms able to intercept the growing demand by large groups for the purchase of goods and use of services using digital platforms.

In fact, the pandemic has led to radical changes in consumer behaviour, which does not completely return to normal once it is over. During the lockdown, many categories of products, that were almost entirely sought in the store until then, were purchased online. Companies must be able to respond quick to this revolution in consumption habits, adapting their business mod-

els to current and probably irreversible trends (Donthu & Gustafsson, 2020).

Companies with only physical retail stores have gone digital, creating their own website and social profile to facilitate sales and the delivery of goods to customers. Many have entered into contracts with home delivery apps that deal with getting their orders from various stores to consumers.

In some sectors, such as food consumption, some small businesses have been able to react to the crisis generated by Covid-19 by moving from single or multi-channel approaches to omni-channel strategies, trying to develop and maintain contacts with customers during the overall customer experience, through physical structures, the website and the various social media by adopting digital and mobile marketing actions (Kumar et al., 2020).

For example, this is the case of small producers of typical local agricultural products, like wine, honey, cured meats, cheeses or truffles, who have been able to reinvent the business model by investing in digitisation processes individually or through collaboration agreements and networks. They have created e-commerce websites and adopted social media marketing strategies to create, maintain and develop good and long-term relationships with domestic or international customers (Effendi et al., 2020).

Therefore, for the small-sized firms able to capture the opportunities, digital services have contributed, and will continue to do so, to the innovation of traditional business models and enriching the methods of communication and delivery of value, to which users have become accustomed. As a result, they will probably never want to go back.

Other companies have saved themselves from bankruptcy and digital sending, thanks to the conversion of their productions. For example, during the emergency, we have seen companies produce solutions for new health needs such as masks, gowns and respirators.

Thanks to these new services and products, small firms have been able to acquire new target customers, now loyal, who continue to buy in their stores.

Ultimately, the health crisis can also represent an important opportunity for micro and small and medium-sized enterprises with high strategic awareness (Pencarelli et al., 2010) to review their traditional business model and exploit the potential for the organisational and market innovation that the new digital economy allows (Di Vaio et al., 2020). All of this is also thanks to the use of public funds that will be made available to the economic activities by governments to encourage the restart and economic rebirth through the spread of new digital technologies and the application of the various innovative tools of the fourth industrial revolution (internet of things, big data analytics, additive manufactures, artificial intelligence, collaborative robotics, etc.) (Nandi et al., 2020).

As a final reflection, focusing on the Italian context, we deem that the Italian government must pay extreme attention to the use of the funds for the restart granted by the European Union not only to safeguarding the

production base, the national employment and the health structures and processes but also to favour the modernisation processes of Italian SMEs by encouraging the digitisation of processes and strategic and managerial innovation, increasing their international projection. Therefore, public policies will have to address the investments to create digital infrastructures and support services for the smaller business sector, a fundamental component for the contribution to the GDP and employment of our Country and European Union. Moreover, in Italy, the entry into force of the new business crisis code (Legislative Decree No. 14/2019) will also be important. It will oblige companies to implement measures to monitor corporate health conditions, predicting possible crisis situations in advance (Palazzi et al. 2018) and avoiding that many small companies find themselves completely unprepared to face exceptional and catastrophic events.

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