

Executive Summary

The impact of SMEs' innovation activity on their economic development
in crisis times

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Abstract

This study is based on a representative company survey to analyse companies' innovation behaviour during the COVID-19 pandemic. It investigates whether companies that were innovative during this period came through the crisis better than non-innovative ones. At the same time, we investigate whether the crisis-related adjustments were permanent - or were retracted as the pandemic subsided.

Noticeable economic consequences of the pandemic in 2020 and 2021

A quarter of all companies report being highly affected by the crisis in the first two pandemic years, and only 15% felt no impact. Companies from the hotel and restaurant industry and the arts/entertainment/recreation sector were considerably affected by COVID-19 and the anti-pandemic measures, which also negatively impacted their economic situation. Only companies in the financial/insurance services sector and the construction industry were comparatively little affected. In contrast, the impact of the crisis eased significantly in all sectors in 2022.

Businesses adapted quickly

Only a few entrepreneurs waited till the negative effects became noticeable before introducing innovations. Most reacted at the pandemic's beginning by adapting their products and services and/or offering them online. Some companies retracted adjustments as the pandemic subsided, especially in the hotel and restaurant industry. In contrast, many entrepreneurs in other sectors hold on to the changes and integrated them permanently into their business model.

Positive and negative effects on innovation activity

The pandemic had a positive and a negative impact on innovation activity. On the one hand, there were delays in ongoing innovation projects. One in six companies even planned not to do any innovation projects because of the crisis. On the other hand, one in three companies initiated innovation projects, and a quarter of all companies accelerated existing projects.

Overall, an apparent increase in innovation activity during the pandemic

Compared to the pre-pandemic period, the share of innovation-active companies doubled in 2021. Business model innovations recorded the strongest

increase: Their share almost tripled during the crisis. Process innovations were the most common: Almost three out of four companies realised them. Companies severely affected by the pandemic reacted more frequently by introducing innovations.

Companies with innovation activity appear economically more stable after the pandemic

Companies that successfully introduced at least one innovation in 2020 are in a better economic situation in 2021 and 2022 than companies without such innovations. The earlier they implemented the innovation, the higher the probability that it would have a positive effect. All four types of innovation examined (business model, product, service, and process innovations) proved to be effective in improving the economic situation.

Increased flexibility of SME innovation funding in the crisis reasonable

For the medium- and long-term competitiveness of companies and thus of the national economy, it is essential that SMEs realise already planned innovation projects next to crisis-related adjustments. Economic policy can support this by making existing programmes for innovation funding more flexible in crisis times. For example, they can extend the submission deadlines for funding applications and make project durations more flexible so planned projects can be tackled simultaneously with COVID-19-related adjustments. In addition, there is more time to end already approved funding projects that have fallen behind schedule due to the pandemic without losing the funding entitlement.